

CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

**Faculty of Economics and Management**

**Department of Economics**



**DIPLOMA THESIS**

**Analysis of relevant possibilities to  
increase a company's profitability**

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## **Declaration**

I declare I have worked on the Diploma thesis of Analysis of relevant possibilities to increase company's profitability, case study of the Czech Republic by myself. All quotations and resources of information which I used are quoted and listed by the norm in the references.

Prague, the 30<sup>th</sup> September 2011

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**Analysis of relevant possibilities to  
increase a company's profitability**

**Analýza relevantních možností zvýšení  
ziskovosti firmy**

## **Souhrn**

Diplomová práce se zabývá aktuálním tématem, kterým je analýza relevantních možností vedoucích ke zvýšení ziskovosti, a to na konkrétním příkladu existující české firmy.

V literární rešerši jsou vysvětleny základní pojmy a charakteristika jednotlivých typů firem v České republice, včetně strategií, které tyto firmy využívají ke zvýšení ziskovosti. Další část práce je zaměřena na charakteristiku prostředí firmy a na informační technologie, které v diplomové práci hrají také významnou roli.

Praktická část diplomové práce se věnuje podrobné analýze konkrétní české firmy a jejího prostředí v oblasti wellness. Další částí práce je rozbor současné situace firmy, který slouží jako základ pro vývoj konkrétních možností vedoucích ke zvýšení ziskovosti firmy. Jedná se o rozšíření klientské základny, optimalizaci interních procesů a implementaci a zefektivnění informačních technologií využívaných ve firmě.

V závěru práce jsou shrnuté veškeré, na míru vytvořené, strategie a doporučení, které nebudou finančně příliš nákladné, ale bude-li je firma aplikovat v praxi, mohou vést k dosažení větší efektivity a následně vyšší ziskovosti firmy.

Klíčová slova: firma, analýza, zisk, konkurence, strategie, produkt, trh, obchod, produkt, zákazník.

## **Summary**

The diploma thesis deals with an up-to-date theme, which is the analysis of relevant possibilities leading to the increased profitability of a company with a concrete example of an existing Czech company.

The literature review explains the basic terms and characteristics of different types of companies existing in the Czech Republic, followed by the various strategies these companies use to increase their profitability. Further, the company's environment and the level of Information technology used, which play a significant role in the thesis as well is also explored.

The practical part of the diploma thesis consists of a detailed analysis of a specific Czech company and its environment in the wellness industry. The next part analyzes the current situation of the company, which serves as the base for developing concrete possibilities to increase the company's profitability through expanding its client base, optimize its internal processes and implementing more information technologies into the company.

The conclusion of the thesis summarizes all the made-to-measure strategies and recommendations that will not be very expensive, but if applied could lead to greater efficiency and subsequent higher profitability of the company.

Keywords: company, analysis, profit, competition, strategy, product, market, business, product, customer.

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## 1 Introduction

There is a growth of new firms with different focus, different sizes and with different legal form in the Czech Republic every year. However, at the same time there is also a considerable number of companies which end for many reasons, such as increasing competition, higher costs, unexpected situations or low and negative profitability.

Probably every company aims to achieve growth, prosperity, fulfillment of the objectives of its owners and founders. Every company is also inherently linked to the efficiency, thus reaching the highest profitability as possible. However, making profit is not an automatic process; ensuring profit requires maintaining purposeful, active management activities that can be used to different instruments of cost control on individual performances. The current reality is certainly different than that of twenty or thirty years ago. The competitive economy now means that a firm's product has to meet the customers' demands and must be provided at the required time in the desired location. The current emerging market environment is characterized by well-informed and demanding customers who expect more and more, environmental variability and difficult competitive situations. In the long run the survival of any company in the market is very uncertain and involves increased risk.

Today, only those companies that are able to provide quality and quickly and creatively serve the market are successful and in the long term make profits. Nevertheless, it is not always such an easy task. Companies are being forced to compete for customers with still higher efforts continuously. It is obvious that loyal customers provide the company much greater profits than new customers, but it is necessary to increasingly focus on widening the client base by winning new customers. If the client base is wide-spread, in the case of an unanticipated situation (e.g. the economic crisis) a customer's problems do not have such a big disastrous impact on the company's profitability.

The motivation for the chosen topic "The Analysis of relevant possibilities to increase a company's profitability" arises from its significance for every society and the benefits that will this company see when these are implemented. Evidence of its topicality and importance comes from various annual conferences practiced all over the world and the frequency of discussion in media, television, newspapers, particular companies and universities, which are implementing specific subjects and lectures on this topic into student's schedules. There is also an increasing number of books and booklets with

"guaranteed" advice how to increase a company's profitability. Truly, there cannot exist a uniform publication for all companies of different size and orientation that will give successful advice of how to succeed and make profits.

Therefore, it is important while analyzing the possibilities of increasing company's profitability to appear from proper analysis of a particular company, its current situation and external and internal environment. By those steps will be guided this diploma thesis to set up such made-to-measure strategies, which will lead to company's successful performance on the market.

## 2 Objectives of thesis

The goal of this diploma thesis is to analyze a Czech company and its environment in the area of fitness and on the basis of the analysis propose relevant possibilities, which will increase its effectiveness and profitability.

In detail, the goal of the literature review is to provide a reader a general overview about companies in the Czech Republic and outline such possibilities that might lead to increase their profitability. In the practical part a key objective will be to define widening a company's client base on the assumption of keeping within its capacity, since it is an important element when speaking about profitability and as this is a strategic goal of the company for the next year 2012. On the basis of detailed knowledge and further analysis of this company, internal processes which are currently inefficient and limit subsequent higher profitability of the company must be characterized. A detailed analysis of information technology the firm currently uses and suggestions as to possible improvements which will lead to company's higher efficiency and profitability will be made as well.

It is assumed that the thesis will point out the deficiencies the company has and recommend relevant improvements that might enhance the company's effectiveness and subsequent profitability.

**Hypothesis 1** presumes that on the basis of optimizing internal processes the company will be healthier and so more effective from the internal environment point of view, which will be subsequently reflected in the higher profitability of the company.

**Hypothesis 2** presumes that on the basis of recommended information technology improvements in the company will be more effective, competitive and able to be successful in the market.

### 3 Methodology of the diploma thesis

As methodology, the initial point was to investigate the secondary data collected in the mentioned literature, books and internet resources. Then they were divided into separate capitols important for understanding different types of companies operating in the Czech territory, their environment and factors which influence them. The literature review further analyses several possibilities leading to higher profitability which are obtained from the investigated literature.

The name of this thesis should be – strictly speaking - conceived as the “Analysis of relevant possibilities to increase a firm’s profitability”, since the word “firm” corresponds more to the character and size of the chosen enterprise. However, since this thesis will be embraced in the larger sense, the term “company” will be used rather than firm. Further, because the owners of the company were not willing to publish the financial results of the company, **the company has been renamed.**

Primary data for the practical part were gathered directly from the company; namely from the accounting department and record office (archives). The accounting department provides all of the necessary financial information through company’s financial reports, such as annual Income statements, Balance sheets and Cash flow statements for the past 3 years (2008, 2009 and 2010). Since the year 2011 has not finished, gaining these data will not be possible. For the reason that data for the wellness sector is not available, all of the financial results and values were compared to the general merits.

Attendance registers, which are archived in the company and for the thesis was available from 2005 have provided the necessary data for both analysis; the analysis of customers and programs. Data for analyzing customers were used from 2005 and subsequently compared; data for analyzing particular programs were gained from the Attendance registers over the last two quarters (April – September 2011). These two quarters were chosen since the quarter from April to June is the strongest one; on the contrary the quarter from July to September is the poorest one. Thus, on average they are comparable of reflecting the whole year.

All of the data used for the thesis were checked and consulted with the owners of the company. Further information was gained through the company’s web pages.

The main recommendations for increasing the effectiveness and profitability of the company have arisen from the company's knowledge, but mainly on the basis of empirical analysis provided during several years in the company.

## 4 Characteristics of the fundamental terms

- Accounts Receivable Turnover = an activity ratio which shows the firm's efficiency in collecting cash from its credit sales and uses to quantify a firm's effectiveness in extending credit as well as collecting debts. [27]
- Business = all forms of industrial and commercial profit-seeking activity. The business cycle refers to fluctuations in the aggregate level of economic activity. The firms conducting these activities: businessmen or women are the directors and managers of firms. The ownership/management side of firms, as opposed to their ordinary employees; this group is often referred to as the business community.
- Client = a person, organization or company that uses the professional services of another on payment of a fee.
- Company = a form of organizing a business, with a legal personality distinct from the individuals taking part in it. This has been found essential in organizing large and complex businesses. A company is empowered to own assets, incur debts, and enter into contracts, and may be sued and taxed. It may or may not have limited liability for its shareholders: without limited liability shareholders are in the last resort responsible for meeting the company's debts; with it, they are liable only to the extent of any unpaid part of the book value of their shares.
- Competition = the situation when anybody who wants to buy or sell has a choice of possible suppliers or customers. With perfect competition there are so many suppliers and customers, with such good contact between them that all traders ignore the effects of their own supplies or purchases on the market, and act as price-takers, able to buy or sell any quantity at a price which they cannot influence. Such intense competition is rather unusual in real life. *“The more usual condition is monopolistic or imperfect competition, with a limited number of buyers or sellers. If buyers or, more usually, sellers realize that the amount they can trade is affected by the price they offer. With monopoly there is only one seller, but this too is unusual. Monopolistic competitors have some monopoly power, but this is limited in the long run by potential competition from possible entrants to a market.”* [21]
- Customer = a party that receives or consumes products (goods or services) and has the ability to choose between different products and services from a store or other business. [21]



- Current ratio = a financial ratio, that measures a company's ability to pay its short-term obligations. The higher the ratio is, the more capable the company is of paying its obligations. When a ratio is under 1, it suggests that the company would be unable to pay off its obligations if they came due at that point. [24]
- Days in inventory ratio = an efficiency ratio that measures the average number of days the company holds its inventory before selling it.
- Debt ratio = shows the extent to which a firm is relying on debt to finance its investments and operations, and how well it can manage the debt obligation. Even though it is known that use of debt is beneficial as it provides tax benefits to the firm. [32]
- Entrepreneur = a person with overall responsibility for decision-taking in a business, who receives any profits and bears any losses. Entrepreneurs need not necessarily contribute either labor, which can be hired, or capital, which can be borrowed; but they must contribute either one of these or a credible guarantee, if their responsibility for possible losses is to be genuine. In a business run by a sole trader or partnership it is clear who is the entrepreneur; in incorporated businesses the role is dispersed among directors and shareholders. [21]
- Firm = the basic unit of decision-taking in a decentralized economy. “*Firm is a partnership of professionally qualified people, such as accountants, civil engineers, lawyers or surveyors.*” [8] In this case, the firms are legally distinct from companies and do not, for instance, issue shares. Also the liability of individual partners is not (and legally cannot be) limited. Many firms are run by sole traders, and others are partnerships; larger firms are usually organized as companies. A single firm may have numerous establishments or branches, such as factories or shops. [21]
- Inventory Turnover ratio = shows how fast the inventory is being produced and sold. [32]
- Market = a place or institution in which buyers and sellers of a good or asset meet. A market was originally a building, nowadays in many cases the market is a network of dealers linked physically by telephone and computer networks, and linked institutionally by trading rules and conventions.

- Management = the decision-making role in organizations. *“If things are going smoothly, there is not much for management to do, but if things go wrong or new opportunities arise, somebody has to decide on hiring and firing workers, investing in new machines or scrapping old ones, marketing new products and dropping old ones, and how to raise the necessary finance.”* [21] The role of management is to take these decisions.
- Marketing = the process of getting customers to buy a firm's products. This involves making arrangements for distribution and advertising current products. It also covers market research to discover likely customer reaction to potential new products, and whether possible modifications to existing products would improve their appeal. *“In the long run no amount of marketing skill can sell products customers do not like, but poor marketing can make a product fail even though consumers might have liked it.”* [21]
- Net profit margin = is calculated as net income divided by revenues, or net profits divided by sales. It measures how much out of every Czech crown of sales a company actually keeps in earnings. [26]
- Partnership = a formal business association, normally formed between two to twenty partners. The partners are jointly liable for the debts of the partnership, so that if one partner dies or decamps, the remaining partners are responsible for any debts. [8]
- Product = what is produced, by an individual firm, an industry, or the economy as a whole. [21]
- Productivity = refers to a rate at which goods are produced: thus we speak of ‘labor productivity,’ or the quantity of goods produced per worker per unit or time. [32]
- Profitability = expressed in terms of numbers and shows the ability of a company to earn a profit. It is a relative measure of success for a business. [31]
- Resources = the company’s resources are divided into tangible and intangible. Tangible resources are the physical assets of an organization such as plant, people and finance. Intangible resources are non – physical assets such as information, reputation and knowledge. [8]
- Return on asset ratio = shows how profitable a company is relative to its total assets. Return on asset gives an idea as to how efficient management is at using its

assets to generate earnings. Calculated by dividing a company's annual earnings by its total assets, this ratio is displayed as a percentage. [28]

- Return on equity ratio = calculated as the amount of net income returned as a percentage of shareholders (owners) equity. Return on equity measures company's profitability by revealing how much profit a company generates with the money shareholders (owners) have invested. [29]
- Service = expressed as the work done by one person that benefits another or the type of business that sells assistance and expertise rather than a tangible product. [8]
- Theory of firm = states that firms (corporations) exist and make decisions in order to maximize profits. The theory of the firm goes along with the theory of the consumer, which states that consumers seek to maximize their overall utility. Modern takes on the theory of the firm sometimes distinguish between long-run motivations (sustainability) and short-run motivations (profit maximization). [30]
- Total Assets Turnover ratio = measures a firm's efficiency at using its assets in generating sales or revenue - the higher the number the better. This ratio is calculated by dividing sales in Czech crowns by assets in Czech crowns. [25]
- Quick ratio = measures a company's ability to meet its short-term obligations with its most liquid assets. The higher the quick ratio, the better the position of the company. [32]

## 5 Business enterprises in the Czech Republic

Foreign legal entities are allowed to conduct trade activities, including acquisition of real estate, under the same conditions and to the same extent as Czech entrepreneurs. They may become founders or cofounders of a business enterprise, or may join an existing Czech firm. Foreign companies may operate in the Czech Republic, either by establishing a branch office registered in the Czech Republic or by establishing a Czech company.

### 5.1 Types of business enterprises

There are several different legal forms of enterprises in the Czech Republic, such as limited liability companies (s.r.o.), joint-stock companies (a.s.), public trading company (with no obligation to generate registered capital), limited partnership, cooperative or sole trader (belonging to one person). Whatever the legal form is, the business name of each company must be unique. In the Czech Republic the most common forms are limited liability companies and joint-stock companies; thus they will be described below more in detail.

#### 5.1.1 Limited liability company

*“A limited liability company (denoted as s.r.o.) is commonly used only for small and medium-sized businesses. It may be established either by a founder’s deed by one entity or by a memorandum of association concluded by a group of entities or individuals up to 50. However, a limited liability company does not issue shares. The ownership interest represents the shareholder’s participation in the company and the rights and duties derived from such participation. The size of the ownership interest is basically determined by the ratio of a particular shareholder’s investment contribution to the company’s registered capital.” [19]*

The minimum registered capital is CZK 200,000. If a company is formed by one person only, its registered capital must be fully paid up before registration in the Commercial Register. Since a limited liability company does not have a board of directors, its statutory body is made up of one or more executive officers, who are appointed by the general meeting, the supreme body of the company, or by the sole shareholder exercising powers of the general meeting. Each executive officer acts on behalf of the company independently.

### **5.1.2 A joint – stock company**

A joint-stock company (denoted as a.s.) is used for large companies and is established by one or more shareholders (whether individuals or legal entities). A joint-stock company is obliged to issue its articles of association. Bearer shares are freely transferable while transferability of registered shares may be restricted but not excluded by articles of association.

*“Minimum registered capital is CZK 2,000,000 or CZK 20,000,000 if the company is founded through a public offer of shares. The statutory body of a joint-stock company is the board of directors, who must have no fewer than three members who are generally elected and decides on all matters that are not reserved to the general meeting or the supervisory board. Each joint-stock company must establish a supervisory board, which monitors the activities of the board of directors and the operations of the joint-stock company. The supervisory board consists of at least three members and the number of its members must be divisible by three.” [19]*

### **5.1.3 Trades**

Trades are regulated by the Trade Licensing Act which identifies the following types of trades: notifiable and permitted trades together with other business activities that are regulated by specific legislation.

The Trade Licensing Act sets out the general conditions for pursuing a trade that is common to all types of trade: a minimum age of 18 years, legal capacity and good character.

### **5.1.4 Other business activities**

Other business activities include pursuit of the so-called liberal professions, such as lawyers, doctors, vets, notaries, patent agents, tax advisors, experts, interpreters, stock market valuers, stockbrokers etc, which are regulated by specific laws.

Another type of business activity in the Czech Republic is entrepreneurship, where the most attention is paid to the entrepreneurial forms which are an integrated part of the general debate on entrepreneurship and fit into a common view of entrepreneurship. However, public and policy discussions pay less attention to the part-time, parallel and serial types of entrepreneurship.

## 5.2 Registration and documents

Before registering in the Commercial Register, all companies must obtain a trade license, or a concession, corresponding to the activities they intend to perform or some other business authorization. *“For this purpose, they must appoint an authorized representative who is responsible for the company’s compliance with the conditions of the trade licenses. The appointment of a responsible representative is not required for some types of the general business activities. An authorized representative must be designated for each activity performed by the company; however, one authorized representative may be responsible for more than one trade license of the company.”* [34]

A company comes into existence by registering in the Commercial Register ([www.justice.cz](http://www.justice.cz)) maintained by the respective Registry Court, which is obliged to register the company or to deliver another decision within the period of 5 working days; otherwise it is considered that the registration was performed on the following day after this period has expired.

*“The following documents must be attached to the application in particular:*

- *documents, not older than three months, showing the valid incorporation of the founder*
- *incorporation documentation, i.e. founder’s deed or memorandum of association;*
- *specimen signatures of directors (members of the company’s statutory body);*
- *evidence that the company’s registered capital was paid up in the minimum required amount (usually shown by a bank statement);*
- *a statement of credibility signed by each member of the statutory and supervisory body and the consent with the entry into the Commercial Register;*
- *extracts from the criminal registry for each proposed representative and supervisory board member*
- *extract from the Trade Licenses Register or other authorization relating to its business activity;*
- *evidence of title (ownership right or the consent of the owner) to the premises where the registered office of the company will be situated;*

- *powers of attorney for any person (obligatory for foreigners without a delivery address in the Czech Republic) to be registered in the Commercial Register in relation to the incorporation of the company.” [34]*

Together with registration arises for the company as well a duty to pay taxes, especially corporate income and value added tax (VAT). [18]

## 6 Business strategies leading to higher profitability

There are many possibilities to increase a firm's profitability through strategies, which stem from every single opinion of manager, owner of the company, author of the book, or teacher. However, each company wants to keep it, because it might be a part of the successful know-how – how they do not want to share with anyone else. Sometimes a single factor can significantly increase the profitability of a business but for most businesses increasing profitability means implementing a number of small improvements gradually - ideally built into day-to-day processes and operations. **There is no general guide for all companies; each company must find its own best way to increase profitability.** But after all, there are some key areas that all businesses can consider when aiming to increase profitability. On the contrary, many of these strategies can be classified as fundamental quality customer service and all businesses should strive to learn from, respond to and respect the loyalty and feedback of their clients.

In general, there are a lot of authors who recommend strategies leading to higher firms' profits, such as Charles Hill, Patric J. Condon, Sam Tate, Peter R. Dickson, Jill Lublin, Gerard J. Langey and many others. All of these authors state and promote "guaranteed" methods of how to increase profits in companies and reflect this method on the chosen strategy. All of their strategies in the term of increasing profits are valuable; however, not all of those strategies can be implemented on the chosen company. Still, the most important ones (such as reducing costs, segmentation, expanding into new markets, etc.) will be described in the paragraph below, however they will not be further implemented in the practical part of the thesis. Therefore, **regarding the topic, objectives, character and strategic goal of the company only those authors, whose strategy is suitable and relevant to the actual situation of the company, will be picked up in the practical part of this thesis.** Jill Lublin, propagating the connection of increasing profitability with a widening portfolio of clients is one of these.

### 6.1 Widening the client base

*"Crucial to the success and longevity of the life of any business, is the ability for that business to build and expand its client base."* [10] It is not enough to just want and hope for a solid client base that will grow and guarantee the achievement of a healthy bottom line. On the contrary, businesses must actively strategize to build their client base.



Fortunately, there are five fundamental tips that can be followed to ensure that the firm enjoys success through an extensive base of clients. These fundamental tips consist of:

- knowing and understanding the customers,
- seeking their opinion and feedback,
- understanding who the firm is targeting,
- building relationships with new and existing customers,
- collaboration.

### **6.1.1 Knowing and understanding customers**

The firm should not just assume that they know what their customers are like and what they want or need. Every time a product is designed or developed, the information that the firm's customers will need and be interested in should be prioritized. *“This means that the ways clients will perceive their message should be considered carefully. Everything that the firm should do is to be wholly and solely focused on their clients. This means that every leaflet, communication and product needs to be customer centered. Behaving in this way communicates to customers that the firm cares about them, as well as their opinions, wants and needs. In an environment where there is such incredible competition for the business and loyalty of clients, any marketing, advertising and communication that the firm has with clients must facilitate their business speaking directly to them.”* [39]

### **6.1.2 Seeking the customer's opinion and feedback**

*“No business can accurately deduce their clients' opinion of them unless they have undertaken relevant research to ascertain client perceptions. Businesses need to capitalize on the useful intelligence that can be garnered from asking customers to comment on their experiences and this can often be done in some simple and ways that require minimal investment of time, labour and cost. It is necessary to talk to the clients when they are directly dealing with the firm's business. If helpful, they could even guide their staff with some leading questions that they can ask clients. Alternatively (or additionally), direct mail or online feedback forms can support clients to provide feedback and this can be done anonymously if desired.”* [39] Ultimately, the use of survey tools and other strategies to learn the opinions of clients in relation to some business, needs to explore what it is that the firm's clients like about this business and what think the firm is doing well and what could be improved.

### **6.1.3 Understanding who the firm is targeting**

Increased intelligence of the clients, their needs and their perceptions, can be beneficial in determining who the company will target in the future and what its approach will be. Understanding the demographic features of the target market and what motivates them is important in developing and promoting products of different types. Furthermore, research to inform the types of products and services that the client base is most interested in is almost always beneficial and it is also important to consider that it can take time to reach a particular target market. Therefore, there should be set reasonable timeframes which will be built into plans and strategies.

### **6.1.4 Building relationships with new and existing customers**

As previously mentioned, it is essential to understand and appreciate customers. *“Valuing the firm’s customers is much more than greeting them with a smile, placing purchased products in paper bags or other shopping bags, wishing them a good day and ushering them out of the firm. The firm should be genuine in asking both new and existing clients about their experiences and do not treat their feedback in a tokenistic or selective manner; there is much to be learnt from the comments offered by all.*

*If the customers provide a firm with feedback, they will understandably want to see that their contributions have been considered and, very often, acted upon. The real goal should be that the customers think of the firm as being like a family to them – something that they trust and return to.”* [39] It is also necessary to be prompt in responding to customer concerns, requests and needs, since the poor customer service is one of the gravest mistakes that any business can make.

### **6.1.5 Collaboration**

Increasingly, many businesses are finding that there is benefit in partnering with other companies to appeal to new clients. Of course, the suggestion is not to collaborate with a business that is a competitor, but to develop a reciprocal relationship with a business that can help to increase your client base and with whom you can share the firm’s own client base. [39]

## **6.2 Expanding into new markets**

Many companies successfully operate in a niche market without ever expanding into new markets. But some companies achieve brand awareness, business stability and increased

profitability, by expanding into a new market. *“There are a number of ways of growing or expanding into new markets; however, it is necessary to take into consideration that expanding involves huge and financial exacting market research – ie. finding out about things you need to know such as import duties, regulations, distribution channels, market size and growth, potential competition, demographics, local production and possible customer. Developing a market entry strategy should always involve this thorough analysis. But whatever choices or possibilities there may be, business owners who are in the hot seat to make a judgment should consider always the best possible option that is in line with their main objectives.”* [36]

### **6.3 Developing new products/services**

New products and services are the lifeblood of all businesses. Investing in their development is crucial to business growth and profitability. Identifying where products or services are in their lifecycle is central to the profitability and effective research into the markets and competitors helps do this.

Ideally, the firm should always have new products or services in development as others decline so that at least one part of their range is showing a sales peak. When developing a new product or service, there are many risks that might come. To minimize them and allocate investment and resources wisely, the firm should consider a number of factors during product development, such as if the new product or service will meet customer needs or specifications, how technologically feasible is the product or service, what the firm hopes to achieve with the new product or service and many others. But the clearer the firm is about its plans; the better can analyze the risks involved. Basically, new products and services have to offer benefits that meet the customers' needs, so the firm needs to discover what these are. It is important to remember that although the end user of the firm's new product or service might be its most important customer, they may have to take the needs of other parties into account as well. And it is necessary to do so in a way that is better than the alternatives offered by its competitors, just in that case it will increase the firm's profitability. [13]

### **6.4 Competitive advantage**

*“Competitive advantage is a company's ability to outperform its competitors. Competitive advantage can be achieved through low cost and differentiation. A company is said to have*

*achieved competitive advantage when its profit rate is higher than the average for the industry.” [21]*

The impacts of high product quality on competitive advantage are the creation of a brand name reputation, greater efficiency, and thus, lower costs. This enhanced reputation allows the business to charge a higher price. At the same time, the costs are down so profits are much higher, producing a higher competitive advantage. Quality has become imperative for survival in some companies. To achieve customer responsiveness a company must deliver exactly what the customer wants when the customer wants it. A company must do everything it can to identify and satisfy customer needs. Steps taken to improve quality and efficiency are consistent with the goal of high customer responsiveness. There may be a need to customize goods and services to meet the demands of individual customers. Customer response time has become a big factor in increasing customer responsiveness. Other areas that aid in achieving higher customer responsiveness are superior design, superior service and superior after-sales service and support. The durability of a company’s competitive advantage depends on three factors:

- the height of barriers of imitation,
- capability of competitors,
- dynamism of the industry.

*“Barriers to imitation are the factors that make it difficult for a competitor to copy a company’s distinctive competencies. The major determinant of the capability of a competitor is its prior strategic commitments. A dynamic industry changes rapidly, thus it has a high rate of product innovation”. [6]*

## **6.5 Marketing segmentation**

*“Segmentation is just one of the steps a firm must take when they are working to define their specific target markets. Marketing segmentation is the process of dividing a market into a group of key customers that require different products or services. Instead of using the same marketing strategy for all the consumers, it is dividing into different categories and tailored to fit the needs of the consumers.” [22]* The goal of market segmentation is to target the correct audience with the correct product and obtain the highest rate of return for a product. Beside this, marketing segmentation also allows a company to find a new

approach for businesses and customers, help them determine the needs and wants of customers, so that it is easier for them to satisfy a variety of people and helps them to develop new products that are based on the needs of the target market.

Generally, the first aspect of marketing segmentation is to find the "category of need" that the company, service, or product will fulfill. There are three fundamental characteristics that define the "category of need":

- Strategic - this category must define the product the company is offering and why it is important to the mission, objectives, or operations of the consumer.
- Operational - this category must fulfill the general operating procedures of a company and align with its procedures.
- Functional - the final approach is to define the function need a customer has for a product. The product or service must deal with a specific process such as accounting, maintenance, etc.

The second aspect in marketing segmentation is to define what the need is and who will experience this need. For example, some of the needs a business may have include the following: reduction in operating expenses, increased cash flow, improved productivity, etc. Once the need and prospects are defined, a company must then consider the 4 bases of consumer market segmentation; geographical, demographical, behavior and psychographic.

- Geographical bases are based on states, regions, countries, climate, population density, and population growth rate.
- Demographical bases include variables such as age, family size, gender, education, life cycle, occupation, income, ethnicity, and family status.
- Behavior bases include product knowledge, attitude, responses, usage, and brand loyalty, price sensitivity, and benefits sought.
- Psychographic bases include lifestyle, personality, and values. [22]

Marketing segmentation is set up by many smaller types of segmentation, for the business though will be more described these three: customer, price and market segmentation.

### 6.5.1 Customer segmentation

Customer segmentation is the practice of dividing a customer base into groups of individuals that are similar in specific ways relevant to marketing, such as

- age,
- gender,
- interests,
- spending
- habits and others.

This type of segmentation looks at groups of customers in terms of the revenue they generate and the costs of establishing and maintaining relationships with them. *“Therefore companies that participate in marketing segmentation will recognize the customer changes and will find ways to produce products that are geared toward a certain lifestyle or toward particular customer needs. Part of the customer segmentation are procedures, that include: deciding what data will be collected and how it will be gathered; collecting data and integrating data from various sources; developing methods of data analysis for segmentation; establishing effective communication among relevant business units (such as marketing and customer service) about the segmentation; and implementing applications to effectively deal with the data and respond to the information it provides.”* [37]

### 6.5.2 Price segmentation

Price segmentation is the practice of offering different prices to different customer segments with an eye on maximizing the profitability of each segment. For most businesses, it is highly lucrative, though it can take some effort and planning to get started. Through effective price segmentation the company can create opportunities for each customer to purchase their product or service at the price that is most relevant for the customers and most profitable for them. Since most companies compete on price, there are lots of companies that have the ability to sustain a higher price level and higher margins if their product provides value to customers. The true is that customers are willing to pay different amounts of money for a concrete product or service if it meets their needs, so it is needed just to properly diversify them and to develop through marketing segmentation such price strategies, thanks to which will the customers accept higher price. On the other

side, it is necessary to mention is that price segmentation isn't a marketing tactic for every business, but if the company can work through the process above and align its customer segments with specific pricing, they will immediately start to be more profitable.

### **6.5.3 Market segmentation**

Markets have been segmented and products and services differentiated for as long as suppliers have differed in their methods of competing for trade. The major advance in recent times has been that market researchers are using theories and analytical techniques in their search for better ways of identifying market segments and product differentiation opportunities. [20]

Market segmentation is a significant part of the company's strategy, because it helps determine how to create a campaign and use managerial judgment to implement the campaign. Furthermore, once the market is dividing into smaller segments, companies can begin measuring the differences between groups. Marketing efforts are much easier for companies that have implemented marketing segmentation because they are able to discover niche markets.

To conclude the chapter of marketing segmentation; it could happen that a company does not know how to properly identify their key target markets. However, there are several companies that provide market segmentation services or information that will help their business re-design products or services to fit the needs of the consumer. One of the services offered by these companies is the ability to determine the emotional reasons behind purchasing products. They discuss different reasons why customers buy and the emotional need versus traditional research. Hiring an outside market research company determine the different reasons and help the company understand what their primary motivations are behind the price, quality, and service of consumer buying. Outside companies will conduct surveys of customers and determine the hidden desires and motivations behind purchasing a product. Since human behavior is complex, it is difficult for companies to understand the attitudes and beliefs consumers have about products. Using a company that specializes in marketing segmentation will allow your company to understand those abilities and provide more detail about your target customers such as loyal customers, brand switchers, and the customers of competitors. [22]

## 6.6 Reducing operating and hidden costs

Finding ways to reduce operating costs is typically a priority for most companies. However, selecting what is needed and what is expendable is far from an easy task. Overlooking the importance of this process can be detrimental, especially when a company is facing financial hardship. And today, reducing and controlling operating and hidden costs has really become a necessity in this financially challenging environment. Hidden costs are also linked with low quality management due to both a lack of small business owner/manager role development and a lack of support in the face of a constantly changing business, social, and ecological environments.

*“Thus, the initial tendency is to “slash and burn” everything that seems extraneous. Although this may save money in the short term, over time it may actually do more damage than good. In business, it’s important to think through every decision. Even the hiring or firing of a single employee could shift the balance tremendously. Nevertheless, when facing financial difficulties, companies rarely have the time nor the perspective to truly assess what is best for them.” [9]*

And because each company acts differently and individually, even though there are lots of possible strategies and plans to reduce costs in the firm, it is not possible to generate one for all firms. In such situations; using an outside entity is probably the most effective way to get a true assessment of how to reduce operating and hidden costs. [9]

## 6.7 Expense control

Expense control is the first step to having a successful business, because nearly always those companies with the lowest ratio of operating expenses to assets are consistently the most profitable.

One of the biggest challenges of small business owners and business start ups is controlling overhead. Though it’s crucial to invest in good resources, it’s still important to spend wisely - especially in this tough economy. Due to smaller margins or more erratic revenues of small businesses and business firms, even just one or two months of out of control expenses can kill their business.

There are some simple ways small business owners and companies can control overhead expenses. *“One of the methods is to know the common overhead expenses, such as daily operational cost, like transportation, salaries, but also rent, electricity and other utility bills, office supplies, and even marketing and advertising costs. Another way comes from*



*taxes; it's worth hiring an accountant or tax expert to handle book keeping. It may seem like an additional overhead cost but it actually can save to the firm much money. An accountant may also be able to know which overhead expenses are taxes deductible. Some of the firm may be also spending too much on web hosting if they only operate a very simple website or maybe they have office equipment that they rarely use, which cost them in terms of electricity, maintenance and upgrades. It is recommended to do an inventory of the equipment the firm has and whether or not they really need them.” [8]*

The firm can save as well much money by hiring people with the multiple skills and strengths. They will work more efficiently and can be trained to handle bigger responsibilities or a larger scope of work. However, when controlling costs, each company is an individual, thus it is necessary to create an individual strategy of expense control to reach the highest effectiveness of the concrete company. [8]

## **6.8 Building and maintaining effective team**

*“Building and maintaining effective team is a time consuming and sensitive process particularly in businesses where the pressures of the moment are often intense. Most attempts at team building don't work well, simply because managers and staff fail to appreciate the effort that has to be invested in time and attention to detail. There is little doubt, however, that when done well teamwork contributes considerably to greatly improved productivity and reduced costs.”[11]*

An effective team has certain characteristics that allow the team members to function more efficiently and productively:

- they develop ways to share leadership roles and ways to share accountability for their work products, shifting the emphasis from the individual to several individuals within the team.
- teams accept responsibility and not "blame" one another for team mistakes, nor should they spend useless time in personal justifications.
- good teams look upon first time mistakes as opportunities for learning, rather than criticism and punishment. They are, however, tough on repetitive errors, just as they encourage appropriate risk and innovation.

Creating effective teams has to be a carefully thought out systematic process. Setting up a work team involves more than just putting together a few people and handing them a task. A team needs an effective team process in place for it to operate to the best of its ability, which will subsequently lead to increase the firm's profitability. [11]

## **6.9 Optimize business and internal processes**

*“The strategic focus of the internal business processes is to determine the business processes an organization must excel at to satisfy both its shareholders (owners) and customers. The strategic objectives are not merely to identify existing internal business processes, but also to identify new ones that may have the greatest impact on customer satisfaction and deliver greater financial returns to shareholders (owners). Further, optimizing business processes are aimed at empowering businesses to be more competitive at a lower cost and with an improved customer experience.”* This is crucial in today's economy. [23]

*“When optimizing a process, the goal is to maximize one or more of the process specifications. Optimizing a business process takes much more than controlling a process, due to complex relationship between various parameters being measured and their impact on the output, which requires many quality parameters to be optimized simultaneously”.* [12] This call for creating complex logical modeling of the business processes to better understand the interdependencies. Such models are designed to work on real time data from the process and make necessary adjustments in various process parameters in real time. The ability to optimize or improve a process is dependent upon the ability to control the process. The ability to control the process is dependent upon the access to reliable and valid measurements.

Parts of the business processes are internal ones, which are being by the firm identified and monitored so that ensures if the business is set up in the efficient and effective ways, resulting in satisfied and loyal customers and increasing profitability of the firm or not. [12]

## 7 Environment of the company

Each firm must know what is happening in its surroundings, what factors affect it, what are their future developments and other information in order to properly fulfill its own activities. Comprehensive, accurate and in the right time gained information improves the competitiveness of firms. The firm must be able to have real-time information available on developments inside and outside the organization and further must be able to process information effectively and immediately respond in accordance with its mission. Without rapid access to accurate and comprehensive information, firms risk of having the unqualified decisions. [4]

### 7.1 External environment

As was mentioned in the previous paragraph, firm does not operate in a vacuum. It has to act and react to what happens outside the factory and office walls. These factors that happen outside the business are known as external factors or influences. These will affect the main internal functions of the business and possibly the objectives of the business and its strategies.

While inquiring into the environmental factors surrounding the business we are talking about external analysis. We can distinguish:

- **Macro - analysis:** an investigation of conditions that firm cannot influence, but which have an impact upon the organization. (eg. economic, demographic, policy, socio-cultural makers, and others). These forces may impact one organization more than another simply because of the nature of a particular business. For example, a company that relies heavily on technology will be more affected by software updates than a company that uses just one computer. Although somewhat removed, these indirect forces are still important to the interactive nature of an organization.
- **Micro - analysis:** this environment has an immediate and firsthand impact upon the firm (eg. competitors, suppliers, owners, customers, employees and others). Management of the firm has a responsibility to each of these groups, e.g.: owners expect managers to watch over their interests and provide a return on investments, customers demand satisfaction from the products and services they purchase and

use, suppliers require attentive communication, payment, and a strong working relationship to provide needed resources, competitors present challenges as they vie for customers in a marketplace with similar products or services and employees and employee unions provide both the people to do the jobs and the representation of work force concerns to management. [1]

### 7.1.1 PESTEL analysis

PESTEL analysis was originally designed as a business environmental scan and is very commonly used tool for analyzing the external macro environment in which a business operates.

All organizations are surrounded by environmental factors which influence their activities. The first step in analyzing the environment is to determine the degree of the impact of the general environmental factors on the firm's performance. The number of possible environmental factors is very high and they have been classified in different ways. There are listed following environmental factors: political, economical, sociocultural, technological, environmental and legal. It is clear that some of these factors may differ from country to country. However, in some countries we can observe the similarities present between countries in terms of their strategic environmental factors. Before developing a strategy management of the company must be aware of the impact of general environmental factors on their strategy. This awareness could be gained by systematic (PESTEL) analysis of the firm's environment.

- The **political** environmental factors include taxation law, political changes at different levels, and changes in employment law, green issues, political stability, critical situations and war. However, there are many other political factors which are not listed here. For instance, in Europe, the formation of the European Union has led to an increase in merger activities across national boundaries. It has encouraged small middle enterprises (SME) to be involved in exporting their products and services to the other markets in Europe. Trends and changes in the political aspects of society have been shown to have significant impact on business firms.
- Any development in the **economic** environment can have a significant impact on small middle enterprises and their activities. These include factors such as GNP

trends, GDP per head, inflation rate, exchange rate, energy and raw material availability and cost, employment level, interest rate, monetary and fiscal policies, banking policies and investment. Strategists should therefore be aware of the trends and changes in the economic side of the environment in which they operate. For instance, an increase in the exchange rate can result in a decrease in export activities. SMEs operating in a foreign market should be aware of any changes in the exchange rate and calculate its likely effects on their business.

- The third element of the environmental factors is the **socio-cultural** variable. This variable includes any factors related to the cultural aspects of the environment such as cultural change, customers' values, demographic changes, age and geographical distribution of the population, birth and death rate, income distribution patterns, life expectations, music, education level and health level. For instance, strategists ought to be aware of the cultural values of the community and the country, as a whole, in which they plan to make investment. Customer's values in one country will certainly be different in another and considering customers' expectations and needs is crucial in developing a successful business strategy. Demographic trends are another aspect of the socio - cultural environment, including questions about the age or geographical distribution of the population of the target market.
- Strategists in small businesses should be aware of many aspects of **technological** changes in the industry. Factors such as the speed of technological changes within the industry products substitutions, information technology (IT), electronic commerce (e-commerce) development, internet development and many more should be considered carefully prior to formulation of the strategy. Equally it is important to allocate a portion of the financial resource of the firm to research and development, in order to be able to keep up with increasing technological changes within the industry. [1]
- **Environmental** factors are arising from concerns about the natural environment, in other words the “green” issues, including increasing concerns about packaging and the increase of pollution and waste.
- Finally the **legal** factors, which are reflecting national legislative institutions and policies and embraces some legal changes, such as health and safety legislation or restrictions on company mergers and acquisitions.

For managers, it is important to analyze how all of these PESTEL factors are changing now and how they are likely to change in the future, drawing our implications for the change. Without a clear sense of the key drivers for change, managers will not be able to take the decisions that allow for effective action. [8]

## **7.2 Internal environment**

Besides the external analysis is also performed examining the internal situation of the firm - the internal analysis. In the internal analysis a firm examines the various factors which have on them immediate effect and which can influence them a lot, such as: organizational structure, the firm's resources, the educational level of management and employees, processes, machinery, strengths and weaknesses of the firm and others.

### **7.2.1 SWOT analysis**

The SWOT analysis is very commonly used tool that pursues an integrated approach including key company and environmental variables. The objective is the confrontation of the company's internal strengths and its weaknesses as well as company's external business opportunities and threats in order to generate possible strategic options.

The assignment's objective is to describe the method of SWOT analysis as a comprehensive, internal analysis instrument to process company internal and external information, able to deliver a significant added value to a company's strategic development. Examining a company's internal and external environment is essential in the process of strategic planning.

The SWOT analysis, which includes the analysis of

- strengths,
- weaknesses,
- opportunities
- and threats

investigates internal and external as well as positive and negative factors of a company. On the basis of the SWOT analysis a marketing strategy can be developed using corporate strengths as well as avoiding corporate weaknesses to enable a company to benefit from future opportunities with regard of future risks. [5]

A company has a greater degree of practical control over its internal environment – which includes resources, culture, operating systems, staffing practices, and the personal values of the company’s managers. These areas are generally subject to the discretionary decision making of the organization’s executives. A company has lesser control over its external environment – which includes resources, culture, operating systems, staffing practices, and the personal values of the company’s managers. These areas are generally subject to the discretionary decision making of the organization’s executives. On the other side, a company has lesser control over its external environment – which includes market demand: the degree of market saturation; government policies; economic conditions; social, cultural and ethical developments; technological developments; ecological developments; and other factors.

It is known that **for some companies can play their strengths almost decisive role** (e.g. on the case in dominating the market), **for some companies it may be only a minor fact**. This is true also for weaknesses, some of which can be nearly fatal for the company, while others are just easily removable defect which is known for being improved in the future.

Within the SWOT analysis, broad information from the company, competitors, market and environment can be gathered using potential analysis, competitor analysis, market analysis and environmental analysis. *“This information is then presented and compacted within the analysis of strengths and weaknesses as well as opportunities and threats. Therefore, the SWOT analysis offers a combination of these results by delivering helpful information to see the firm’s resources and capacities against the background of the competitive environment in which it operates. For determination individual strengths is also often used brainstorming with the management of the company and specialists in the area, which relates to the SWOT analysis. After brainstorming is everything sorted according to relevance and evaluated by the whole team according to importance.”* [14] As the result, on the basis of the SWOT analysis must take place clear decision of the management how to deal with the results and generate generic strategy of what will be realized as the next. Anyways, it is always a part of long-term planning. [5]

The results of both analysis (SWOT and PESTEL) are the basis for determining future market position the company for setting goals and formulating strategies and other plans.

## 8 Information technology in the company

The power of modern information systems and information technology (IS/IT) offers new opportunities to rethink, at the broadest levels, existing business strategies, approaches and practices. Over the past decade, IT has opened up new business opportunities, led to the development of new strategic IS and challenged all managers and users of IS/IT to devise new ways to make better use of information.

Further, *“information technology has become the “invisible factor” – a business resource that is here already and has become such a huge necessity. IT helps to face the challenges involved in managing businesses which are increasingly reliant on IS/IT for growth and survival.”* [3]

Active using of Information technologies, even in the small firms, can have a significant impact on its profitability. For smaller firms can be using of IT split up into the 2 general categories, that might not be forgotten under any circumstances:

- Customer Relationship Management (CRM)
- E – commerce.

### 8.1 Customer relationship management (CRM)

*“Customer Relationship Management is an information industry term for methodologies, software, and usually Internet capabilities that help an enterprise manage customer relationships in an organized way. It is also a comprehensive approach for creating, maintaining and expanding customer relationships. There might be also used the word strategy here because, done well, CRM involves a clear plan.”* [2]

Put into the practice, when the firm implements its CRM strategy, they will capture and analyze data about their targeted customers and their targeted buying habits. From this wealth of information, they can understand and predict customer behavior.

In today's economy is really hard to keep customer relationships. However, customers want to do business with companies that understand what they want and need. Wherever the managers are in their organization, CRM is about managing relationships more effectively so they can drive down costs while at the same time increasing the viability of their product and service offerings. [2]



Implied for the business, a company might build a database about its customers that described relationships in sufficient detail so that management, salespeople, people providing service, and perhaps the customer directly could access information, match customer needs with product plans and offerings, remind customers of service requirements, know what other products a customer had purchased, etc. All of the mentioned functionalities are involved in the CRM, so it is obvious the importance of implementing CRM in the firm.

### 8.1.1 Sensitive data storage

Nevertheless, if the management decides to implement CRM into their firm, it is necessary to take into the consideration one important fact – storage of the client’s personal information. In the Czech Republic takes care about the personal data storage **The Office for Personal Data Protection**.

*“The Office for Personal Data Protection develops its activities on the basis of Act No. 101/2000 Coll., on the Protection of Personal Data and on Amendment to Some Acts, as well as by several other laws. The purpose of this act is to protect customer’s right to privacy, which while guaranteed by the Charter of Fundamental Rights and Freedoms, is coming increasingly under threat in contemporary society due to advancements in information technologies.” [41]*

Therefore, each firm which decides to collect personal or sensitive data or information of the clients must first of all register at the Office for Personal Data Protection. Then shall be obliged to inform the data subject of the scope in which and the purpose for which the personal data shall be processed, who and in what manner will process the personal data and to whom the personal data may be disclosed, unless the data subject is already aware of this information. [41]

## 8.2 E - commerce

Electronic commerce or e - commerce is a term for any type of business, or commercial transaction, that involves the transfer of information across the Internet. It covers a range of different types of businesses, from consumer based retail sites, through auction or music sites, to business exchanges trading goods and services between corporations. It is currently one of the most important aspects of the Internet to emerge.

*“E - commerce allows consumers to electronically exchange goods and services with no barriers of time or distance. Electronic commerce has expanded rapidly over the past five years and is predicted to continue at this rate, or even accelerate. In the near future the boundaries between "conventional" and "electronic" commerce will become increasingly blurred as more and more businesses move sections of their operations onto the Internet. When implemented properly, e - commerce is often faster, cheaper and more convenient than the traditional methods of bartering goods and services.” [35]*

Even though e – commerce consists of many types of online businesses or transactions made through Internet, in this thesis will be e-commerce focused just on three main parts:

- e-shop
- web pages
- usage of social networks in business.

### **8.2.1 E - shop**

E – shop or online shopping is a form of electronic commerce where the buyer is directly online to the seller's computer usually via the internet. There is no intermediary service involved. The sale or purchase transaction is completed electronically and interactively in real-time. E – shop is being exploited more and more, especially with the connection of various discount servers or portals (the most famous in the Czech Republic are e.g. Slevomat, Skrz, Slevopolis, etc.).

The popularity of e-shops has been growing fast in the Czech Republic in the past few years. People are buying in particular home appliances, electronics, books, services or cosmetics. Prices are usually lower in e-shops. Besides that, people can shop in the comfort of their homes and save time. With the economic crisis, people also had to save as much as they could so they often turned to the Internet.

Nowadays, the number of Internet shops keeps rising and even some specialized retail chains, which were running only brick and mortar shops in the Czech Republic, have lately turned also to shopping through Internet. [17]

### 8.2.2 Web pages

Despite what some recent economic events may suggest, the Internet is still, and will continue to be, an extremely important force in International commerce. Today a vast number of enterprises use Web sites as important business tools in their daily operations. Many companies use Web sites to provide information and to promote their products and services; many other companies use their Web sites for buying goods and services. Although the Internet provides businesses with a number of benefits, it is also a legal minefield, fraught with potential liabilities.

When creating a new web site or evaluating an existing one, a common tendency among many companies is to place the focus on the business-related aspects of the site. While it is certainly important to examine business issues, such as whether one's site is attractive to Web surfers and whether the site offers an appropriate selection of products and services, it is essential that concern about business-related aspects of the site does not result in a neglect of the essential legal issues.

To conclude, a quality web presence on the Internet is required even by small business owners for their business to get flourish. It is very true that a website reflects about the purposes and ideas of a particular company's business. That's why, a good web page is very much needed for small business to capture visitor's attention and convey appropriate messages to them to enable the business grow, generate a great number of sales, revenues and get succeed. [7]

### 8.2.3 Social networks

*“Marketing and advertising is the key to any small business success, which have begun with direct selling, evolved into advertisements with flyers, posters, then emails, websites, and now electronic ads on social networking sites. Targeting the appropriate customers is the best way to anticipate and meet the needs of those customers.”* [38]

Social networking sites include LinkedIn, Twitter, Facebook, Myspace and others. These sites each offer options for small businesses to create profiles and pages, wherein they are able to advertise their products and services. This social networking system has become a basis of electronic advertising for small businesses. Facebook has now allowed small business owners to communicate to the masses what they are doing, what events are taking place, what achievements or recognitions have been received by the small business, etc.

*“Small business owners are able to build relationships, gain return customers, and receive referrals by marketing the skills as well as services they offer via social networking. Small businesses will benefit tremendously from creating a profile on these social networking sites which contains all pertinent information that users need in order to evaluate the small business’ qualifications.” [15]*

The road to creating a successful online store can be a difficult if unaware of e - commerce principles and what e - commerce is supposed to do for the online business. **Researching and understanding the guidelines** required to properly implement an e-business plan **is a crucial part to becoming successful with online store building.** [35]

## 9 Case study of the company

### 9.1 Characteristics of the company

The chosen company which is the object of this diploma thesis operates in the area of fitness and wellness. However, since the owners of this company were not willing to publish either the name of the company or the sensitive information and strategies the company uses; the real name of the company cannot be used. Thus, **the company will be referred to by the fictive name the 'Balance Club'**. This company was one of the first fitness - wellness centers in Prague and was established more than 20 years ago. The 'Balance Club' is located in the centre of Prague and consist of four stores, which offer full care for customers: a wide range of exercise for beginners and advanced, starting with slow programs (children and pregnancy exercise programs are included) up to the cardio and aerobic programs, so that every client can find the best and most suitable program according to her/his preference. The 'Balance Club' has 2 gyms, 1 fitness room with equipment, one extra room with cardio equipment, spinning room with 12 extra bikes, and finally extensive rehabilitation, which consists of sport and physiotherapeutic massages, sauna, solarium, cosmetics and manicure. Furthermore, the 'Balance club' has approximately 25 employees.

As well as providing services, the 'Balance Club' is also a brand store of Penco, which is a famous company offering nutrition for recreational and professional sportsmen in the Czech market. The cooperation of these two companies has lasted over 15 years. A wide range of Penco products is offered at the reception of 'Balance Club', so that all of the customers can buy whatever they need.

'The Balance Club' also provides educational courses in its spaces, such as: courses for sports instructors, lifeguard juniors or seniors and masseurs. On providing all of these courses has The Balance Club received a license of accreditation from the Ministry of Education, Youth and Sports so they could provide these courses. Balance Club also organizes satellite events, such as sport weekends, trips to the mountains for its clients as well as exercise programs by the sea or relaxation weeks.

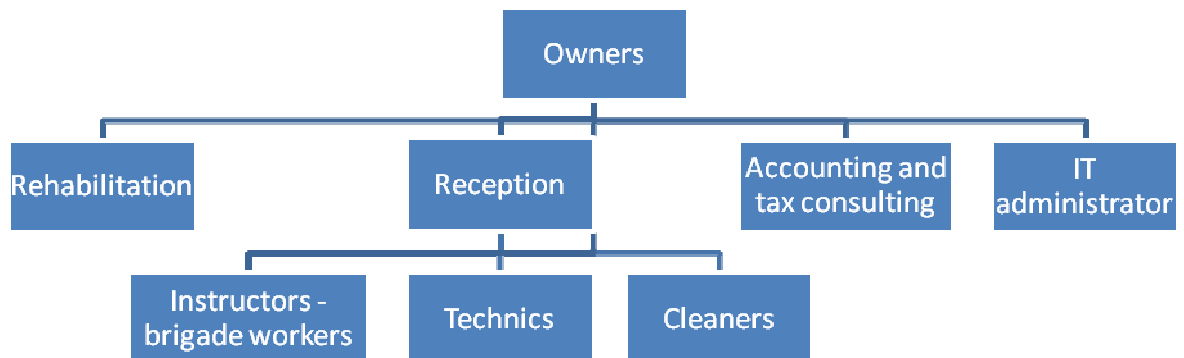
The marks of quality and professionalism have been created by the owners of the firm, both graduates in the field of rehabilitation from the University of Physical Education and Sport. They are supported by a team of high quality and professionally trained instructors with a long experience of providing a friendly and individual approach to clients.

At the time of its opening, 'Balance Club' in Prague did not have competition and since its beginning has offered a range of services of a very high standard with quality and professional care. Unfortunately as time went on, the market more competition began to appear, which had a large impact on the profitability. Starting with the clients, who discovered they could choose from many services provided by the increasing number of fitness centers in Prague; a pitiless fight for each client started. Over time, with the increasing number of competitors, it became more difficult for the Balance Club to keep their current clients or to attract new ones.

## **9.2 Organizational structure**

The 'Balance Club' is a small business, so managers are the owners of the company and it is them who give instructions to subordinate staff, lead the company, make decisions and have meetings with business partners. Reception is responsible for the day-to-day operations of the fitness center, coordinating instructors, cleaning, maintenance and supplies. The receptionists provide the first contact with the customers/clients and gives feedback to the owners of the company, who develop further business strategy. The company also employs instructors – brigade-workers, who work on the agreement of work performance. Furthermore, the rehabilitation consists of masseurs and physiotherapists, who are working with their own business licenses and so they act as an independent unit. An IT administrator takes care of the company's hardware and web pages together with all updates. The company externally cooperates with an accounting firm that handles payroll, pay invoices and takes care of the whole firm's accounts. The firm's tax advisor provides consultations and advice in the field of taxation and is responsible for the accuracy of the tax declaration. [43]

Picture 1 - Organization structure



Source: own processing

### 9.3 Strategic goal of the company

The company's strategic goal for the year 2012 is to widen their client base, especially because many clients left during the previous year because of the worldwide financial crisis. This crisis had a huge impact on the company, since clients re-valued their priorities and placed the whole area of fitness on the not-life-necessary side.

Another problem arose with the increasing number of competitors with a significant number of clients leaving because of the lower prices, bigger spaces or better and more suitable location of the competitors. For all of these reasons, the **'Balance Club'** wants to **primarily keep the current clients in the company and widen its portfolio of new clients.**

### 9.4 Financial situation of the company

Each member of the management of the company should know under which financial conditions the company operates and about its financial statements and from which it is possible to extract information that can facilitate decision-making. To calculate properly the complete current financial situation of the company Ratio analysis of these figures would help, since it is *"a diagnostic tool that helps to identify problem areas and opportunities within a company."* [32]

Ratio analysis consists of plenty of ratios, which are calculated from the current year's numbers and then compared to previous years. In this work ratios will be used that provide insights into a company's:

- Liquidity
- Degree of financial leverage or debt
- Profitability
- Efficiency

The company's annual Income statements, Balance sheets and Cash flow statements over the past 3 years (2008, 2009 and 2010) were used as sources of information. Since 2011 hasn't finished, the financial analysis from this year cannot be done.

**Table 2 - Calculation of ratios**

FINANCIAL RATIO	CALCULATION	YEARS		
		2008	2009	2010
<b>LIQUIDITY</b>				
Current ratio	Total Current Assets / Total Current Liabilities	1.83	1.96	1.81
Quick ratio	(Total Current Assets - Inventories)/Total Current Liabilities)	1.70	1.86	1.72
<b>LEVERAGE</b>				
Debt to Equity Ratio	Total Debt / Total Equity	0	0	0
Debt to Assets Ratio	Total Debt / Total assets	0	0	0
<b>PROFITABILITY</b>				
Net Profit Margin	Profit after taxes / Sales	0.24	0.18	0.17
Return on Assets (ROA)	Profit after taxes / Total Assets	0.02	0.01	0.01
Return on Equity (ROE)	Profit after taxes / Shareholders' Equity (book value)	0.18	0.13	0.12
<b>EFFICIENCY</b>				
Inventory Turnover	Cost of Goods Sold / Average Inventory	7.92	8.38	7.08
Total Assets Turnover	Sales / Average Total Assets	0.07	0.07	0.06
Accounts Receivable Turnover	Annual Credit Sales / Average Receivables	9.67	9.86	11.33
Days in Inventory	Days in a year / Inventory turnover	24.00	27.69	22.50

Source: own processing



#### 9.4.1 Liquidity ratios

The short-term liquidity ratios show the company's ability to meet its short-term obligations. The most important are current ratio and quick ratio. Since the 'Balance Club's' current ratio varies from 1.81 to 1.96 times over the past 3 years, **it indicates a greater liquidity and lower risk for short-term lenders**. Further, because the 'Balance Club' does not create big inventories, the quick ratio compared to current ratio has not changed so much. Since the quick ratio of the 'Balance Club' varies from 1.7 to 1.86 times, **the company is able to meet its short-term obligations with its most liquid assets without any problems**.

#### 9.4.2 Leverage or debt ratios

The 'Balance Club's' debt is 0 – they do not have any borrowings, money, goods or services owed. Therefore, both leverage ratios (debt to equity and debt to asset) are 0 too. It means that the **'Balance Club' does not rely on external sources to finance its assets**; but it is seen as a safe, but conservative company.

#### 9.4.3 Profitability ratios

It is hard to say what percentage of profits represents a profitable company, as profits depend on many factors, such as the position of the company, its products on the competitive life cycle, competitive conditions in the industry, borrowing costs and many others. To analyze the profitability the following ratios will help: net profit margin, return on assets and return on equity. Since the 'Balance Club' is not a joint – stock company, calculation of ratios where the value of shares is needed was excluded (such as Earnings per share or Payout ratio).

The 'Balance Club's' Net profit margin ratio in the year 2008 showed that a 24% profit margin meant that the company had a net income of CZK 0.24 for each Czech crown of sales. In 2009 this was CZK 18% and in 2010 it was CZK 17%. However, a higher profit margin indicates a more profitable company that has better control over its costs compared to its competitors. In this ratio **the 'Balance Club' still has the possibility to improve**.

The 'Balance Club's' Return on asset ratio varied between 1 - 2%, which is a disaster. It shows that **the company is totally inefficient at converting its assets into profit**.

Since the 'Balance Club' does not have any stock holders, the Return on equity ratio is counted as the return on investment to the owners. Return on equity of between 15% and 20% is generally considered desirable. When taking into consideration the 'Balance Club's' values; 18 % in 2008, 13% in 2009 and 12% in 2010, **it can be rated as respectable and very good.**

However, **it is impossible to pass over the still decreasing value of the ratios.** Profits are still falling, which without any change does not indicate the best future for the company. **The owners should start to be concerned and try to make changes that will lead to rising profits again.**

#### 9.4.4 Efficiency ratios

These ratios reflect how well the company's assets are being managed. To calculate efficiency, the following ratios will be computed: Inventory turnover, Total asset turnover, Accounts receivable turnover and Days in inventory.

Because 'Balance Club' does not produce anything, the Inventory turnover ratio will consider just how quickly the inventory is being sold to generate sales. Regarding the results of the 'Balance Club'; the highest ratio was in the 2009, when it reached 8.38 times. **In this year the company was most efficient in managing inventories by minimizing the investment in inventories.** In 2008 and 2010 however this ratio had decreased, which was caused by lower sales and worse managing of inventories.

Although the 'Balance Club's' assets are very high, the calculated Total assets turnover ratios are not overwhelming; in 2008 and 2009 they were 7% and in 2010 6% of generating sales for every Czech crown of investment in assets. **This ratio should be improved as well.**

Further, 'Balance Club's' Accounts receivable turnover ratios varied from 9.67 to 11.33 times which show that **the company operates on a cash basis and its extension of credit and collection of accounts receivable is efficient.**

The 'Balance Club' takes an above average number of days to sell its inventory. It is also possible to see this in the large figures of the Days in inventory ratio; in 2008 this ratio was about 24 days, in 2009 almost 28 days and in 2010 almost 23 days. Even though the trend is decreasing; **the inventory turnover should be undoubtedly improved.**

## **10 Analysis of the environment**

### **10.1 Internal environment**

#### **SWOT analysis**

The SWOT analysis used in this diploma thesis will look at the internal factors (strengths and weaknesses) only, since the external factors (opportunities and threats) will be in detail described in the further PESTEL analysis, which focus just on the external environment.

#### **10.1.1 Strengths**

- Good location
- Private object - family business
- Accessibility by public transport
- Club environment
- Individual and personal approach to clients
- Long tradition
- Long- term experience of owners and staff
- Variety and completeness of offered services

#### **10.1.2 Weaknesses**

- Small floor space with limited capacity
- Limited parking possibilities (parking zone - Prague 2)
- High economic inputs (costs)
- Personnel policy (low unemployment in Prague)
- Expensive equipment

### **10.2 External environment**

#### **PESTEL analysis**

Through the PESTEL analysis the overall external environment, which could have a huge impact on the company's profitability, will be analyzed.

#### **10.2.1 Political factors**

Political factors affect the activities of 'Balance Club' as well, but not particularly. Taxes and social charges are comparable with other sectors and Balance Club respects them. Even though the activities of 'Balance Club' are dependent on the personnel employed, it

does not need a high number of the full-time employees, which is often a great economic burden.

### **10.2.2 Economic factors**

Although the current economic situation is uncertain; the exchange rate is fluctuating and unemployment is rising - Prague is in the region with the lowest unemployment in the country and above-average incomes. Nevertheless, there is seen slight decrease in the attendance at fitness centers, as these services do not belong to the category "necessary" household's expenses. Even though it did not affect 'Balance Club' by reducing the number of customers much, it has increased the time between each visit to the fitness center, which ultimately means decreased profits. In the case this trend will last, the owners of the company will have to respond by increasing prices for the services and products.

### **10.2.3 Socio - cultural factors**

These factors, which are related to the cultural aspects of the environment and their changes, affect the activities of 'Balance Club' a lot. Because 'Balance Club' offers services, which are not a "must", any kind of change of customer's values has a significant impact on the attendance. The owners of the company have done about use in the times of financial crisis (2008 and 2009), from which has arisen that people were so worried about losing their jobs that they stayed in their jobs longer which caused them to miss their favorite exercises in the 'Balance Club'. Others were so worried about losing their job that they decided to cut not-life-necessary costs (e.g. fitness, trips, cosmetics, and hairdresser) and started to create a monetary reserve from savings. For 'Balance Club' this had just one, though big impact; less profits and decreasing number of clients.

Another socio - cultural factor which has arisen from the owner's research is the level of health. For instance, people who are concerned about their health and condition will still look for high - quality services provided by a fitness center. Those who are less concerned about their health and do not currently visit any kind of health institutions, might have in the near future problems with its health. The closest trend seems that more and more people will have to visit some health institution or fitness or wellness center, otherwise they will have big problems with their health afterwards. Everything is caused by the hectic and inadequate lifestyle of today's population, so it is expected that the population's

health level will be getting worse. However, in developing a successful business strategy it is always necessary to consider customers' expectations and needs.

#### **10.2.4 Technological factors**

The area of fitness is very wide and provides the opportunity for the rise of new activities. The equipment of the wellness centers dynamically improves, so the company tries - as far as possible - to react and respond to these changes. They try to place news in the current program (BOSU, Pilates, Zumba, Step master, Indoor cycling, etc.) and keep the view of the programs that are currently "in" and sought out by customers not only in comparison to the competition, but worldwide. It's not difficult economically, but it puts huge exigencies on further training of instructors, self-education and personal area of a new lectors. 'Balance Club' also responds to the improvement of facilities such as gyms; however, since it is a big financial burden, the renewal happens gradually. The original equipment is replaced by better digitization equipment with new design, new sports equipment (expanders, dumbbells) and so on.

#### **10.2.5 Environmental factors**

The fitness center does not affect any significant area of environment or ecology; it is not a manufacturer, nor an air polluter. 'Balance Club' tries to manage its internal operations according to ecological rules. Water savers are located on the showers, artificial lighting is provided by energy-saving bulbs and plastic waste from drinks are separated out.

#### **10.2.6 Legal factors**

The changes in legislation affected 'Balance Club' the most, namely because there were implemented new parking zones in the region. This step caused irrevocable outgoing about 1/3 of stable clients; it evoked a considerable economic loss that has a large impact on profitability and other company's business activities. Very burdensome is also the emergence of new organizations, dealing with the collection of various fees. Concretely in the case of 'Balance Club', there are collected considerable amount of money, e.g. for sound distribution in the gyms or for payment to OSA (Copyright Protection Association), which represents artists. Then Intergram has begun demanding the same payment, which in turn represents the authors and finally there is an obligation to pay another organization called Oaza, which stands for protecting sound engineers. And that despite the fact, that copyrights are already included in the price while buying music sets. All of these

disproportionate costs are negatively reflected in the price of services and nobody from the company can affect it at all.

### **SWOT analysis**

Besides the above mentioned external factors that influence a company, there must be included opportunities and threats from the SWOT analysis as well, since there are integral parts of the external environment and company can positively or negatively affect.

#### **10.2.7 Opportunities from SWOT analysis**

- Increasing stress and poorer health condition on current population
- Rising % of middle age and older generations
- The desire to change lifestyle
- Interest in the cult of harmony spirit and body
- Possibility to rent advertising space

#### **10.2.8 Threats from SWOT analysis**

- Increasing number of the competition (new entrants in the same location)
- Another financial crisis
- The emergence of multinational companies (subsidized by other activities)
- Increase of input costs (rent, gas, electricity ...)
- Legislation (as the parking zones, etc.)
- Negative scientific research (e.g. for a solarium)

### **10.3 Competitor analysis**

‘Balance Club’ knows its nearest competitors very well, because they regularly monitors the competitor’s service offers and prices on the website and in the wellness brochure, where is all of the information contained. Because the owners of Balance Club are sporty, they personally visit the other fitness centers as the clients, so they can afterwards compare easily almost everything; the indoor equipment (lockers, solarium, fitness equipment, etc.), cleanness, willingness of staff, professionalism of teachers and, indirectly, the financial conditions for employees. Although in the neighborhood of ‘Balance Club’ is approximately about 17 competitors (in the Prague there are roughly 225), just 4 of them represents indeed some kind of a threat for Balance Club. Thanks to the sporty character of

owners and their possibility to monitor these competitors; the Balance club has a good overview about what these companies are offering and planning to the near future.

### **10.3.1 The company's competitive strategy**

'Balance Club' undoubtedly benefits from 20 years at the market. All of the activities had begun when competition in Czechoslovakia at that time did not even exist. During one day was sold out for the year ahead, whereas much of the clients remained in 'Balance Club' till today.

**With a length of exposure is closely related rich professional knowledge and personal experience of right and wrong decisions and their immediate impact on the business.**

The 'Balance Club's' owners have high education in the fitness field, professionalism and their good estimation about the customer's needs is just another benefit. Small spaces offer a club atmosphere, since it is known that in smaller gyms is ideal contact between instructor and client, which is very positively accepted by the customers. Therefore is eliminated impersonality, since the clients know each other and even their instructors or receptionists. Therefore are formed new friendships, which in today's isolated technical way of life are highly valued. As another competitive advantage can be defined the possibility for customers to buy quarterly membership. In comparison to 'Balance Club's' competitors, there are almost no fitness centers offering less than annual memberships, which might be for the potential customer find as uncomfortable.

**The biggest disadvantage is surely the economic demands** of such a small fitness center. **Costs of operations** (lighting, heating, cleaning, employees, etc.) **are essentially identical with the larger fitness center, but a limited number of visitors will have only fractional profit.** The greater competitors dictate prices that cannot be disrespected, but the profits are totally different. In comparison to competitors is another disadvantage the less possibility of complex offer. Due to the location in the center and size; there is no possibility to use the swimming pool, tennis or squash courts, which large number of fitness centers already offer as a standard. Another problem can be seen in the already mentioned parking zones and since today a small willingness of people to use public transport services. [43]

## 10.4 Conclusion of external environment

The 'Balance Club' is a family business with a long tradition and satisfied clients. The main reason for the 'Balance Club's' customers for visiting this company are mainly club atmosphere, professional leadership and personal approach to each of them. **Advantage is also an award-winning location** (city center of Prague) **and good public transport**, which plays in the selection of fitness also one of the principal roles. Conversely, for those who do not use public transport, but use cars, can this location be unimpressive because of the newly established parking zones. **The disadvantage is also a lot of competition** in the company's neighborhood and small spaces in gyms, which on one side look cozy and friendly, but on the other side is their limited capacity reflected at the lower profit at the company. **Nowadays, with the very low unemployment in Prague is also very difficult to find quality employees** who would be motivated and have the professional competence or practice. The most significant challenge and motivation is the desire for lifestyle change, since stress increases the current population and increases the % of obese and overweight people. The health situation of the population is also getting worse, therefore it is expected that **the fitness centers will belong in near future among very popular and sought out businesses**. Regarding the risks of business in this area, there are many. One example is another financial crisis, which will cause that people will try to ensure primarily particular and life necessary expenses, such as food, housing, labor and others. From whence it follows that a need of physical or sport activity will be shunted into the background, because they will rather save or they will not have even enough money for these activities. In connection with finance cannot be forgot the rapid **increase in input costs for businesses** (rent, electricity, salaries, etc.) that will be involuntarily forcing companies to increase prices e.g. of individual entries or passes.



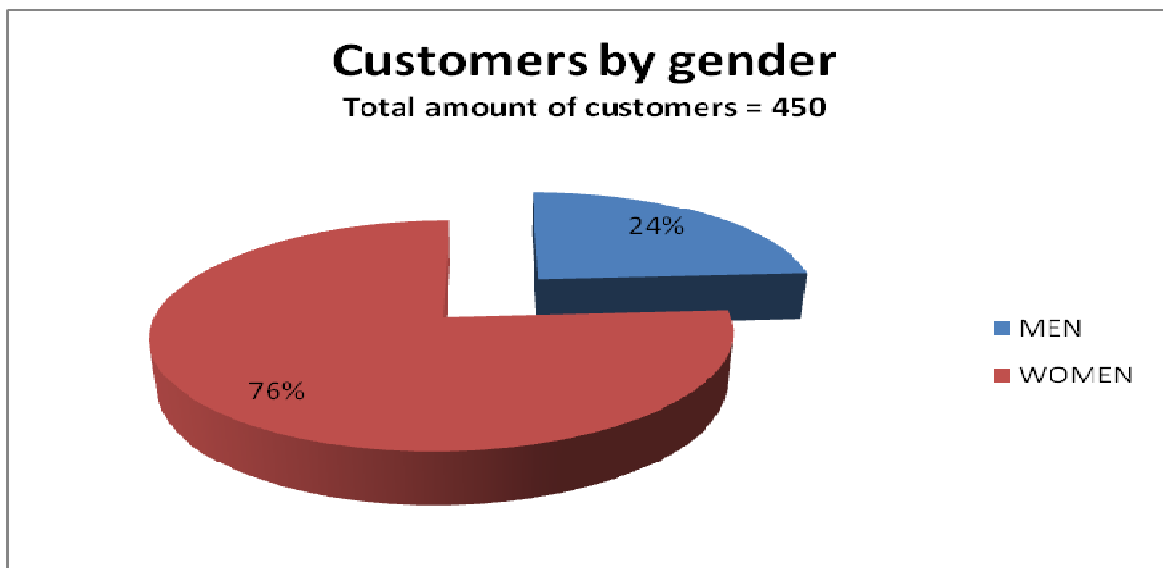
## 11 Analysis of current company's situation

Before developing a strategy of increasing the company's profitability is necessary to analyze current company's situation from two aspects; the segmentation of the current 'Balance Club's' customers and actual offered programs from their profitability and effectivity point of view. Data for analyzing customers were gained from attendance books since 2005; formation of the most profitable programs was made as an average of the last two quarters (April – September 2011) in the company.

### 11.1 Segmentation of current customers

Taking into account, there are approximately 450 customers in the 'Balance Club' at this time; according to sold membership cards and individual entries came out there is only 24% of men visiting the 'Balance Club'. It might signalize the difference between Balance Club and other fitness clubs which are focusing mainly on men. On the other side this parameter can show there are not enough programs for men at this time or there is a different aspect why men are not visiting this company.

**Graph 3 - Customers by gender**

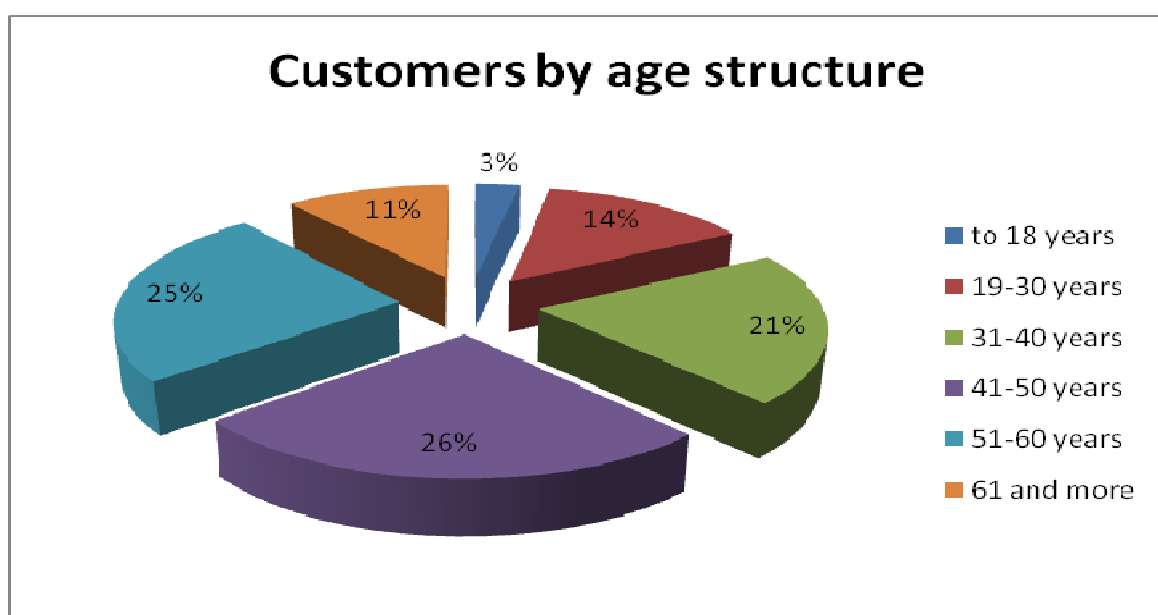


Source: own processing

To better understand what sort of customers is visiting 'Balance Club' was made an analysis based on particular representation of each age group. There was created 6 age groups with the result that the largest representation has age group 41-50. It means, that

‘Balance Club’ offers programs that suits best to the late middle-age category. On contrary, the smallest % of representation has age group up to 18 years. From overall amount of customers are approximately just 3% of them fewer than 18 years, which is a significant item that should be taken in consideration. Surprisingly high representation is in the age of 51-60 years. It shows that even ‘Balance Club’ is adapting to new trends and tries to implement new dynamic activities into the programs; there are still enough possibilities for exercises for older generation as well.

**Graph 4 - Customers by age structure**



Source: own processing

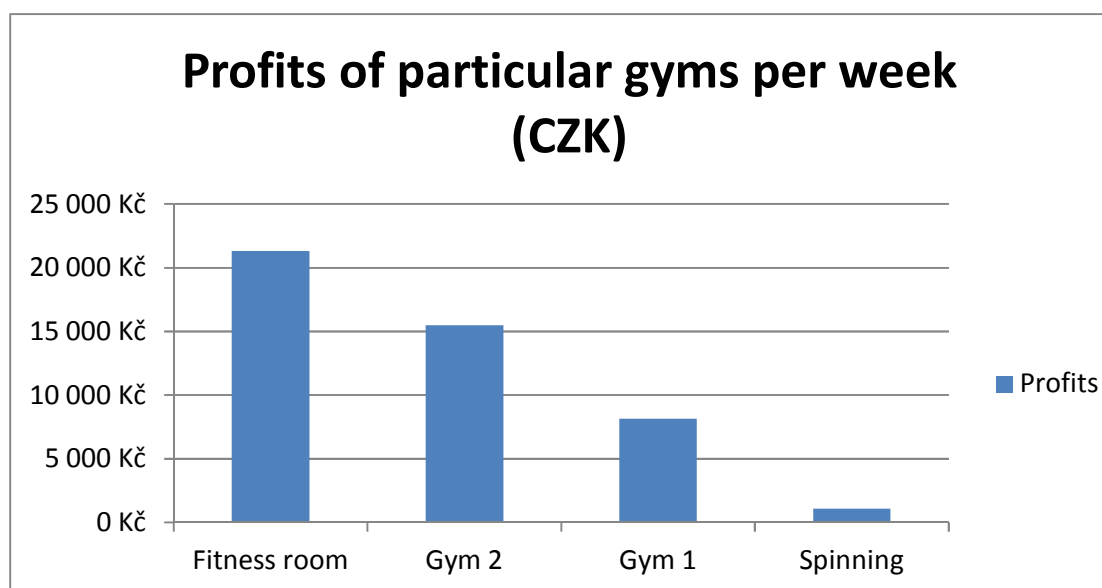
### 11.2 Profits of particular programs

To analyze situation of profits of the current programs were gained data from 2 quarters (April – September 2011). These quarters were chosen because quarter from April till June is the strongest one, on the contrary quarter from July till September is the poorest one from the visit rate point of view. Thus, in the average they are comparable to reflect whole year. All data from programs, which are currently offered in the ‘Balance Club’ were taken with reference to hour, day and gym where the classes are held and put in the pivot table, through which has arisen which are and which are not profitable. In the charts are profits counted in the Czech currency (CZK), which are marked as Kč.

On the basis of counted programs in particular gyms and with regards to price for program paid by customers in those gyms, its capacity and its visit rate counted for every program per week has arisen following:

- **The highest profits in the Balance club has fitness room**, where are held fitness classes with the instructors and whose amount of profits reach 21.301,- CZK/week
- The second highest profits has gym no.2, where are held generally slow and calm activities such as Pilates, Healthy exercises, yoga, body - balls and others – the amount of profits run at 15.484,- CZK/week
- Almost less by half from the profits point of view has gym no.1, where are held dynamic activities such as Aerobic, Step aerobic, Bollywood, Zumba and others – profits are 8.145,- CZK/week
- **With the less profits is spinning room**, which gains only 1.075,-CZK/week.

**Graph 5 - Profits of particular gyms per week**

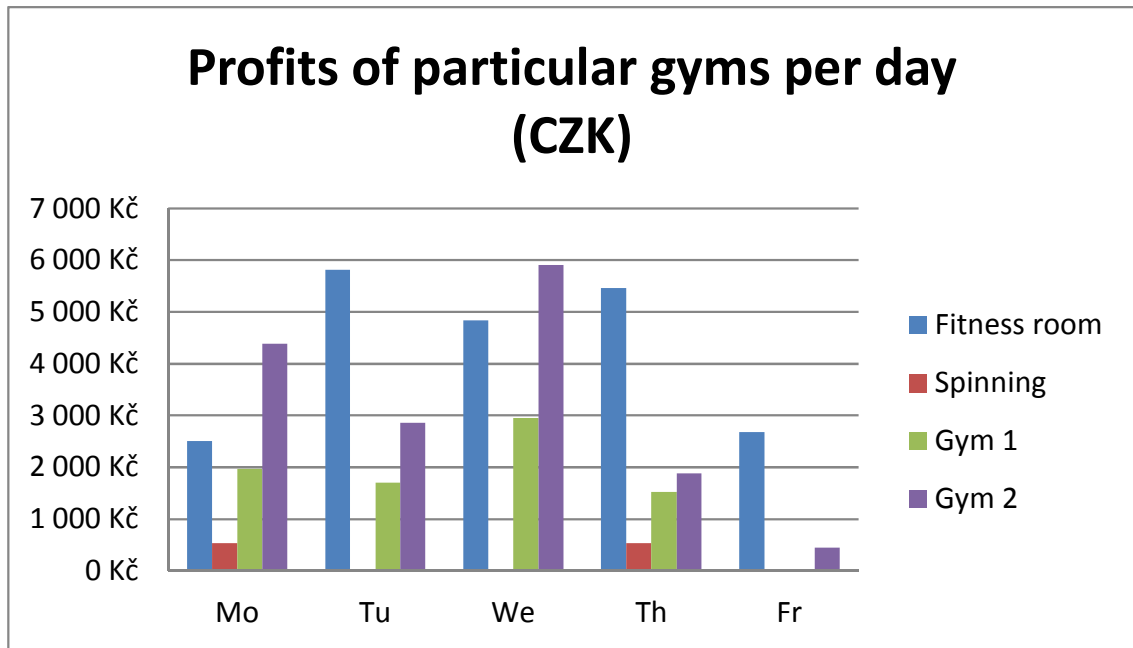


Source: own processing

To see the profits more in detail according to particular days will serve the following chart. **There is obvious that ‘Balance Club’s’ strongest days** from the attendance point of view and subsequently according to gained profit **are Tuesdays and Wednesdays**. The exercises held in these two days have the highest profits mainly in the fitness room and gym 2. On the contrary, Friday is definitely the weakest day in the week. It might be

caused from the insufficient or not interesting offer on the part of ‘Balance Club’. Or maybe just by dislike of customers having exercises on Friday, since they are leaving on the weekends out of town.

**Graph 6 - Profits of particular gyms per day**



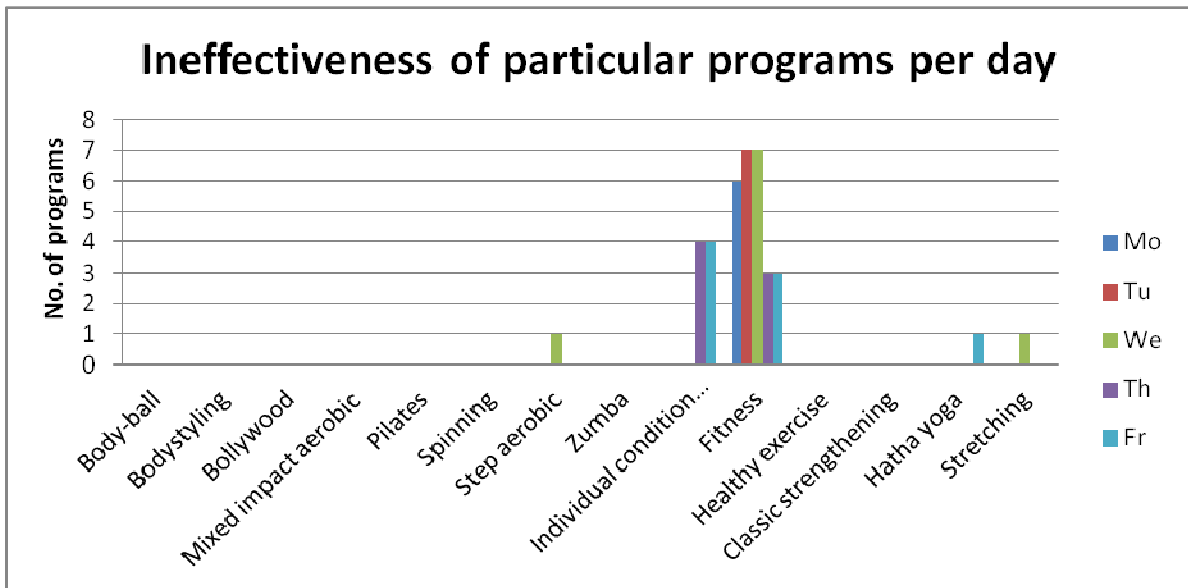
Source: own processing

Even the profitability is a very important indicator; there should be also reflected effectiveness of capacity utilization on the basis of attendance. According to amount of profits, for ‘Balance Club’ is currently the most profitable fitness room. However, it is mainly because the classes are offered in the highest intensity. On the contrary, gym 2 has less by half number of provided programs and its effectiveness is pretty much higher than in the fitness room. The following chart reflects utilization of particular programs and shows those, which has less than 50% of capacity utilization of each day. There is also reflected the capacity of gyms, since each room has the capacity different; gym 1 has a capacity of 10 people, gym 2 has 12 people, fitness room has approximately 15 people and the spinning room has 10 people. All of these capacities were put into the consideration while counting the effectiveness of each program.

From that has arisen that **even though the fitness room has the highest profits, fitness program which is held in the fitness room has the lowest effectiveness; on Monday**

there are 6 programs, Tuesdays and Wednesdays have 7 programs and Thursdays and Fridays have 3 programs which have attendance less than 50% in proportion to the maximum capacity. It should be a warning numbers, because in these cases after the costs deducted the 'Balance Club' does not have any profit from those programs. Besides fitness, there are three other programs which are unprofitable; Step aerobic and Stretching on Wednesday, and Hatha yoga on Friday. All of these programs have attendance less than 50% in proportion to the maximum capacity.

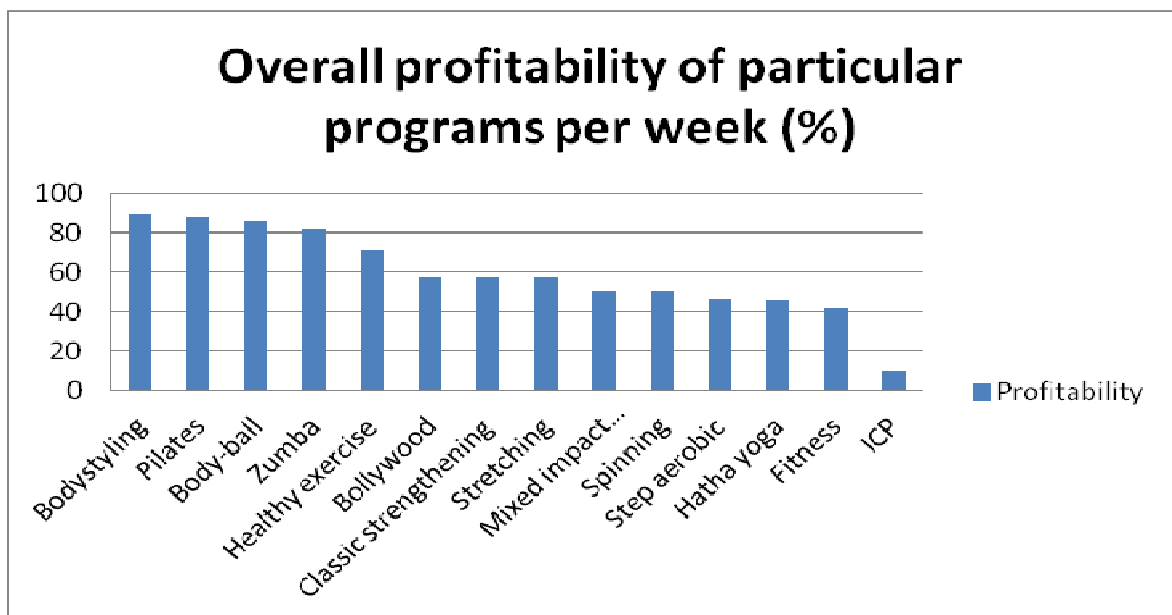
**Graph 7 - Ineffectiveness of particular programs per day**



Source: own processing

As the summarization and connection of both (profitability and effectiveness) will serve following chart, which summarizes all of the mentioned; number of each program per week, capacity of the gym where the program is held and average of the weekly customer's attendance.

**Graph 8 – Overall profitability of particular programs per week**



Source: own processing

From this appears that **the most profitable and effective program in the ‘Balance Club’ is Bodystyling**, whose capacity is from 89% filled and so that brings the highest profits per exercise for the company during a week. The second one is Pilates with 88% and Bodyball with 86% of fulfilled capacity of the gym. On the contrary, **the most unprofitable program is Individual Condition Program (ICP) held in fitness room**, which uses only 10% of the gym’s capacity and customer’s attendance. This ICP program should be replaced by those programs which are profitable and among customers more popular, because nowadays they are just blocking uselessly spaces.

## **12 Possibilities leading to increasing the company's profitability**

In the literature review were mentioned several strategies and possibilities which might lead to company's higher profitability. According to the previous analysis, strategic goal and the character of the company were chosen following strategies, which will be implemented on the 'Balance Club': widening client base, optimize business and internal processes and implementing information technologies more into the company's daily business.

Other strategies mentioned in the previous literature review are not adequate for this type of company from many points of view.

Expanding into new markets is not possible at this time, because company is fighting with itself to survive within its territory – Prague. From the reason of high competition and the highest possibilities customers in Prague have is expected that widening company's market into different cities might be as an ineffective task. As well with the different countries; company which is not strong within its country cannot expand into the others.

The strategy of marketing segmentation might be implemented for this company, but from the size and focus of the topic it might be use for another diploma thesis.

Reducing operating and hidden costs cannot be implemented as a strategy in this case as well, since the company has already reduced its costs on the minimum, especially due to the financial crisis.

The 'Balance Club' is pursuing all of the new trends and tries to develop new products or services, when needed. However, since the implementing of the news is done continually, it is useless to set it as a strategy.

### **12.1 Widening the client base**

On the basis of previous analysis made for analyzing the current situation of the company came to light, that an incredible 36% of the current 'Balance Club's' customers are older than 51 of which 11% are older than 61. However, this age group is very significant for Balance Club; as they are reliable, loyal, long - term and from the attendance point of view they do not want to miss any single exercise. They buy membership cards in advance, which give 'Balance Club' a confidence as well as the possibility to operate with these financial resources earlier. However, these customers require a lot of attention, an individual approach and feeling of needfulness. 'Balance Club' should provide all of the



mentioned requirements to those customers and set up strategies that will keep these customers satisfied; after all they provide more than one third of profits for the company.

Based on the owners' research, teenagers and other young people (approximately to 25 years) use fitness mostly as a "social event". They want to visit "young" fitness centers such as BBC, Holmes Place and World Class, which thanks to advertising are well-known and through which they get status "in" among their friends. These big companies have generally their head office somewhere abroad and in the Czech Republic have just set up a few branches. Nevertheless, they have international investors and lot of sponsors who provide to the Czech subsidiary a financial injection and help in the case of financial problems. These companies have up-to-date machines, new technologies, modern design and last but not least bigger capacities, which decrease their costs to the minimum. It is not possible to compare and measure the 'Balance Club's' strength with these big corporations, which have more to offer to the younger generation from the innovation and design point of view.

Considering the middle generation; currently 17% of customers are up to 30 years old and 47% of customers to 50 years old. Both of these groups are able to work with computers, social networks and many others technological innovations that development and science brings. It is then easier to create marketing strategies, because there is more certainty that this sort of customer knows how to work e.g. with the modern technologies. Advertising on web pages or facebook is sometimes irrelevant for the older generation, because they do not know how to properly exploit these communication channels. However, it is important to mention that the situation is changing pretty quickly and significantly. Research called Generations 2010, which was done by Pew Internet & American Life, showed that social networks with members between the forties and seventies and were generally considered as the quickest growing ones. [33] This information should be factored in to the future marketing strategies of the company.

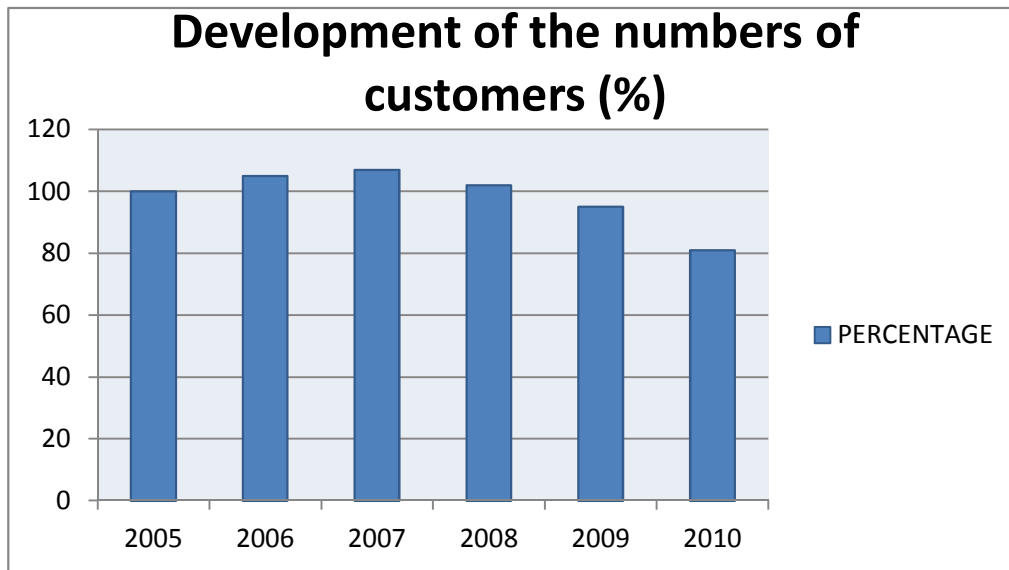
The 'Balance Club' should strategically focus services offered and widen the customer's portfolio more to the young and middle generation (e.g. 26 – 45 years). However, **with reference to the future it might be even more strategically profitable to focus on the**

**older customers**, since the average age of the Czech population is still increasing. Next, considering the lengthening of retirement, these customers will still be economically active at 70 years old. If the company wants to be successful in the market, it should react on these changes as soon as possible. If they do so, the 'Balance Club' will develop a competitive advantage which will bring higher profits and superiority on the market. **Considering the character of these customers**, who are reliable, loyal and personally interested in visiting the Balance club, **there might be great potential of expanding this sort of clients into the company.**

### **12.1.1 Development of the numbers of customers**

In advance of setting up a strategy of how to widen the customer base it is essential to find out the history of customer development during the previous years. Since data were gained from the year 2005, the chart starts in this year at 100%. In 2005 there were some clients, so the chart reflects the percentage increase or decrease of clients from this year. From 2006 to 2008 was the number of customers still above the average; the 'Balance Club's' customer base grew in 2006 by 5%, in 2007 by 7% and in 2008 by 2%. Unfortunately in the year 2009 it started to display the effects of the financial crisis on the customers, which caused a decrease in customer base by 5%. Nevertheless, the effects of the financial crisis were not fully until 2010, when the number of customers decreased by 19%, which has a big impact on the 'Balance Club's' profits. Necessary to point out that company has not recovered from this significant underflow up to this day.

**Graph 9 - Development of the numbers of customers**



Source: own processing

### **12.1.2 Strategies leading to widening the client base**

Even though the age group the Balance club should focus on has already been recommended the overall, strategic goal of the company to increase the portfolio of customers regardless of age group should be taken into account.

However, since each age group has different expectations, needs and requirements, different strategies for each age group should be made as well.

For better transparency the age groups that were already applied in the customer segmentation will be used; customers who are economically inactive (to 18 years), economically active (19 – 30 years), (31 – 40 years), (41 – 50 years), (51 – 60 years) and economically inactive (61 years and more). Each age group will be described, so that further strategies can be recommended so that a widening of the ‘Balance Club’s’ client base can occur.

The following strategies will be constructed to attract the maximum number of people, no matter what age, to become potential customers in the future and so widen the ‘Balance Club’s’ customer base up.

### Age group to 18 years

On the basis of performed analysis has been shown that age group to 18 years represents the smallest part of the 'Balance Club's' customers - just 3% from the overall amount. Even though 'Balance Club' is not targeting directly this sort of customers, this number should be alarming for the management of the company; therefore share of this age group should be undoubtedly increased. From the marketing point of view belongs age group to 18 years old to one that wants to socialize as much as possible. They put friendships on the first place and want to be in continuous contact with them, even during the exercises. This characteristic streak stem from insufficient confidence from itself, therefore they need to be in permanent touch with the others, because just in that way they feel strong and confident. This group is considered as the most active group when speaking about using of modern technologies. These people access the Internet wirelessly from a laptop or mobile phone and compared to average, they excel in the use of social networking, instant messaging, listening to music, playing games, reading blogs and move more in different virtual worlds. [33] It should be reflected in wondering which communication channel and marketing way choose while targeting this sort of clients.

### Strategy

Since these clients are still students, they will hear about **student's discounts**. After analyzing unprofitable programs which are held mainly in the morning and after noon (approximately till 2pm) the possibility of offering this time for exercises to these students with a discount of 30 % has arisen. For 'Balance Club' providing such a high discount will still be profitable as; they will fill up the blank spaces and after the cost deduction they will have still profits from the exercises. Since they have to pay the cost for electricity, receptionists, and so on, due to higher attendance in the currently unprofitable programs it may turn into profitable ones. Providing discounts to this age group is necessary because those clients are not economically active and do not have any income. Many students are able to come before starting of school or during the day, when classes do not take place or have been cancelled for some reason. This is a perfect opportunity for Balance Club to exploit this flexibility of high – school students and fill up those unprofitable programs. Further, since there are lots of schools in area surrounding the 'Balance Club', an individual offer to each in the morning for the gymnastics can be offered. On the basis of

students needs, the exercises can be divided for girls and boys separately; however is necessary to provide classes always under the experienced supervision of instructor. This is mainly because teenagers are sometimes undisciplined, which could lead to injuries.

Since the students are accustomed to obtaining various discounts with ISIC or Opencard, this should enable the 'Balance Club' as well to stay competitive. Furthermore, because this sort of clients needs to socialize; there **can be created a discount to bring a friend with (a non-client) and enjoy the classes together**. This friend might have the first class for free and in the case he/she will like it, he/she will have the opportunity to buy a student membership card with advantages. These customers can be offered classes which are "in" and exercised in the young collective; since these customers will not be motivated to attend the same classes as where the average will be e.g. around 50 years old at all. This implies that suitable programs might be Zumba, cardio zone, fitness or aerobic. Since this group like using of modern technologies, the management of 'Balance Club' can react on this by offering programs via GSM messages, email or social networks. Then it is necessary to **take care of the company's profile and keep it "live"**, which can attract customers in this age very significantly.

### **Age group 19 - 30 years**

Those customers, who belong to the age group between 19 – 30 years, represent 14 % from the overall amount of clients. This group together with the age group under 18 belongs to those which uses the modern technology the most. However, compared to the previous age group this has higher potential; customers are already economically active and earn much more money, which might subsequently be used on the exercises in 'Balance Club'. This group is characterized by the need to attend exercises which are currently new and trendy, because they would like to be regarded as "in". This category is used to share all of the experience with either colleague in work or friends and prefer going to the gym not alone, but with somebody beside them.

### **Strategy**

A consideration of the description of this age group suggests several possibilities of how to attract customer of this age. As regards the necessity of being in and trendy; Balance Club should react to this faster and more operative. Compared to the other fitness centers; there

is no need to obtain approval from headquarters abroad, Balance Club can respond almost directly by implementing any kind of new exercise. These days are trendy e.g. Bicram yoga, Balance Core, Pilox, Jazzercise or Tae-bo. All of these exercises can be taught in 'Balance Club' immediately because there is no need to buy any extra equipment to provide classes. **Implementing ideas from around the world into the program will attract this age group**, because they want to share their experience with their friends. In this age they are willing to try new things and are not afraid of changing some exercise habits they are used to so far. For the older customers this might not be as attractive as for this age group; especially because they are used to attend selected exercises and do not want to change them.

As these customers need to share all of their experience with their friends, **the Balance Club can** take advantage of this and **attract these customers through various actions**, such as action 1+1. This action can consist of the opportunity for the existing customer to take on the exercise his friend for free, who is not a client of the Balance Club at this time. In the case the potential client will like it, there should come up an attempt from the receptionist's side to make a business and sell to this new customer a membership card.

### **Age group 31 - 40 years**

This age group has pretty high representation in the Balance Club – it is 21% of the overall number of the customers. This group is characterized by the highest expectations of provided services in the 'Balance Club'. They do not even care much about the prices, but they expect the highest quality of the programs and superior individual approach. From the modern technology point of view, these a little bit older Internet users behave differently than the previous age groups. They do not enjoy e.g. social networking, instant messaging or playing games; they are generally interested more in the "older" uses of the Internet, such as e-mail, online news, shopping and browsing the Internet. This should be taken in account when developing a strategy.

Further, The Czech Statistical Office shows that even though women used to have children in comparison to previous years pretty young (around 25 years old), the situation has rapidly changed. Women are becoming mothers continually later what demonstrate the indicator from the Czech statistical office; the highest percentage of women has children in

the age of 30 – 34 years. [16] With reference to this information must 'Balance Club' dispose and conform that as a part of strategy.

### **Strategy**

Since this age group consists mainly from women who are in the expectation or already have a child, the 'Balance Club' must respond surely to this fact. **There might be created some baby-sitting program** or even exercise for the children in the same time as the exercises for the mothers are held. This program can be held even in the morning, where are not such a profitable and effective programs in the 'Balance Club' practiced. This opportunity can be exploit especially when the child has not reached 3 years and is not attending a kindergarten so far. Then the mother is mostly still on the maternity leave and does not care if the exercise will be held in the morning or afternoon. In the case the child is older; most of the mothers are already going to job while leave their child in the kindergarten, but they finish their job earlier to pick the child up. Therefore is possible to offer to these mothers with children an exercise immediately after they pick their child up from the kindergarten. These programs can be set up in various possibilities. First, this program can be focused on the exercise of mother together with her child; mothers will enjoy their children and for the 'Balance Club' fall off the responsibility for the baby-sitter. This combined type of exercise becomes quite common and favorite in these days. Second, there can be offered just exercise for the mothers, but in parallel will be held program for the children in the other gym. However, this possibility comes into the question when the child is older and is at least a little independent. Third, there is possibility to make an exercise just for mothers, who will put their children to the 'Balance Club's' playground room, where the children will be under the supervision of professional baby-sitter for an extra fee. No matter which type the mothers will choose; necessary is even to offer these services to these customers, who will appreciate it for sure, since there is in general big absence of these kind of services in Prague. Because this potential should be exploited at any price, at the end of this paragraph will be discussed much more.

Since the intention of 'Balance Club' is to widen the client base as much as possible, **there can be also offered to this age group an attractive family membership cards** e.g. for husband, boyfriend, parents, brothers and sisters or for anyone from close relation.

Further, as another strategy how to attract customers in this age group can be **discounts on various trips or collective tours abroad**, which organizes 'Balance Club' annually. This sort of customers was considered as the one with the highest interest about these foreign trips, which are conceived as the reduction or fit programs with the exercises by the sea. There is also possibility to prosper from fit weekends, which have already the quantity price involved, so that customers will save money on it.

All of these above mentioned strategies should be sent through email or posted on the 'Balance Club's' web pages, because this age group uses these sources as the most and do not make use of social networking or other similar sources.

### **Age group 41 - 50 years**

Customers who belong into age group from 41 to 50 years reflect 26%, which is the highest percentage from the overall customers. These clients has a great potential for the 'Balance Club' since they are financial well off and have a huge interest to invest into themselves through exercises, massages, rehabilitation and other services. These customers are seeking for professionalism, which they focus the most. They expect high – quality of provided services together with the individual approach and complexity of offered services.

From the marketing point of view; even though this generation has been increased from twenty to fifty percent in using social networking, they still feel more comfortable while using the old application of Internet as the previous age group.

### **Strategy**

In advance of setting up a strategy should comes a revision and overview about provided services in 'Balance Club' and subsequent confirmation there is nothing more to improve from the quality point of view. When is determined that the quality is as high as possible, 'Balance Club' can build on it and develop further strategy.

Strategy that might be applied for this age group should consist mainly from offering various discounting packs to the membership cards. Even though this sort of customers belong to the financial stable clients and they do not care much about the money, this offered discounting pack can be the imaginary last step when the customers will be wondering if to buy the membership card in the 'Balance Club' or not. These discounting



packs can consist of cosmetics treatment, wraps, massages and medical investigation by the contracting doctors from 'Balance Club', fat measurement with the consultation of the dietician or composition of bill of fare for free.

### **Age group 51 - 60 years**

This age group together with group 41 – 50 years old represents the highest number of current customers in 'Balance Club' (more than one quarter). These customers consist mainly from clients who were at the beginning of 'Balance Club' in 1989, so that have been customers already for 22 years; these sort of clients have already created deep relationship with the company and do not want to change their habits and ways at all. Even more; they are loyal and prize the friendships they have established not even with the other clients who are attending the same classes, but as well with the instructors, who work in the 'Balance Club' since its beginning. These customers expect individual approach and appreciate smaller size of gyms with quality managed exercises.

### **Strategy**

This age group is not necessary to be widened; however, is needful to keep these customers satisfied and loyal. Therefore, 'Balance Club' should create some loyalty cards that might include various discounts through which will express thanks to these clients. These loyalty cards can include discounts on membership cards of exercises or other services, such as solarium, sauna and massages. They can get some **free entries for the exercises they are not used to commonly visit**, such as cardio zone, which might figure in term of prevention of cardio-vascular diseases. Together with the cardio – zone can be created some special personal bespoke program with the instructor, who will take care on pursuance of the plan. This program can be for this sort of customers set up for free, which will be considered as acknowledgements of their long-term loyalty. In the case they like new exercises they will have opportunity to try; it might lead to widening their range of exercises up to additional ones, which will bring higher profits to 'Balance Club'. Even before setting up a personal program might precede medical investigation by the specialist; this investigation can be for free and should be targeted on the recommendation of proper exercises. Next, in terms of prevention is *advisable to offer to clients of this age a complementary nutrition from Penco, which* can be offered in more attractive prices, so that clients will be able to afford

it. In this age is e.g. arthral nutrition almost a necessity. The combination of right nutrition and properly chosen exercises together with individual, personal and quality approach from receptionists and instructors must bring a required satisfaction to these customers by any chance.

### **Age group 61 years and more**

The age group 61 years and more represents 11% of overall amount of all customers in 'Balance Club'. This number is incredibly high, which reflects that 'Balance Club' is visited mainly by the older generation. These customers have already built strong relationship with the others and attend periodically mainly two or three programs in 'Balance Club' per week. They are very conservative with the run-in system and program they have set up during previous years. They do not want to change or try anything new; thus, for 'Balance Club' it is a sign to start more getting know these customers and try to figure out what might interest them as the most. However, in general these older customers have many friends, neighbors or kith who are not attending any fitness so far, which can be used for the further strategy. From the marketing point of view through modern technologies is very hard to address this age group. Even though there is still increasing number of using social networks and Internet by this generation [33], they use these sources primarily for their personal needs not to feel alone or as the tool to chat with family members or friends. Targeting this group commercially would be useless.

### **Strategy**

Even though 'Balance Club' is not directly targeting these customers, their 11% representation is still significant so that 'Balance Club' cannot afford to lose these customers at all. To widen customers in this age can serve **the system of references**; if the current customer who belongs to this age group will bring a friend or a family member along, the current customer will get the exercise for free. If the new potential customer will buy a membership card, the current customer who recommended 'Balance Club' to him will get e.g. 25% discount for the new membership card. This system is well-tried, because seniors really do care about the prices so they will appreciate any possibility to get a discount.

To attract customers this age is also possible to **widen existing trips up to the weekends focused on Yoga, Stretching, Pilates, walking tours and other special exercises for the seniors** which might be extended by the lectures and education programs. These programs can be specialized on the correct principles of nutrition, appropriate kinetic exercises, healthy lifestyle, etc.

As was already mentioned; due to age and habits of these customers is not recommended to address these customers through modern technologies; even their using by these people has an increasing tendency. These customers perceive mostly the system of notice boards and leaflets, which should be still updated as much as possible to still attract these customers. Respectively not even to address customers in this age group, but also others who do not have an access for the Internet and are still interested by the formbook of advertisement.

### **12.1.3 Recommendation for increasing profitability**

All of the above mentioned strategies are made-to-measure to each age group on the basis of their characteristics and habits they have in 'Balance Club'. However, since everyone is individual, **it is not possible to be directly governed by the above set of strategies which are divided according to age groups, but it is necessary to appear from needs and requirements of every single customer.** To this might help implementation of CRM or any other database, where will reflect needs of all customers. The 'Balance Club's' employees who will be responsible for the marketing will be then starting from this information and not from the general characteristics of each age group. This will lead then to higher effectiveness of 'Balance Club's' advertisement and higher percentage of newcomers.

In general, it is obvious that no matter which age group the 'Balance Club' will be targeting, all of the customers of any age will react on discounts, promo actions, favored and attractive membership cards, trips, services or products for free. However, to address even higher % of potential customers can serve other methods, which are relevant for 'Balance Club', such as new partnerships, new offered services and discount portals.

- ***New partnerships***

Through developing new partnerships can be attracted the highest % of new potential customers. New partnerships can be established with various health institutions, companies, hotels, restaurants and schools in the 'Balance Club's' surrounding. Since 'Balance Club' is located in the center of Prague where is at this time lot of possibilities to build new partnerships (increasing number of hotels, schools, medical centers), it should be taken advantage through it by any chance. To create more detailed strategy will be all of the mentioned possibilities divided into hotels, health institutions and doctors, big corporations and schools.

- **Hotels**

Prague 2 and its surroundings is being changed pretty quickly from the demographic point of view; current Czech inhabitants are moving from the center on the periphery of Prague from the reason of increasing rents and conversely foreigners are moving more into the center because of the attraction of this locality. Therefore, within several years has been increased a number of hotels in this area. From the strategic point of view it can be interesting for Balance Club to establish co-operation with them, which might be useful for both parties. The hotel's visitors might exploit the opportunity and attend various exercises, rehabilitation or just even relax programs, which 'Balance Club' offers. For 'Balance Club' it will be naturally beneficial because they will gain higher profits. Beyond, for hotels will be this co-operation beneficial as well, because they will have the opportunity to widen their provided services to their guests up to the fitness center, which will lead subsequently to their higher evaluation among the competition hotels.

- **Health institutions and doctors**

The medical offices and health institutions represents a significant percentage of Prague 2, which should 'Balance Club' take as an advantage and start co-operating with them as soon as possible. There is still increasing number of people who have problems with back from sedentary jobs and any other problems with health, which are caused from the hectic and even more stressful lifestyle. The doctors and medical centers might welcome they will have the possibility where to send their patients. Due to the fact 'Balance Club's' competitive advantage has arisen from high-quality rehabilitation programs and since they

are attached to the institution where under the professionalism's supervision the entering exercise tests are being held (if needed), the doctors can be sure that everything will be all right and for their patients appropriate. On the basis of sent customers into the Balance Club can be the doctors in return credited by the membership cards, products or vouchers on any kind of provided services for them and their family members for free.

➤ **Big corporations**

Prague 2 is an area which is not attractive only for hotels because of high number of foreigners, but as well for the big international corporations, especially banks, whose number has during several years significantly increased. When taking in consideration number of clients banks have, to build some co-operation might be for 'Balance Club' very profitable. However, since the partnership approval in these big corporations is a long-distance and exacting race, to address this potential partner is first of all necessary to elaborate a professional presentation of the 'Balance Club'. For banks should be the presentation representative and distinct with detailed description of provided services, their characteristics and prices. There should be also clearly enthrone the conception of co-operation in the future, so that the marketing department can start immediately negotiate about it. The co-operation can be set up in the way that branch, which is located in the near distance of 'Balance Club', will give to the clients e.g. when opening new account discount of 50% on chosen program in 'Balance Club'. This will lead to widen their client base up to the new customers and subsequently lead to the higher profits. In the contrary, when the 'Balance Club's' customers will buy a membership card, they will get e.g. opening and maintenance of account for free. However, to have this co-operation at full blast effective and preferably legally inexpressible, 'Balance Club' must decide which bank they will cooperate with, otherwise the collision of interests might happen.

As well as setting up the cooperation with banks can be done the same procedure e.g. with insurance companies.

➤ **Kindergartens and schools**

Compared to the number of banks, medical offices and hotels is representation of schools not as much significant. However, since there is a great potential in the co-operation with these institutions, it must be mentioned anyway. As was already noticed, kindergartens

might play for the 'Balance Club' pretty significant role. Mothers after picking her child up from the kindergarten can exploit the possibility of baby-sitting program while doing and exercise or attend suggested mother-child exercise together with the child. For Balance Club is this system gainful, because they will "daub" those half-empty gyms in the morning or around noon, which are not currently held profitable programs. However, with the kindergartens can be the co-operation even better. 'Balance Club' can make a list of hours which are not currently profitable and offer them not even to the kindergartens, but as well to primary and secondary schools, which are located in the near neighborhood. It can be based either just on the lease of the spaces, so that Balance Club will not take care about the content of the exercises or together with setting made-to-measure program up on the part of 'Balance Club', which might be for some extra pay, but will be under complete supervision of 'Balance Club's' instructors.

- ***New offered services***

Since the spaces in the center of Prague are limited because of the structure of the buildings, there is generally no possibility of widening the business premises at all. In this same way it is in the case of 'Balance Club'. Presently, it could be useful to construct small swimming pool into the fitness center which might be proper in the combination with rehabilitation and healthy and slow activities. However, as the price of the new made-to-measure swimming pool starts on 100.000 CZK and more, there should be find out a different solution. One of the solutions might be exploitation of swimming pool which is included in the athletic facilities called TJ Sokol Královské Vinohrady, which is situated approximately 2 minutes by walk from the 'Balance Club'. On the basis of agreement with the owner of this athletic center can 'Balance Club' rent a swimming pool for a few hours per week, which will lead to widening offered services and subsequently growth of new customers, who are not able to do exercises nowadays because of the various restrictions and health limitations.

- ***Discount portals***

Discount portals have become as the integral part of the society and our today's lives. Without any question, discount portals have turned into another possibility how to address and gain new potential clients across the age spectrum. These discount portals are coming-

out from the well-invented system; companies which are interested to offer their services through the chosen discount portal give over 25% of profit to the owner of this portal who in return allows the company to propagate itself through offering vouchers with discounted prices to the potential customers. This system has been very popular and still more sought out by more and more companies. 'Balance Club' has not tried to offer voucher on various exercises or services along these types of discount portals yet. However, I would not even recommend it. In the reality, such sort of customers who are browsing the discount portals usually do not become a regular clients, since they exploit just instantaneous discounts without any deeper interest about the provided service. After the termination of the special actions these customers in principle leave for the different discounts. Therefore, since 'Balance Club' is interested in generating long-term relationships with the customers, exploiting of discount portals as one of the method how to widen its customer portfolio is not the best alternative to do so.

## **12.2 Internal processes**

According to the empirical research and own experience from the Balance club has come as a problem insufficiently managed internal processes inside the company. Therefore, one of the aims of this thesis is to properly analyze these internal processes and propose such suggestions, that will respite the company's internal environment which will lead to higher 'Balance Club's' effectiveness and so that profitability. The analysis of internal processes will be targeted on the most problematic areas that have arisen from the research, such as system of established communication, organization of the meetings and quality of employees inside the company.

### **12.2.1 Organization and communication inside the company**

Well - established and followed organization and communication processes in the company are a significant part of successful business. Without proper organization, the full creative potential of the company could never be realized and without effective communication the company will be uselessly inhibited and non-functional.

'Balance Club's' internal processes are unfortunately set up in very unhappily and inefficient way. According to the empirical research, there are three basic blocks, which should be improved. These blocks consist of employees, system of communication and distribution of work according to job position. The key for profitability growth of the

company lies firstly in understanding how each of these subunits of organization are developed and how they interact with one another to form an organic whole.

- ***Employees***

‘Balance Club’ employs approximately 25 employees, which are mainly students, brigade – workers or other people who work on the Contract of services or on Agreement of working activities. There is nobody with the part – time or full – time contract. Even though this system is for the company more tax profitable, it causes also a wide range of problems inside the company. Students consider working in ‘Balance Club’ as the possibility to earn a little extra money, but do not take this opportunity really seriously. They know there is still many different possibilities where to find brigade in the case of being fired. Thus, it is sometimes hard to work with this sort of employees; even though there have many new ideas, owners have no levers to change their approach to working. This might be the same problem with the other employees, who had signed the agreement of working activities. These people usually have their own full – time jobs and the work in the ‘Balance Club’ consider as a “fun”. Students, who are employed at the reception sometimes instead of doing their job as the receptionist or finding new improvements in the company, study on the exams or do home works, which should be in the job forbidden. By reason that ‘Balance Club’s’ employees work on shifts (those at the reception) or on blocks (those in the gyms), there is needed high number of employees, with the consideration of keeping some as the understudy.

From all of the previous mentioned reasons is in the ‘Balance Club’ pretty high fluctuation of the employees, which cannot ever cause a big effectiveness inside the company. Since the employee is semi - skilled, he/she is leaving from the reason of new better job opportunity, so there starts afterwards the whole circle of finding and recruiting new employee again, which can be sometimes a long and nerve – racking process. Every current receptionist has just one, maximum two shifts per week, which is totally not adequate, because it sometimes leads to misunderstanding and bad communication among the receptionists.



- ***System of communication***

Communication in Balance Club has a lot in common with a high number of employees. Thanks to a high number of employees, who are working just once or twice a week, there have sometimes arisen problems with the bad interpretation of 'Balance Club's' news. Since it is a problem to make an appointment for all of the employees together, some of the news (new products, services, ideas, systems, etc.) are interpreted by the owners to several employees individually. It takes approximately 2 – 3 hours per week from precious and valuable time of the owners, which could be used in a more effective way. When talking about appointments; appointments for employees (mainly for receptionists) are held twice a quarter and it is always a monolog of the owners. There is just a small space for everyone to express their opinion or to discuss some problematic from their point of view. Further, according to research made in 'Balance Club'; there is also an important absence of strict diversification of activities and responsibilities in the company. It causes that everybody does everything, but afterwards if there is something done wrong, there is nobody who is responsible for it and cannot be sanctioned or warned to prevent doing the same mistake again.

- ***Distribution of work according to job position***

The scope of employment for each job position is in 'Balance Club' set up quite brightly. The receptionists are responsible for the fluent run of the 'Balance Club', taking care about the customers, do business with them and cooperate with the rehabilitation and external taxation department. Instructors are responsible for providing quality services for the customers and promote 'Balance Club' in the best possible way. Technical workers and cleaners do not come in contact with the company's customers. Owners manage the rehabilitation and accounting department. IT administrator and mainly the receptionists, because they are the most important article in the company – they make the first impression on the customers. Owners also deal with hiring new employees and whole HR policy and beside this solve significant problems which are not able to be solved by the receptionists. Furthermore, owners create new business strategies, treat with the business partners and find new ways of coming into the limelight.

### **Recommendations for increasing profitability**

On the basis of done research, there are several recommendations, which should be implemented to increase company's profitability and effectiveness.

Regarding the problematic with employees; 'Balance Club' should employ somebody on the full – time job. Even though they will have to pay higher taxes, if there will be somebody on more than two times a week, the structure will be immediately improved through this “connecting element”. This person will have good overview about the customers and possible problems, which can be solved afterwards with the other colleagues or at the appointment with the owners. Important is, that other colleagues at the reception will not be surprised when something happen because they have heard about this problem already from the colleague. Further, **owners must immediately start to choose right employees**; otherwise it can have a significant impact not even on the company's profitability, but it can also destroy the company's reputation, which is very hard to win back afterwards. By the right employees are meant educated, reliable and result (business) – oriented with the interest of the wellness field. Owners should increase heftiness on the employees already when hiring new people; they must focus mainly on language knowledge, because all of the receptionists get in touch with citizens very often. **Then should focus on business skills of the employees**, which is fundamental step when increasing the company's profitability. In comparison to the company's competition, owners must start being more strict and uncompromised by pushing their current employees (mainly receptionists) to making the business (membership contracts). It is necessary to exploit the situation, when the potential customers are in the company yet to make with them some business or at least gain contact on them.

The arisen problem with the communication is caused from inadequate access on the part of the owners. **They should strictly and clearly set the appointment for the employees like an obligation**, not just like voluntary meeting. In the case the meeting will be set up as obligatory, it will have at least two benefits.

- The employees will have the opportunity to brainstorm and meet the other employees, which they do not have usually chance to meet. It will lead to improve their friendships and subsequently to empower the team.

- The other benefit is that mandatory meetings will lead to time savings of the owners. They will not have to hand on information from the meeting to others employee individually, because all of the employees will be at the meeting. Then the owners can use those 2-3 saved hours per week to focus on other more valuable activities, which will increase the company's profitability.

Nevertheless, there might happen that some employee will be ill or will have other serious reasons not to come to the meeting. Then it is necessary to entrust somebody with taking notes during the meeting and consequently interpret those notes to employees who will not be present at the meeting. These notes can also be served as a re - enactment for the employees who were at the meeting. There should be also strictly divided responsibilities and duties of all employees, because it is an essential step in running the business. A clear responsibilities and duty assignment for each employee ensures that all necessary tasks are completed. If not, the company's management can subsequently work with the mistakes of each employee and try to minimize them at the lowest level. On the other hand, the company's management can also get a view of employee's positive approaches. No matter what, an evaluation of the current employees and their responsibilities is a key step in dividing duties. Eliminating redundancy in the duties each person performs makes more efficient use of time and money.

Regarding the problematic with a distribution of work according to the job position; there should be made a change in hiring new person. Scope of employment at the each position is adequate, what **should be changed though is the scope of employment on the owner's level**. Owners are currently spending a lot of their time by the personal policy in the company, e.g. discussing and solving problems with the receptionists, instructors, etc. This should not be range of their work.

**As the proposal, there should be hired new person on the position of Business process manager**; this person hired on the full – time job will fulfill the function of “linkage” between the owners and receptionists. This person will be responsible for all of the HR policy in the company and will be feature as the right hand for the receptionists. Therefore, in the case receptionists will have something to discuss or solve, they will not bother owners, but will have the opportunity to turn upon this new person. This new step will

make easier all communication among the management and receptionists, which is currently not working. Owners will have again more time for creating new business opportunities and think out about how to create new partnerships.

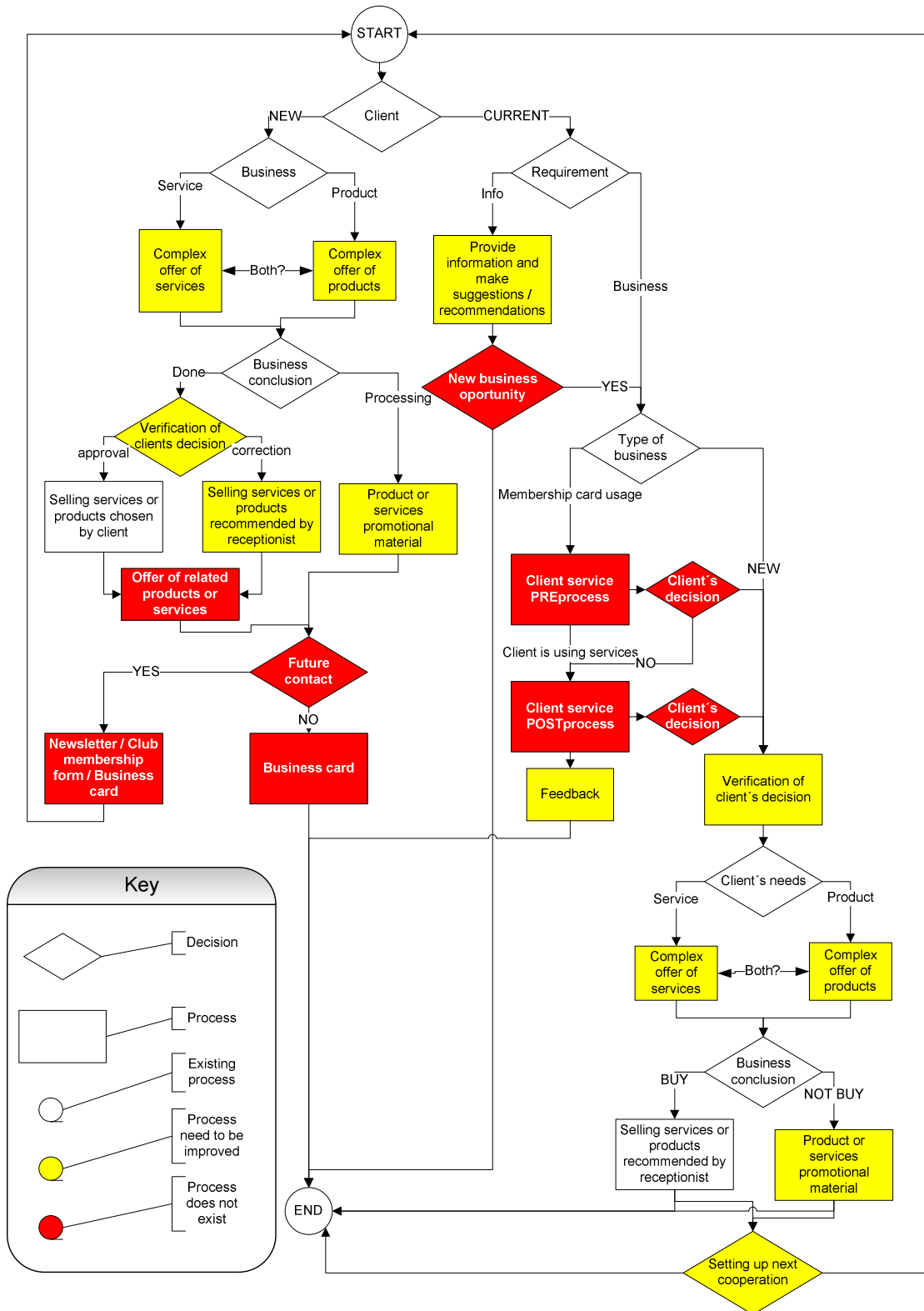
### 12.2.2 Internal processes leading to business

There are several processes running internally in the 'Balance Club'. Since this diploma thesis is focused on increasing company's profitability, there will be displayed and analyzed the most important process that is currently running in the company and has the hugest impact on the company's profitability; *the receptionist versus customer process*. Below this paragraph is displayed and in detail described whole process since the new/current customer comes in the company up to he/she leaves. The process is also divided into two areas

- offering services
- offering products.

By the services are meant gym and exercise courses, rehabilitation services including solarium, sauna, massages and educational courses provided by Balance Club, such as courses for sport instructors, lifeguards juniors or seniors and masseurs. By the products are meant mainly Penco products, which are representing not only exercise supporting but also high – quality and life useful nutrition. Balance Club performs as the brand store, which means that has exclusive contract with company Penco and has the privilege to sell Penco products as the only one company in Prague. Further products offered by Balance Club are not so much significant for the company as Penco products, but should be mentioned anyway. These products consist of exercise utilities, such as gym balls, exercise gloves, socks and caps, special heart rate measurers and towels. All of these products acts like a necessary supplementary products offered by the fitness center.

Graph 10 - Own proposal of business process among receptionist and customer



Source: own processing

### 12.2.3 Description and optimization of the processes

Since this diploma thesis is focused on increasing profitability, the above proposed process diagram shows whole business process running among the receptionist and the customer. The whole process is shown from *the company's point of view*; it points to processes that in the company currently exist, those processes which should be improved or which are totally missing in the business conversation. Just like is explaining a legend in the diagram; as white are included processes which are involved in the business conversation; as yellow are included processes which are sometimes mentioned, but sometimes also forgotten, so in general those which should be improved; and as red are imaged processes that are absolutely missing on the part of receptionist. However, all of the above mentioned processes should be involved in the business dialogue to make a successful business and subsequently increase company's profitability.

- ***Process with new customer***

In the case new customer is coming to 'Balance Club', the first thing impresses her/him is the reception. The receptionist welcomes her/him and asks what she can do for her/him. It is expected, since the potential customer came from her/his own will inside, that she/he is interested in something. In many cases potential customer asks for something; either product or service. The receptionist answers about the product or service customer is interested in, but in a very few cases give him a complex offer of product or services 'Balance Club' can really tender to him/her. If she does so, the customer can realize there is something more suitable for her/him or that is something what might interest her/him more. In the case receptionist give him needed information and the customer agree; the business can be done. However, it is generally not that easy. Sometimes customers do not want to make business immediately, they need more time to think about it or to discuss it with friends/family members. But also in this case should be some continuation in the dialogue to take advantage of having the customer already in the company. The receptionist should give her/him some promotional materials and asks her/him for a contact; so that she can contact her/him afterwards about her/his decision or just to provide her/him with more information (if needed). Hand in hand with taking the contact, the receptionist should give her/him in return a business card and club membership form, which is necessary to be fulfilled by the potential customer. The club membership form

should include blank spaces to be checked by the customer, such as areas of interest, what the potential customer expects and also there should be blank columns to write personal information about her/him, such as name, date of birth, home address, email address, phone number, and others. The form should also include column saying if the customer is willing to receive newsletters about the company, so that can be warranted further contact with her/him. It is a voluntary decision of the potential customer that must be respected. In the case customer does not want any future contact, the receptionist can give him a business card and say goodbye. Unfortunately, in reality the receptionist's business dialogue ends while giving the potential client a promotional material. And that just when she does not forget.

In the case potential customer agreed to buy service/product in 'Balance Club' immediately, the receptionist sell what the customer asks for but in the most cases without verifying her/his needs or purpose of buying concretely this product/service. If the receptionist would verify it, she might find different or other services/products that she can recommend to her/him, since it can be more suitable and fit more to customer's needs. When the product/service is chosen, there should be offered other related products or services, which can lead e.g. to higher effectiveness of a sport performance. However, this step is from the receptionist's side missing; thereby the company cannot reach the maximization of its profits. The procedure with taking a contact is the same as in the case of customer, who does not want to make business immediately.

- ***Process with existing/current customer***

In the case current customer is coming into the 'Balance Club', it can have three reasons. The first reason is that the customer just came to derive benefits from her/his membership and does not want to solve anything or speak to anybody; just wants to relax. Then receptionist should not make any kind of pressure on her/him, but should just provide the excellent service at the reception. Secondly, the customer might come with some request, requirement or information needed. The receptionist usually answers what the customer asked for, but in less cases give her/him a suggestion or recommendation or finds out the purpose of asking this question. Unfortunately, in any cases receptionist asks her/him about more details, which cannot lead afterwards to new business opportunities. To place it into reality; if the customer has a membership card e.g. on fitness but comes to 'Balance Club'

one day really tired, receptionist through her intuition or finding out the customer needs can offer him a yoga program with the small extra pay in addition. Customer will appreciate the interest about her/him and probably will try recommended service by the receptionist. In the case he will not use this new offered service, the business dialogue ends and the customer is continuing on the way to fitness as usually. In the case she/he will be interested in, there is potential to make either a new business or some business connected with usage of her/his membership card. When the customer just wants to try recommended service with small extra pay to his current membership, it is not considered as a new business. But there might come following business dialogue, when the receptionist before leaving the customer on the yoga will recommend him e.g. an energy drink or energy bar from Penco to stop feeling so tired. Customer can agree or agree not, anyways, without asking any business cannot be done. The same situation might be when customer will finish the exercise. The receptionist could ask him if she/he is not interested in e.g. after activity Penco cocktail, which might give him enough power till the end of the day. Again, customer can agree or agree not. If he is not interested in, the receptionist should ask for the feedback from the yoga exercise and say goodbye to him. Customers want the receptionist to communicate with them; they want to feel needed and appreciated. This approach is from the side of receptionists' unfortunately very lacking. Furthermore, pure answering the customer's question was not leading to create any new business opportunity with the customer; this should be taken in consideration since it is totally unproductive and alarming.

In the case current customer wants to make a new business in 'Balance Club' (e.g. to buy a membership card to his wife), there is verification needed as well. By the verification is meant getting to know the purpose of the client's interest. On the basis of getting known the purpose and finding out the client's needs, there should be offered again the complex offer services/products to the customer; just for the case of finding out something more suitable. The receptionist can recommend to the client something on the bases of information she has and make a business. Afterwards she can set up with the client next cooperation, such as when the membership card will be ready to withdrawal and say goodbye. In the case customer will need more time to think about it or to discuss it at home, the receptionist should give her/him a promotional materials and set up next cooperation in the way of contacting her/him. According to research made in 'Balance



Club’, this process is not working in the right business way since the verification of client’s decision. In case ‘Balance Club’ really wants to increase its profitability, whole business dialogues from the receptionists’ side should be changed to a more business – oriented way.

### **Recommendations for increasing profitability**

On the basis of made analysis are displayed current internal business processes running in the company, which should be leading to making a business. Receptionists, who can extract maximum from the continuous direct contact with customers, do not derive benefits from this opportunity at all. They have no motivation for making business. Therefore, there are several aspects that should be changed otherwise the company will direct towards big problems.

First of all, **owners or new business process manager should implement into the meetings with the receptionists education sales training**, which will be based on step-by-step strategy leading to making business. This sales training must include sales methods with the inclusion with effective and goal-directive questioning, arguments on most frequent objections and tactics used according to customer profile. The sales training should be also specialized on the steps that are missing in the above mentioned chart and are not used by the receptionists at all.

Secondly, because **is evident that receptionists do not have presently any motivation to make business, this should be reflected on their salaries**. Nowadays, receptionists have same fixed hourly salary (100 CZK) whether they try to make business with the customers or not. This should be changed in the way that salary ought to be split into fix and variable component. Fix component of the salary should be decreased from the current base (e.g. on 80 CZK), but will give the opportunity to increase their salaries by the variable component (e.g. 70 CZK) up to the 150 CZK/hour. Variable component will be increased on condition that receptionists will make the business with the customers or not. There should be set up equal conditions for all receptionists in the way to motivate them and provoke into doing a business.

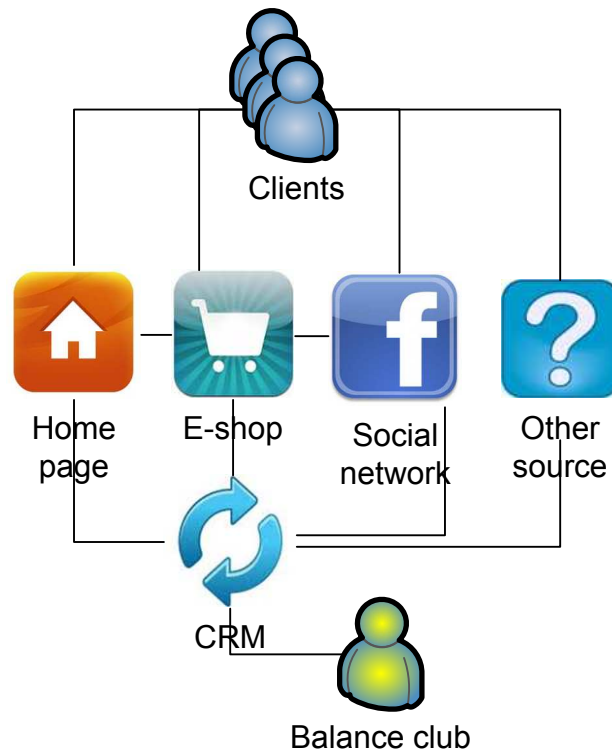
Thirdly, because of implementing new business tactic and innovation into the company, **there should be continuous control and subsequent feedback on the part of owners**, but mainly of Business process manager. Business process manager should give immediate reaction to the receptionists in the way what they did right and what is needed to be improved. Just with the continuous control and well given feedback will be the company prospering.

### **12.3 Information technology**

Information technologies are involved in the goals of this thesis from the reason of their insufficient and poor exploitation in the company. Nowadays, information technologies are developed on such a high level, that it is almost a sin not to utilize them on behalf of the company. Even though under term “information technology” can be imagined lot of things, according to needs of the company will be this chapter specialized mainly on the **Software & Hardware, CRM, Social Networks and E-commerce**, which consists of E-shop, Web pages and Electronic Reservation System. Proper usage of all these mentioned aspects will lead to simplification of processes subsequently for more effective and profitable work of the receptionists.

Below is graphically typified almost whole Information Technology in the company ‘Balance Club’. From the client’s point of view are seen Web pages together with usage of E-shop, the company’s inherency at Social Networks and other sources, such as Blogs, Banners, Promotion on the company’s partner’s web pages and others. From the ‘Balance Club’s’ point view CRM or software will be seen that will be able to integrate all of the mentioned sources into one database which will subsequently help to create effective marketing strategies for the company.

**Graph 11 - Information technology in the company**



Source: own processing

### **12.3.1 Hardware and software**

The actual situation of hardware inside the company is totally deficient. There is one old computer with printer placed in the distant office, which is around 30 meters away from the reception. So in the case receptionists need something urgent on the computer, they need to lock and leave the reception to check the information in the distant office.

The old computer works together with Windows Office 98, which is totally out of date version of software. This old software causes many problems, such as impossibility of open, read or even edit documents from new Windows Office. Owners of the company did not want to change this Office version; even there has been already given recommendations on the part of company's IT administrator. However, the owners of the 'Balance Club' did not find implementing of new version of Offices as much as important and necessary for running the business.

### **Recommendation for increasing profitability**

As a one of the recommendation should be given buy of new computers; one for the office usage which will be able to work with the new software, and one for the reception, so that the receptionists will not have to walk up to the office to check something necessary, but will have all information available directly at the reception. To precede abuse of time spent by browsing those kinds of internet web pages, which do not have direct connection with the subject of the work, can be by restriction these web pages prevented. It means that receptionists will have access just on the relevant web pages and will not spend time by browsing something inappropriate.

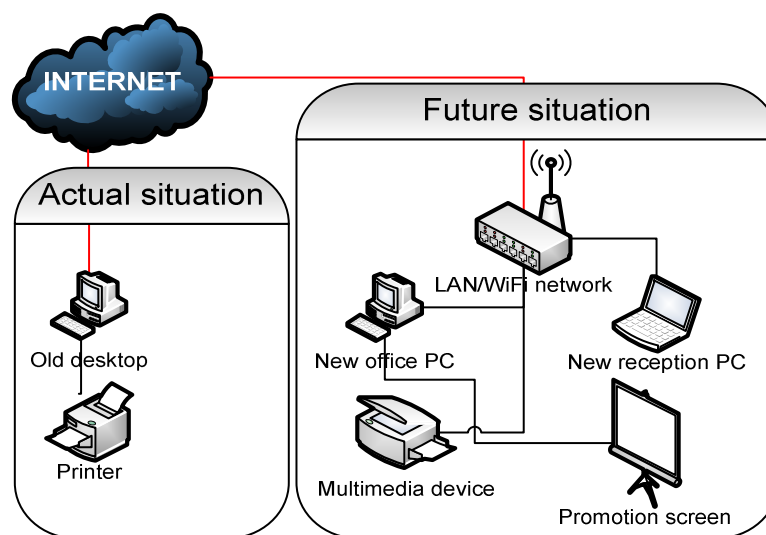
Hand in hand with buying new computers goes as well new multimedia device, which will be able to scan, copy, fax and do many other necessary things for every business. Due to implementing this new multimedia device will the 'Balance Club' save money which is currently paying to the Copy center for mediation these services. The prices of computers and multimedia devices are very low at this time, so that it will not be such a financial stress for the company. On the contrary, money will be returned back to the company in a while.

The usage of old Windows Office should be replaced by the newest version, even though the owners of the company were not willing to accept this. If they want to have this company successful and profitable, they must adapt to changing environment, technologies and trends. **Hand in hand with implementation new software into the company goes complete audit**, which will confirm that all of these software and new programs have original licenses and are enabled for commercial usage. In case software will be implemented illegally or inappropriately for commercial usage, there might arisen problems with the Czech Trade Inspection Authority, which is responsible for inspects legal entities, corporations, as well as individual persons who sell or supply products or goods to local markets, provide services or are engaged in similar business activities on local markets. [40] Czech Trade Inspection Authority can give fine or sanction in the event of failure, which could have had a killing impact on the company.

Even though there is already implemented Wi-Fi network in the company, it should be used more for the commercial usage. 'Balance Club' should promote Wi-Fi in the way of widening and continuous improving of offered services for the customers and thus become more able to compete.

As the last recommendation is **implementation of promotion screen**. There are notices – boards fulfilling the function of promotional material. These boards though demand a lot of time spent by receptionists by changing the pictures, information, programs as well as continuous updating over the graphical site. Further, notice – boards look unprofessional. When implementing some promotional digital screen, the company will avoid unprofessionalism and plenty of time spent by receptionists by updating. This promotional screen will be lined – up to the computer in the office, from which will be gained all of the pictures and information suitable for presentation and promotion the company.

**Graph 12 - Hardware situation inside the company**



Source: own processing

### 12.3.2 E - commerce

#### Web pages

Current 'Balance Club's' web pages are created in the quality freeware system called Joomla. Thanks to formation web pages in this system, the company has saved a lot of money. However, the problem of the 'Balance Club's' web pages is with the posted information; they are sometimes outdated, unmatched to the reality and some of the information is even missing. Some programs which are offered at the web pages are not exercised in the reality in the company at all, such as Belly dances, Bosu or Pregnancy exercises. These failings subsequently lead to confused customers. The problem rises from

lack system of communication, as was already mentioned in the previous chapter. Thanks to indistinct diversification of duties is nobody responsible for uploads and news on the web pages and for fulfilling empty cells.

In comparison to competitors, some of them use Electronic reservation system as the part of their web pages. This system helps and relieves signing – up at the exercises from the comfort at home, work, etc. There are several types of this system which should be mostly proposed and implemented as a made – to – measure, so that it is not a cheap business at all. Even though Balance Club has not implemented this system yet, there has been made many discussions on this topic. This system has indisputable advantage for approach to younger generation and Internet users, who are habitual to use the comfort of signing up to the classes through Internet. On contrary, this system is used mainly by multichannel centers which have plenty of programs at the same time; so that the receptionists are not able to have proper overview about the company without this system. Another aspect is high price of the system, starting at the price of 10.000 CZK. There is of course possibility to exploit occasion of hosting mode; afterwards the application and database run on the hosting server, which is for sure cheaper variant than implementing whole made – to – measure system. [42]

### **Recommendation for increasing profitability**

As a recommendation for web pages; **there must be obviously entrusted person, who will take care about the whole web pages, its updates and completion of missing cells.** IT administrator from this reason created web pages in such application that will be even easy for the receptionists to work with. It goes hand in hand with already mentioned recruitment of new employees; for the new receptionists must be demanded good computer skills, so that in the case of emergency will be everyone able to update web pages and so on.

As a recommendation of electronic reservation system; when taking into consideration that Balance Club has just 2 gyms, 1 fitness and 2 spinning room where plays the role keeping the capacity, **it is not necessary to implement nowadays this sort of reservation system into the web pages.** If the management of the ‘Balance Club’ will ever think about expanding its spaces, this reservation system might be useful and beneficial as well from

the point of probable return of pasted initial costs. Until then the 'Balance Club' can use some different cheaper possibility how to file the client's information.

### **E- shop**

E - shop is part of e-commerce because it can play in the businesses significant role. Due to e – shop can the company increase its sales of the products or even of the services. It can lead to widen the client base and attraction zone of new potential clients through online offering of vouchers for exercises, massages and other services, such as solarium, sauna, special actions, etc. This subtype of e – commerce works on the basis of client's profile and given data that client must fulfill while ordering. These data can be further use for marketing uses (in the case client agrees) and as another tool for making business.

'Balance Club' does not have currently implemented e-shop as well. It is mainly because owners of the company did not want to solve problems with payments through internet, which were found as extra unsafely and complicated.

### **Recommendation for increasing profitability**

E - shop and payments through Internet is something what owners of 'Balance Club' strictly refuse. Even though is possible to find hosting servers through which might be the company able to establish new e - shop for free, it will not have any impact on decision of the owners. In the case owners will once change their opinion, **it is necessary to make more detailed analysis if the implementing of e – shop into this company will lead to higher profits or not.** Even there is possibility to have establishing of new e-shop for free, there is still necessary to remember paying fees for the running and maintenance of the e – shop, which varies approximately from 240 CZK up to the 1400 CZK per month. However, implementation of e – shop is just a question of future; **nowadays with this owner's position is useless to make even the analysis of potential impact of e – shop on the company.**

### **Social networks**

Since the evolution of communicating online and the formations of social networks, the proper usage of these networks nowadays is a very important tool for every successful business. All of the social sites have one primary thing in common: they allow the

company to create a business page for free. It is nowadays the easiest way how to attract and gain new customers and an enormous benefit for the company, through which can promote itself and make new connections.

Since the 'Balance Club' seats in Prague, the owners had created a business profile on Facebook, which is the most commonly used social network in the Czech Republic. Unfortunately, Balance Club does not provide any value to their customers and friends on this type of network. The account is lifeless with the empty shells, which instead of gaining new customers hurts the company very much. Once people who have 'Balance Club' in "friends" see those empty shells of what they thought would be a community, they must be rightfully disappointed and move on. It is because people are not impressed with ghost accounts; they want interaction, knowledgeable information, and life breathing from these sites. This is for sure something what should 'Balance Club' take into consideration and improve as soon as possible.

### **Recommendation for increasing profitability**

The recommendation for the proper usage of social networking in 'Balance Club' is very simple, but directive. **It is necessary to exploit the given opportunity of actual popularity of Facebook and wake up the account of 'Balance Club' into the life again.** Since the social networks are so far for free, it must be turned into the company's profit as much as possible. Because there is currently nobody entrusted of taking care about the account, it must be immediately changed. Thus, there will be one employee responsible for updating news and special offers (preferably at least daily) on the 'Balance Club' account, together with fulfilling the empty spaces and creating social links and new friendships under the company's name across the internet. The 'Balance Club' could not rely on fact they has account so that people will come by oneself; **it is necessary to find out and develop strategy that will works as a highly effective business and marketing tool** and will increase not even number of new customers, but will maintain long relationships with the current ones, for which will be then more difficult to leave the 'Balance Club' then. Furthermore, 'Balance Club' can start posting stories and unique commentaries from insight together with providing tips, tricks, or information e.g. about the health or right lifestyle. However, even the comments should have been valuable for the customers and the company utilizes possibility to promote its services or products; it cannot be forgotten



on creating sense of community with the customers. Only then will be the 'Balance Club' able to take the advantage of massive audience, which has Facebook to offer.

### **12.3.3 Customer Relationship Management**

Customer relationship management (CRM) can be in today's business environment one of the strongest weapons the company could have to ensure that customers become and remain loyal.

CRM turns data about customers into the information, which can be further turned into a customer-satisfying action. Since the purpose of the business is to create satisfied customers, who give references to the others, the company's customer base might be through proper use of CRM naturally extending. CRM allows working with the customer more effective and targeted.

For 'Balance Club' it is important not even to widen client base by new customers, but also to keep current customers and grow the depth of their relationship with the company. 'Balance Club' does not have actually any system of collecting data, either any system or database for elaborating those data.

#### **Recommendation for increasing profitability**

Although implementing of CRM into the 'Balance Club' is a good idea, because there is currently missing any system that will collect and process data of the customers and turn them into the information, after the analysis of financial intensity came out that price of new CRM systems is unexpectedly very high. Since it is necessary to implement CRM system which will be made – to – measure for the 'Balance Club', prices of these individual systems are ranging from thousands for licenses for up to hundred thousand CZK. Buyer pays primarily for product quality, its functional coverage, the technology tools and fame. The price usually unrolls on the basis of implementation and subsequent servicing (maintenance). As in the previous cases is possible to exploit some free CRM system available on the internet when you pay just for the maintenance, from the reason of security of customer's sensitive data is this alternative not recommended at all. Further, The Office for Personal Data Protection, which takes care about safe storage of customer's data, would not accept implementing of this free ware version by any chance as well.

Since implementing of CRM into the 'Balance Club' might be improper, **there is still necessity to start file customer's data and turn them into the further marketing advantage.** For this might help Microsoft Office Excel as a good base, which is for the 'Balance Club's' needs sufficient. There are available 64000 rows, so it might be enough for another few years as well. However, keeping the customer's data in this type of program should be provided by lot of safety devices, such as encrypting or protecting by passwords or zip. Hand in hand with this type of protection should be created some safety area directly on the disc in the computer, so that access will have just employees of the 'Balance Club'.

In the case that using of Microsoft Office Excel as customer's data storage will be considered as unworkable; **there is still possible to use eg. Microsoft Office Access or Microsoft Outlook.** Through both of these applications is feasible to collect and file contacts and data and create various rolls, forms or analysis that might be use as a marketing tool by targeting customer's particular needs with made-to-measure offer, such as offering exercise programs according to individual age groups and so on. As in the previous cases; it is needful to entrust somebody who will learn how to effectively work with these applications; then will be implementation of CRM system unnecessary, because adequate work will be done by applications which are almost for free.

## 13 Conclusion

**The goal of the diploma thesis** was to analyze the company and on the basis of this and empirical studies done during the previous 5 years, to recommend such improvements that would lead to higher profitability of the company.

In the literature review such possibilities that might lead to the increase of the company's profitability were outlined and these were further analyzed. The most significant limitations and deficiencies were considered to be poorly set up internal processes and insufficiently used information technologies in the company. Taking into consideration last year, when the largest effects of the financial crisis of year 2008 were seen with reduced amount of the customers about 19%, a key objective was to widen the client base in order to increase the company's profitability and save it from bankruptcy.

Even though the profits of the 'Balance Club' are still decreasing, the company is still considered as safe with a healthy financial situation. Based on the financial analysis it has been shown that the 'Balance Club' is not reliant on external sources to finance its assets and is able to meet its short-term obligations. Nevertheless, progressive decreasing profitability ratios should be taken into consideration, because without any change these do not indicate the best future situation for the company. On the contrary, the company should exploit its competitive advantages and strengths to widen their client base and turn around the business that way.

According to the analysis of the current situation of the company several incredible facts can be shown. The largest representation (26%) was in the age group from 41 to 50 years while customers to 18 years represented just 3%. Concerning the profitability of each program in the 'Balance Club'; it appeared that the highest profits were generated in the fitness room, less profits has conversely the spinning room. However, according to the effectiveness of exploited capacity of the gym has appeared that the most profitable and effective program is Bodystyling, the second one Pilates and the third one Body-ball. On the contrary, the most unprofitable program is Individual Condition Program, which should be replaced by the programs which are profitable and more popular among customers.

When widening the client base; it would be strategically necessary to focus services and widen customer portfolio more about the young and middle aged. However, with reference

to the future might it be even more profitable to focus on the older customers, since there is an increasing % of the older generation and lengthening of retirement and economically activeness in the Czech Republic.

Nevertheless, the company should not limit itself by targeting concrete age group as present, but conversely try to address as much customers as possible no matter what age since the main goal is to increase profits. Even though every customer is an individual with different needs and requirements, in general is obvious that all customers will react to discounts, promotional activities, favored and attractive membership cards, trips and services or products for free. As a strategy for widening the client base developing new partnerships with e.g. hotels, health institutions, big corporations, kindergartens and schools in the 'Balance Club's' surroundings might be used. This strategy could be completed by offering new services or co-operating with discount portals, which might lead to even greater address of new potential customers.

Several recommendations for the optimization and improvement of internal processes can be suggested. First of all, 'Balance Club' must hire new people who will assumed such activities and responsibilities, which are currently wasting the time of the owners of the 'Balance Club' and could be done more effectively; e.g. for searching new potential partners for future cooperation. Further, the responsibilities and duties of all employees should be strictly laid out and appointments for employees should be seen as an obligation, not just as a voluntary meeting. Until this is changed, the internal processes will not work well. From the employees' point of view; there is no motivation for doing business. Therefore, owners could provide the employees some sales training, which will teach the employees how to do business with the customers. In the case the business will not even after be done, owners should change the way of remuneration. The last recommendation for the optimization of internal processes would be the implementation of continuous control and subsequent feedback on the part of the owners, which even though essential is currently missing.

On the basis of the executed analysis of the Information technology a number of improvements that should be implemented in the 'Balance Club' have came up. The 'Balance Club' should replace its old hardware and software with new ones, since the out-

of-date software on the even older computer causes problems and 'Balance Club' pays needless money for repair. As a part of strategy for attracting potential customers better exploitation of web pages and social networks, which are nowadays very powerful business and marketing tool, must be employed. Other improvements should be to implement an e – shop to widen the area of potential customers and implementing a customer database into the company. Since the CRM systems are expensive and their implementation to the company might be improper, 'Balance Club' should start e.g with Microsoft Office Excel or Access, which are well-arranged and sufficient for the 'Balance Club's' needs. Current customers should be satisfied with the implementation of the client database and its proper use will be reflected in at least stabilization or an increase of the company's profits.

**Hypothesis 1** was confirmed; after the implementation of recommended improvements of internal processes, especially the business ones among receptionists and customers; profits have risen up to 6% of sold membership cards during one month.

**Hypothesis 2** cannot be confirmed so far, since implementing new information technologies into the company is considered as a long-run process and is presently heavily comparable.

To conclude, since this diploma thesis has been written in terms of an existing company dealing with real problems, it is expected that output from the practical part will surely be of practical use for the company. All of the above recommendations have been generated on the basis of proper analysis and are considered as convenient. Since the company has already started improving its internal processes, it is advised to continue with these improvements as a priority with the primary strategic goal of the company to widen the client base. First of all the company should be strong internally, thereupon IT can build on this while widening the client base. Nevertheless, it is just up to the company, whether will be governed by these recommendations or will find out some own which will lead to higher profitability.

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