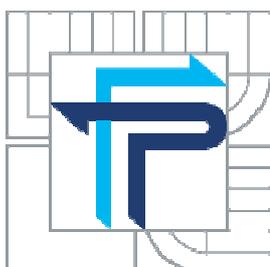


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ÚSTAV EKONOMIKY

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INSTITUTE OF ECONOMICS

ANALYSIS OF THE SELECTED FIRM

ANALÝZA VYBRANÉ FIRMY

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AUTOR PRÁCE
AUTHOR

Jakub Mačát

VEDOUCÍ PRÁCE
SUPERVISOR

Ing. Helena Hanušová, CSc.

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Mačát Jakub, Bc.

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L.S.

doc. Ing. Tomáš Meluzín, Ph.D.
Ředitel ústavu

doc. RNDr. Anna Putnová, Ph.D., MBA
Děkan fakulty

V Brně, dne 31.08.2012

ABSTRACT

The aim of this diploma thesis is analysis of sales policy in the selected firm. Based on theoretical knowledge and concepts assess whether the selected firm uses the tools of marketing policies correctly and efficiently. The practical part is based on survey which was done as part of this diploma thesis, macro-micro economic, internal data and the established facts which are confronted with reality. The conclusion is about the specific recommendations for the sales policy of the selected firm.

ABSTRAKT

Cílem této diplomové práce je analýza odbytu ve vybraném podniku. Na základě teoretických poznatků a koncepcí posoudit, zda vybraný podniku používá nástroje odbytové politiky správně a efektivně. Praktická část vychází z marketingového průzkumu, makroekonomických a vnitropodnikových dat, na jejichž základě jsou zjištěné skutečnosti konfrontovány se skutečností. Závěr práce je potom věnován konkrétním doporučením pro odbytovou politiku vybraného podniku.

KEY WORDS

Marketing, sales, market research, macro-micro analysis, price, customer needs

KLÍČOVÁ SLOVA

Marketing, odbyt, průzkum trhu, makro a mikro analýza, cena, potřeby zákazníků

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DECLARATION

I hereby declare that submitted master's thesis is authentic and worked up independently. I also declare that citations are complete and copyrights are not violated (pursuant to Act. No.121/2000 Coll., on copyright and on laws related to copyright Act.)

Brno, 31th August 2012

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Signature

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INTRODUCTION

A sales issue is currently one of the leading business management topics. An enterprises success depends largely on its ability to succeed on the products and services market through thoughtful and purposeful use of many available sales policy tools. It is necessary to effectively evaluate the outcomes of business cycles and to ensure the cycle of company funds. These funds are needed not only to ensure a subsequent enterprise running and a company development but they are also a prerequisite for an achieving the highest business goal - a long-term profit maximization.

At times when the Central and Eastern Europe countries had got a system of centrally planned economy, there were many cases in which the limiting factor was the lack of production. It was insufficient to satisfy the consumer needs. Nowadays, the situation is different. The current markets are characterized by the saturation and by the excess of supply over demand. An invisible hand of the market can allocate resources more effectively and flexibly come toward the consumers with offer of their currently needs. The focus of enterprise effort is moving into the area of sales so there is not problem to produce a product but there is a problem to sell it. The enterprises are oriented to the customer needs and wishes. They are looking for a way to satisfy their needs and they try to persuade customers to buy their products by a wide range of marketing activities. The aim of this thesis is to analyze the processes used in real business subject in the time of the implementation of the sales function and to suggest some possible improvements leading to more effective sales policy, the sales increase and the wider use of the company sales potentiality. To achieve this goal, there are used the information analysis and synthesis concerning the company and its surroundings, a comparison of the theoretical knowledge from pieces of works written by the leading local and international experts in contrast to the procedures used by the companies in practice. There is also used an application of mathematical and statistical methods in a processing of data collecting got by marketing research. There is used an induction and a deduction in a process to find some ways to increase the efficiency of the sales activities.

In the introduction, the theoretical part of the work, the theoretical concept of the producer policy issues and the marketing research is written with use of the specialized literature. This concept is a base for argumentation solution for its own analysis in the

following analytical part which is corresponding to its structural division of the system laid out in the theoretical part. In the example of the real medium-sized business entity carrying on commercial activity, there is the analysis which use the tools used by sales policy in the context of the environment in which the business works. These practical findings are confronted with the theoretical concept which is presented in the introduction of the work. The conclusion summarizes the results of the work, presents some possible ways which could lead to increase the efficiency in the marketing activities and suggests the application of these steps in practice.

1. SALES BUSINESS FUNCTIONS

The core element of market economy is companies which are responsible for the output. An enterprise is defined as "planned, organized economic unit where the production factors are combined to one goal which is product, goods or service. Market economy is separate discipline of Economics. According Wohe *"highest goal of market economy is maximization profit in long term."* (21) Author Synek thinks that the highest goal is maximizing business values for the owners of business entity. (17) These two opinions are basically similar, because the companies which are reaching to the long term high profit are usually high ranked.

There are also other objectives which must be done for achieving the highest goals. These objectives are typical for lower levels of leadership and they are specific in more details. We are talking about sub-targets, small targets etc.

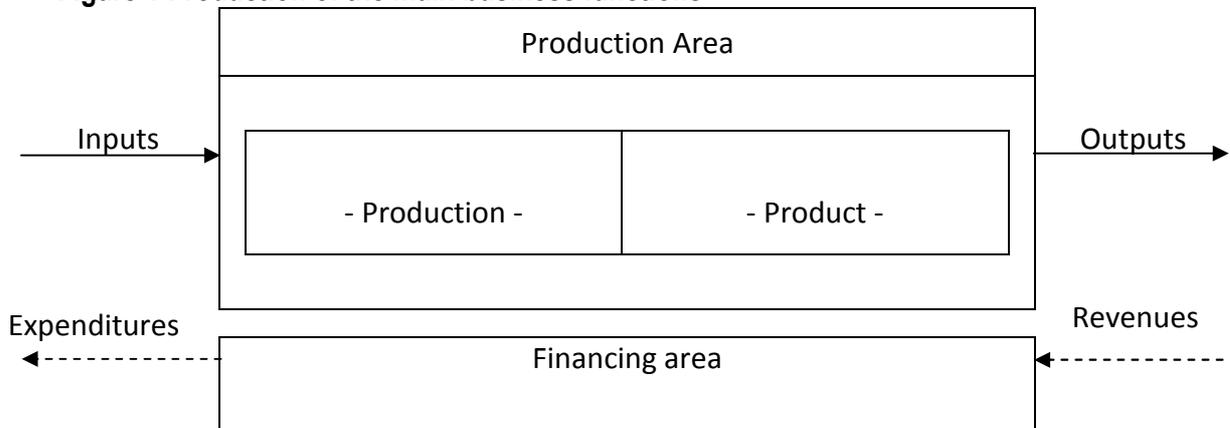
The main function of business entity is production. *"In the market economy the production is defined as combination of production factors. In the production period the inputs are changing into outputs and these inputs are sold on sales market."* (7) Novotny presents that inputs are the production factors (long-term fixed assets, materials, and employees and their work), output is combination of these production factors (goods and services). Process of production is can be divided at two main functions. First is just production (inputs are changed in outputs) and second is sale within the meaning of financial evaluation of the product. Third part of the process is financing (fund raising) and investing (financial sources are invested into the properties of company)

The process of ongoing revenues, expenditures, investment and divestments is called the business turnover. Operation of businesses is therefore possible to envision as a continuously repeating cycle: investing money into production factors, their using into the outputs then sale the outputs (product, service) and finally getting money which will be used for investing into production factors (cycle is closed).

Products and services are offered on the market. The market could be described as triangle where the edges are: customer needs, competition and their products and own products. The most important are customer needs because companies will produce what the customer wants. For the market economy is typical supply overhang over demand.

On the market is more products than a customer can buy. That is the reason why the companies have to find the sale channel and get the customer. (5)

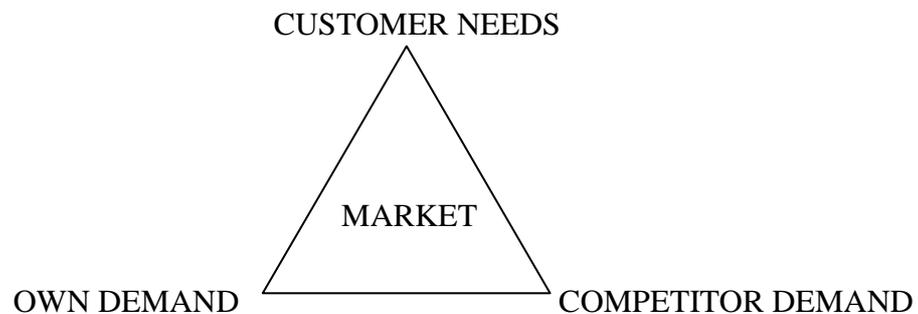
Figure 1 Production of the main business functions



Source: Own processes according Wohe [21]

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Figure 2 Market as a triangle



Source: Own processes according Wohe [21 WOHE]

Sale is the most important part in marketing. Kotler defines sale as “social and managerial process where individuals and groups and their needs or wishes are satisfied in the process of production and exchange of products and values.” (6) According the Wohe there are three possible ways how to define marketing.

- Marketing as learning how to reach optimal sales policy in the company.

- Marketing as a (market orientated) science about business.
- Marketing as separate science discipline.

The first interpretation sees marketing as separate part of business which is focusing just on sales. The second interpretation is covered also at the necessary expenditures connected with production factors buying. Third interpretation is widely orientated and covers social factors and exploration of interpersonal relationships. (21)

Important part of sales is planning and fixing targets, same as in other areas of business. For achieving the highest goals the company has to fulfill objectives in the various functional areas. The list of objectives at each level in the company is made up on the basis of own wishes, possibilities and conditions (public). Meet customer needs is not the target, just result of the company work. Profit is the main target and this target could be achieved only if the company is able to succeed the market. (6)

Companies can use these tools of sales for objectives achieving:

- Product Policy.
- Pricing policy.
- Communication policy.
- Distribution policy.

Their combination is called "marketing mix". The customer behavior and competitors may be affected through marketing mix. The intensity of sales policy tools is hiding under the market research, targeting etc.

“Planning is finding alternative ways to achieving goals. Planning of sales policy is about decision which products will be sold, prognosis of sales, number of sales product and price. Planning starts from the point when company gets information around.” (21)

In case that weak place in the company is just in sales area then sales plan is the important part of planning for other departments (manufacturing, buying etc.). Sales plan has to be supplemented by financial plan. The planning process is never ending process because all plans must be changed on the basis of suggestions received from the neighborhood. Getting information from the neighborhood and market research will be described in next chapter. (4)

2. MARKET RESEARCH AND GETTING INFORMATION

How was mentioned in previous chapter the planning of sales policy must be supported by the obtaining information about the neighborhood and other entities which are on the market. It is necessary to do a situational analysis. This is the first step in the planning process and the basis for further decisions about the sales policy. As part of situation analysis are obtaining of information about the:

- Own company (using tools of the sales policy, financial situation etc.)
 - Competitors
 - Trade (shop, market, e-shop) as sales intermediary
 - The final consumer (customers)
 - Other framework conditions (legal, political, economic, technical and cultural)
- (6)

2.1 Methods of Marketing Research

In procedural terms is possible to find four ways of marketing research respectively four basic phases how to make up the process of marketing research:

1. *Selection, identification and preparation of the scientific problem and preparation of scientific methodology.*

It involves the identification and definition of a scientific problem or phenomenon which will be studied and its pre-theoretical-empirical analysis. Then is formulation of a working hypothesis, working out a research project or research methodology and their assessment at the framework of the pre research.

2. *Obtaining of scientific facts* using by systematic study of the phenomenon or problem by using the special sociological and marketing methods and techniques.

3. *Processing material and devising research findings.* It includes tasks such as learning, assessment, classification, description, processing of empirical facts: causes, relations and ties: explanation of the problem and findings in the form of scientific knowledge, principles, hypotheses, theories, and so on.

4. *The practical application of marketing research,* conclusions and verify their implementation in practice. Firstly must be established the objective of

marketing research then can be identified requested information, which are necessary in research. In the case of badly set goal, which does not correspond to the actual problem (sales policy), the marketing research could be without results which were required. Important is also the choice of appropriate methodology, which can bring exciting results and findings. (6)

According Bednarcik (1) there are two basic methods of research - qualitative and quantitative research.

Quantitative research has one objective the measurement. It seeks to detect the occurrence of certain phenomena in view of the basic data file. Data collection is structured and unified way (using the standardized questions) how to compare outputs easy way. For the processing of these data are used different statistical methods and models. In conclusion are obtained data which are generalized to the entire population. It is therefore necessary to carry out research on a enough large sample (in the order of hundreds to thousands) so that the data were sufficiently representative. Basic techniques of collecting are personal interviews, observation, experiments and written questions. An important methodological principle is not only quantitative but also qualitative research of questionnaire.

The aim of qualitative research is not a measurement, but through qualitative research can be try to identify the reasons of human behavior, their motives and causes. Gives a deeper insight into the problem and allows to us better understand. Qualitative research has also flexible structure because it is based on assumption that each respondent is different. Disadvantage is that obtained data are hardly comparing. How Bednarcik also states: (1) “*Qualitative research is important especially in the case where is necessary to understand topics such as a social-psychological process, such as perception, interpretation, opinions, motivation, feelings, marches and influencing decision-making etc. Qualitative research is usually based on the selection of smaller sets and sometimes serves as complement to quantitative surveys.*” Wöhe fixed three basic characteristics of research process:

- Exploratory research concept.
- Descriptive research.
- Causal-analytical methods. (21)

Exploratory research is the concept used just in the case that the subject of the investigation is not known or we have just small amounts of information. Its purpose is to gather basic information, which in turn serves as a basis for further research. It focuses on the examination of qualitative expressions and there is not high emphasis on its representativeness. (1)

For the quantitative description of the market and its development over time serves descriptive research. It is used mainly for analysis of situation and also provides background information for the future forecast development. Two research approaches: cross-sectional analysis (about the state of the market at a certain moment of time and time series analysis, information about the changes of market characteristic over time. A typical approach is a descriptive research of panel surveys in the form "*surveys, which are at the level of consumer or business and carried out repeatedly at regular intervals on the basis of equal selection and focusing on the same subject research*". (21) Provide information about the status and development of sales, turnover, market shares, price level and customer behavior.

Causal-analytical methods also clarify the causes of the observed state by using experiment. Experiment is monitoring of inputs at a tested object (person, product, retail...) and subsequent reaction observed in the form of outputs. Outputs are dependent on the effect of inputs. Inputs are variables and independents.

There are two options how to make an experiment, in laboratory conditions or in the field. Laboratory experiments are underway in an artificial environment and far away from the market (for example studies). Their advantage is the good control of disruptive activities and the possibility of secrecy ahead of the competition. Laboratory experiments are cheaper and shorter time is needed compared with field experiments. An example of laboratory experiment is a "Hall tests": *Princip of "Hall test"* is in the invitation of selected people (tester) to the test hall (rooms, studios...), where we can check all reaction and opinions on the products which were submitted. Field experiments are performed in natural conditions (regional or local testing). Conditions in the area are more realistic and natural to the behavior of market participants. (2)

According Wohe the process of acquiring information may have two ways. Primary research is field research and secondary research. The primary research is based on research study such as questionnaire (oral, telephone, writing) or observation (with or

without the participation of the observer). Secondary research is based on obtaining information which was obtained in the past. Primary research need less time and money but not always are available data for the secondary research. (21) Another important method of data processing and evaluation are: analytical procedures that assessed just one variable and multivariate analytical procedure which follow the link between two and more variables.

2.2 Analysis of the macro environment

If we are doing a company analysis it is necessary to know all aspects of the company of functioning in the context. The company does not operate in isolation but is set in an environment that has a largely affects. The company has no chance to change the macro environment but must be prepared and actively respond, anticipate changes and be able to respond effectively. Therefore is important to do each business activity with respect to macro environment. (14)

Macro environment can be analyzed for example through the PEST analysis which allocates the effects of macro environment into four basic groups according the key factors. These factors are political, legislative factors, economic factors, social and demographic factors and finally technological factors. *"The fundamental role of PEST analysis is to identify areas where change could have a significant impact on business entity and try to estimate how the change in these key areas can touch the company."* (11) It is very important to understand that changes in environment may signal the need for the changes in corporate strategy or may bring new opportunities but also threats. There are many different factors but not all of factors should affect company activity. It is appropriate to recognize and focus only on those which are important.

Political and legislative factor in the form of various legal norms defines: the legal area where the company may move. Classifies the tax law the antitrust law and regulatory measures and the conditions in the area of foreign trade the requirements of the environment the law of employees, consumers and safety standards. In the political field are particular political stability, foreign political relations, and membership in different political organizations and economic groupings, such as the European Union. (14)

Economic factors are monitored using various macroeconomic indicators such as GDP, inflation rate, unemployment, exchange rates the interest rate and so on. These factors

characterize the state of the economy and its development trends. Growth of the economy means growth of the business and expands market opportunities. The decrease indicates the contrary the deterioration of the situation. The unemployment rate has a significant impact on the price of labor and squeezing the purchasing power of population. Inflation and interest rates can affect the investment opportunities. Situation on the foreign exchange markets determines the exchange rate risk which is an important factor for operates entities (whether by purchase or sales) in foreign markets. Social and demographic factors (socio-cultural factors) are related to attitudes and lifestyles of people and structure of population. The work attitude and how to spend free time attitude towards the environment, style of dressing etc. For the penetration to foreign markets is also necessary to recognize cultural differences and different mentality of individual nations. (19)

Technological factors reflect advances in research and development. The company must constantly innovate to be attractive for the customers and do not lost its competitive advantage.

2.3 Analysis of competition

If the company wants to be successful must provide customers more add value and satisfaction than the competition. It is not enough just to adapt to the needs of their target customers but also need to gain strategic (competitive) advantage. Advantage means that the company stays firmly in the minds of customers compared to competitors. (6)

Each company has a certain position. This position is based on the respect of competitors, customers and business strategy. A necessary starting point for determining position it is the analysis of competition. It is about identifying the key competitors and determination their competitive profile. Kotler identifies six main steps in the analysis of competition:

1. Identification of competitors.
2. Find the goals of competitors.
3. Identify strategies of competitors.
4. Assessing the strengths and weaknesses of competitors.
5. The estimate of typical responses of competitors.

6. Election of competitors which can be defeated and which competitors are better avoid. (6)

The analysis of competitors has a big impact on the company because it is not possible to make sales policy without a basic knowledge about the competitors and their strategies. The true is that strategy of competitors is often linked and the action from one side means a series of counteraction from the other side. Successful competitive strategy should be the function of the competitor strategy. According Kotler there are three winning strategies: (6)

- The strategy overall leadership in cost. The company seeks to achieve the lowest production and distribution costs and gain a greater share on the market.
- A strategy of differentiation, which consists in distinguishing the company from the competition by creating differentiated products. And then to act as leader of certain industry classes.
- The strategy when the company is focusing only on the few segments instead of the whole market. (6)

The level of competition in the industry depends on five basic competitive forces as can be seen in figure 1.

Figure 3 The Five Forces That Shape Industry Competition
The Five Forces That Shape Industry Competition



Source: <http://hbr.org/2008/01/the-five-competitive-forces-that-shape-strategy/ar/1>

"Aggregate influence of these five forces determines the potential profit in the sector. Profit potential is measured in terms of long-term return on invested capital. The aim of competitive strategy for the business entity is also find the status when an enterprise can best cope with competitive forces." (11)

2.4 Analysis of customer

One of the most important information (besides knowledge about the competition) in planning sales is the knowledge about the behavior of buyers in other words customers. The examination of consumer behavior is more in areas of psychology or sociology. It is nevertheless necessary to know as much as possible about the customer and the way how customers react. This knowledge giving the information about actual market situation and can decide about the success or failure of the company. If the company is able to better understand their customers and will bring consistency in own behavior with the behavior of buyers and competitors then company can get stronger position on the market. "Only one who knows the exact form of behavior and mood (especially buyers) can beat the competitors if comes with the sales policy aimed at satisfying the needs." (21)

Research Goals in area of sales policy according Wöhe are:

- Find the manner of conduct.
- Find the reasons which standing behind the certain behavior.
- Forecasting anticipated changes in the way of behavior.
- Influencing behavior of customers and competitors by using the tools of sales policy. (21)

How Wöhe goes on, there are several basic types of consumer behavior. *Impulsively decision* is not pre-planned act but is based on actual emotion. *Spontaneous purchase* is strong stimulus. Customary decision-making is based on normal routine, when the consumer buying a product repeatedly and automatically. This is especially about products which are frequently purchased. *Extensively decision making of purchase* is long and relatively thorough process where the customer needs gather information which then evaluates, compares and on the basis of preferences created a purchasing decision. This kind of decision making is often applied in case of more expensive products when the wrong decision could mean a substantial financial loss. *Limited decision-making* of sale closes relatively short and simple process which is completed

immediately after the detection of compliant product and other alternatives are no longer taken into account. (21)

Market consists of different buyers with different needs and preferences. If the business entity wants to effectively reach these buyers it must offer the relevant products to their unique needs. In most cases is preferable to divide customers into several groups (segments) based on specific characteristics which are typical for them. Adjust sales policy of selling for each specific segment. According Kotler "*Market segmentation means market allocation at different groups of buyers with different needs, characteristics or behavior that may require different products and marketing mixes.*"

(6) These groups should be the most internally homogeneous, but maximum heterogeneous to each other. For segmentation is possible to use lot of variables. Kotler divides these basic categories:

- Geographic variables such as region, city, density population, climate.
- Demographic variables such as gender, age, education, occupation, income.
- Psychological variables such as lifestyle, personality structure, social class.
- Behavioral variables such as the frequency of use, Brand Loyalty, buying motives, attitudes toward the product. (6)

For the determination and evaluation of individual segments it is necessary that the company chose those that will operate. The company may choose one of three marketing strategies - *undifferentiated marketing* which trying to reach the whole market with one offer. *Differentiated marketing* - focusing on a few segments for each segment creating a separate offer. *Concentrated marketing* - focusing on a large part of one or more segments. (5)

2.5 Financial analysis

For efficient operation of sales policy needs to be good financial health business. Without a quality background and sufficient financial support even excellent marketing strategy can wreck on the budget and current lack of funds. Liquidity problems mean that the company is in the eyes of suppliers distrusted. Also there is threat that the company activities can fight with lack of financial sources. Excessive debts can lead to mistrust from the side of stakeholders. The lack of profitability again may indicate reserves in the area of sales. Therefore is necessary to do a financial analysis which can

help with better understanding of the company situation. The financial analysis evaluates the functioning of the company according to state of finance development. (3) Aim of financial analysis is provide an overview about the financial position and overall financial health. Source for analysis are data such as balance sheet, income statement, statement of financial flows (cash flow) and others. Analyzed can be absolute indicator (development of sales, profits, assets...) or indicators that represent a ration of at least two absolute indicators. According Valach is possible to divide four basic groups of ration indicators:

- Profitability indicators and activities and various forms of expressing the rate of profit as a generally accepted indicator of business efficiency. Respectively degree of utilization of corporate assets or turnover rate of individual assets.
- Indebtedness indicators which evaluate the capital structure from the view of ownership.
- Solvency indicators such as the solvency and liquidity.
- Indicators which are based on data on the capital market, in the case of joint stock companies. (20)

For the purpose of this diploma thesis we will focus just on the few chosen indicators which will relevant to the sales policy. One of them is profitability on equity (ROE) which represents the share of profit after tax and equity capital. This is key indicator for the success evaluation of the company mainly for owners.

$$ROE = \frac{PROFIT\ AFTER\ TAXATION}{EQUITY}$$

Return on assets (return on assets - ROA) measure net profit and total assets of the company regardless of source of financing these assets. Allows compare companies with differing capital structure.

$$ROA = \frac{PROFIT\ AFTER\ TAXATION}{ASSETS}$$

Return on revenues (Return on Sales - ROS) tells how much profit the company has from each unit of revenue. This indicator reflects the effectiveness of the company and reflected indirectly changes in cost structure, price change and the overall competitiveness of business outputs.

$$ROS = \frac{PROFIT\ AFTER\ TAXATION}{SALES}$$

In general we can say that more profitability mean better situation for the business entity. Return on equity in long-term should reach at minimum level of return risk-free investment (such as state bonds, deposit accounts, etc.). In order to be advantageous invest in the enterprise. (10)

Important indicators (from the view of sales policy) are turnover of inventory and receivables turnover time. *"Inventory turnover time indicates how many times in the year is each inventory item sold and re-stored."* (8) This indicator should reach the highest values as possible. Because illiquid stocks ties the capital and increased storage costs.

$$Inventory\ turnover = \frac{TURNOVER}{INVENTORY}$$

Receivables turnover time represents the average maturity of the claims. The lower this time the better condition for the company is, because they could get by with a lower quantity of real funding (we can say that company provides short-term loan). (10)

$$Receivables\ turnover\ time = \frac{RECEIVABLES}{SALES}$$

"Indicators indebtedness represents relationship between the liabilities and own sources of financing. Measure the extent how the company uses debts to own financing." (4) Growth indebtedness may contribute to increasing overall profitability on the other hand increases the risk of financial instability and makes it difficult to access other sources. The optimal debt ratio is not generally possible to determine it depends on the type and structure of a particular company's property. Under vertical rules for capital structure is considered desirable state of the equity ratio 1:1. In the case of industrial firms prevails more own equity, on the other hand, commercial enterprises using liabilities such as source of financing. (12)

$$Indebtedness = \frac{LIABILITIES}{TOTAL\ ASSETS}$$

"The liquidity of the company expresses the rate of a company to pay its obligations in certain dates." Most often According Suchanek (15) are following three indicators of liquidity:

$$\text{Current liquidity} = \frac{\text{CURRENT ASSETS}}{\text{SHORT TERM LIABILITIES}}$$

$$\text{Short - term liquidity} = \frac{\text{CURRENT ASSETS} + \text{SHORT TERM RECEIVABLES}}{\text{SHORT TERM LIABILITIES}}$$

$$\text{Long - term liquidity} = \frac{\text{CURRENT ASSETS} + \text{RECEIVABLES} + \text{INVENTORY}}{\text{SHORT TERM LIABILITIES}}$$

The recommended value of normal liquidity is approximately 0.2, optimum for short-term liquidity is between 1.0 and 1.5. Long-term liquidity is perfect when the company achieved the values from 2.0 to 2.5. If the company is not enough liquid, you may get to the insolvency of and lose confidence of their suppliers. Too high liquidity on the other hand, reduces the profitability of the enterprise. (3)

2.6 SWOT analysis

"The results of analysis of neighborhood and analysis of the environs of internal resources and capabilities constitute the starting point for the synthesis of tending to identify sources of competitive advantage and to define the competitive position for the company as a basis for strategy." (14)

A simple tool is to do a SWOT analysis which confronts the internal resources and capabilities of the company to change its surroundings. Identifies strengths and weaknesses and compares them with the opportunities and threats from the external environment. Based on the SWOT analysis the company should support its strengths sides weaknesses suppressed and be ready for potential opportunities and threats. Application of SWOT analysis should be directed to "identifying, finding and impact assessment of, the prediction of developmental trends. (8)

3. TOOLS OF THE SALES POLICY

In these times the narrow place in many companies is sale. These companies struggling on the market with many obstacles that must be overcome in order to successfully carry out their performance. It is necessary to convince the customer about quality and add value and also beat its competitors. For this purpose are serving various tools that must be properly understood. If the company wants to improve a current situation in the form of fulfilled goals in sales and achieve the business goal which is long-term profit maximization. „*Under the sales policy (also called a marketing tools) is means all the measures which the seller uses for reduction of sales difficulties in order to enhance their own competitive position.*“ (21)

Tools of the sales policy form the product, price, communication, distribution policy.

According Wöhe the efficiency of sales policy tools depends how the goals are selected:

- Selected.
- Mutually balanced.
- Used in correct form. (21)

Therefore for the maximum result (profit) are necessary tools to optimize and align with each other. Optimization of the sales policy tools is part of the marketing mix.

Product and distribution policies are strategic tools with long-term effect and it is therefore appropriate planning and decision-making process to establish first the following tools. After that is possible to determine the tactical tools such as price and communication policy. These tools can be changed in a relatively short time intervals. Strategic decisions in distribution and product policies are considered as given. (5)

3.1 Product policy

“The product is defined as anything what can be offered to purchase, use or for consumption and which can satisfy the desires, wishes or needs.” (6) This is not just about the product but in a broader sense the product can be person, cities, organizations, ideas and their combination.

According Kotler is appropriate thinking about the product on the three different levels. Each of them can raise the values for the customer. First and basic level is the product. Represent the essential benefits that customer seeks and which can solve their problem.

Customer not buys the product because he wants to own this product but because he wants to satisfy own need. (6)

The second level is product which must be created. This products have own quality, design, function, brand, name, packaging etc. These characteristics may be combined and together form a product which is able to provide the desired benefits to the customer and meet his needs.

Third is product which creating a package around the product and make his overall appearance, includes various offers such as services, benefits that bring together a comprehensive solution. It is not just about the problems solving but also about the add values to the customer. Many of these services which were previously considered as some specialties are in these times a normal part of the product. For example: expanded warranty, fast service, free advice helpline and installation service etc.

In planning of product policy is necessary to take into account all these three levels and proceed from the lowest to a maximum. In this way it is possible to create a product where the customers will see a comprehensive package of benefits and advantages to settling their problems and satisfy needs. In markets with high competitors can succeeds precisely the one who is coming with an offer that will be suitable for most buyers. It is therefore necessary to orientate the product and all its properties precisely to the needs of purchasers. Product policy must focus at products and services which customer wants. (8)

3.1.1 Product innovation

Customer needs and technological development makes the market more dynamic. Business entity must produce these products which have a huge demand and interesting for the customers and in advance of competition. Business entity has to produce these products which have a huge demand, interesting for the customers and which are on the market in advance of competitors. It is necessary to constantly follow the market, anticipate and respond flexibly. (9) Attributes listed above gives the company the opportunity to improve their market position. According TROMMSDORFF and STEINHOFF „*Fundamental objective of innovation is product vindicate or to build a competitive position by introducing new products at the market and ensure further business opportunity to continue their activities. It is necessary to satisfy customer*

wishes, because demand on many markets is met. Companies have to create new needs with the help of revolutionary and extensive product innovations.”(18)

Research and development of new products is very expensive and time-consuming work. If the company is successful and bring new product on the market that will meet with a positive response from buyers it can provide significant sales potential and lead ahead of the competition and for a longer period of time. If a new product will not successful, high costs will not be covered and after several unsuccessful attempts may happens that company will lose the cash and fails. (18)

Unfortunately companies have to fight with risk innovations, but it is necessary to schedule them carefully in order to be minimized risk of failure. It is necessary to develop such a product for the market segment where demand is sufficiently large and competitive offer is very small. It is either the so-called market niches where is small turnovers, but thanks to low competition high profit margins. Strong capital companies can try to enter the mass market where are due to high competition from low profit margins, but thanks to the high turnover it is possible to achieve high total profit. Markets where is unmet demand are called "future markets" largely because it's located some obstacles in the form of the absence of technical solutions. Research and development can destroy this barrier and create an opportunity for achieving high revenues at the same time. (21)

Before a company starts with research and the implementation of product innovations themselves, it is necessary to decide on new product features. These are dependent on the selected segments and the available technology. The function of innovation, it may be acquiring a new group of customers, more benefits for current groups of customers or both groups of customers can be motivated to substitutions. New products can be obtained using three basic strategies:

- *Similar variant* consists in product which was firstly developed by competitors and striving for the further refinement. The company disclaims own research and development of new products and saves a considerable part of the cost, on the other hand runs the risk of late entry and bad reputation.
- *Innovative variant* has company with own research and development department in which they continually strives to develop new products. It is expensive

options but gives the chance to gain market advantage and a good image of the eyes of customers.

- *Shopping variant* is when large company buys smaller, innovative successful companies. It is also an expensive option but minimal risk. (19)

3.1.2 Product variants

In case that the company will not come with a completely new product but with a product which is already on the market, but its features are so changed that the customer perceives it as a new product, we talk about product variant. Least one change of the properties listed below:

- Physical or functional properties (material, design, durability)
- Aesthetic properties (color, shape, packaging)
- Symbolic properties (brand),
- Additional services (warranty service). (19)

According Wöhe successful company with a well-established product's begin with introduction of new product variations if the conditions will change in the market (for example a change in the pattern of customer needs). It is necessary to it to react rapidly and timely implement the product variants that will meet new needs. Another reason may be changes in competitor offer it is also need to respond immediately. The company must take defensive strategy to avoid weakening his position at the expense of a competitor who is able to adapt at new conditions earlier. General rule, if any product is on the market without any changes over a period of time, loses its appeal because the original needs are already satisfied. Meanwhile on the market may appear new modern and competitive products, which currently a better correspond to needs. (21)

3.1.3 Decommissioning of products

„Maintenance of weak products mean delay in search of new products and distorts marketing mix is reflected negatively on current profits and weakens the future position of the company ”. (14)

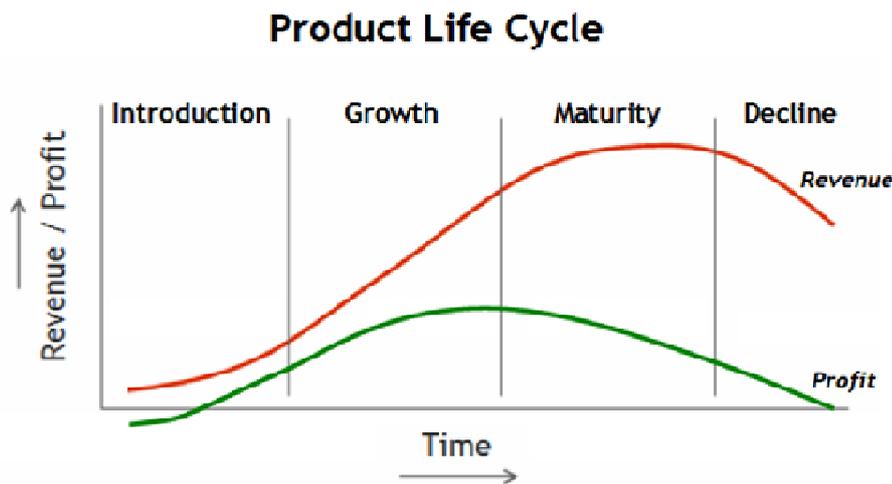
Deciding about decommissioning the product is closely tied to life cycle. It is characterized by four parts:

- I. *Phase of introduction* such as placing the new product on the market. Typical are low sales and high costs, often caused even with significant spending on

advertising and promotion, in order to get new product into the awareness of customers.

- II. *Phase of growth.* This stage is the most important for the success or failure of the company. Experiencing a sharp increase in turnover and reduction in unit costs. Usually begins grow importance of competition, which offers similar products
 - III. *Phase of maturity.* During this phase is experiencing increasing the turnover, but not to such an extent as in the previous phase. Growth of sales is conditional placing of new product variants and increasing the expenditure on publicity.
 - IV. *Phase of declining, degeneration.* It is the last phase of the product life cycle in which sales begin to decline sharply, and also experiencing a decline in prices.
- (13)

Figure 4 Product Life Cycle



Source: http://www.mrdashboard.com/Product_Life_Cycle.html

3.1.4 Product range

Is a set of variations of the same product platform that appeal to different market segment. Decision making in this area lies primarily in determining of the length of product range in other words the number of items it contains. It depends on the objectives of the company and their available resources. Long product line can provide a high market share, but on the other hand, increases the cost for each product (the cost

of changing production, storage, advertising, order processing, and others). It is necessary to establish such a length at which maximum profit is realized. (5)

Product range can be filled by other products. This step might be useful due to achieving further gains, utilization of surplus capacity, filling in gaps, which might attract or favor competition between firms.

According Kotler „the set of all product series and items that a seller offers to the customers is called the product mix (assortment).” We may observe four major dimensions:

- Width, which is given by the number of product ranges. With a wide range of product can be apply a so-called cross-selling, therefore cross-selling of additional products.
- Length, which indicates the total number of items in the product ranges of company.
- Depth, which indicates the number of offered versions of each product in a row.
- Consistency, which expresses how product ranges are similar between each other (by end use, production entitlements, distribution channels, etc.). (6)

3.1.5 Brand and packaging policy

Packaging policy is an important part of the producer strategy and according Wöhe has three functions: technical (protection of goods on the way from producer to consumer), legal (law ensuring the prescribed information, such as weight, composition, durability, and below the minimum.) And economic which is intended to reduce costs and increase revenues. By the optimizing of packaging is possible for example to reduce transport costs, storage costs and presentation, to increase the usefulness of the product to the consumer through the manual for use, optimum size. Appropriate and comfortable packaging can improve the image of product which allows that sales of goods are easier. Costs can be reduced also by introducing non-refundable or returnable packaging or container permitting the introduction of self-service sales. Packaging can create the impression of heterogeneity and thus avoid the tough price competition. The packaging also can help to create the brand also can be a bearer of advertising and also indicates to what price and qualitative segment, the product can be inserted. (21)

„Brand is a term, sign, symbol, design or combination of these elements, whose purpose is to identify the goods or services of one seller or the selling group and distinguish

them from competitive goods and services.” (21) The role of the brand is creating of the heterogeneity impression, that allows avoid of the tough price competition. For many customers, represents a guarantee of quality and reliability, which allows them to shop comfortably and without comparisons just as they are accustomed. For the other customers the main reason for the brand interest is prestige which the brand represents. Building a strong brand of the company can gain trust and loyalty. But it is a demanding process that requires a lot of effort and resources. In particular by an advertising and promotion is necessary to continually reinforce brand awareness in the minds of customers. In the case of success the strong brand leads to the loyalty and brand's preferences. It creates the opportunity for price differentiation, which allows increasing the revenues and profit of the company.

3.1.6 Customer service policy

As mentioned in the preceding text of this chapter a customer buys the product in order to satisfy own need or in order to resolve some problem. Therefore expects that the seller of the product itself will also provide additional added value in customer service. The more expensive product the more important is customer service. A favorable price is not enough for a permanent link with the customer. *„Customers who have eyes only on price are not loyal. Once they see a more favorable offer they will buy competitor products.“* (8) According Wöhe divides the customer service to the following areas:

- Information, help and advice when purchasing.
- Training and briefing of final buyers such as retail, staff.
- Transport and entry into service.
- Maintenance, repair, provision of spare parts, warranty repairs.
- Customer service commercial nature, such as for example the right to exchange the product, the possibility of sending the product, creating optimal buying conditions (children's areas, parking options ...). (21)

The highest business objective is long-term profit maximization and customer service is one part how to achieve this objective. Therefore, it is always necessary to compare the costs of these services with additional revenue and the possibility of increasing the price through these services. Other goals of customer services are obtaining information about customers, the acquisition of technical information which allows improvement of the product and also the formation of preferences and image. (20)

3.2 Price policy

In the past, pricing had a great importance in the sales policy. Enterprises were trying to compete with lower cost, but they lost their profits. Therefore, it is now more useful to use the other policy tools (such as product or communications), by which they seek to differentiate from the competition, arrive with a unique product (or at least to present it) and thanks to this heterogeneity to avoid a price war. However the price policy in practice even today is still quite considerable importance. (2)

According to the classical theory of prices, which is premised on perfectly competitive markets, the seller has the possibility of its actions affect the market price. In the case that price is higher than the competitor then all customers will buy the competitors products. Lower price would not cover the costs incurred and even cannot satisfy the demand. In reality, however, there are no perfect markets and the enterprise has to change its price on the basis of the market situation because of gold rule says maximize the long-term profits. The extent to which you can afford the price change depends among other things, also on the elasticity of demand. „*Price elasticity of demand (price elasticity) is a term which can measure through, about how much will change demanded quantity of goods after the company changed price. Price elasticity can be defined as a percentage change compared to the quantity of demand and change in price*”. (13) In the case that one percent change in price makes the change of demanded goods higher than one percent then we are talking about cost-elastic demand. If the change quantity is less than one percent, demand is inelastic. Price elasticity indicates how sensitive the customers are. When a demand is elastic the company will consider undertaking price reduction, because small decrease in unit price may significantly increase the number of units sold and total sales as well. In the case of price inelasticity the company can afford to increase the price and without any worry when most of customers will leave. In general, buyers are less sensitive to price when they are buying the unique product, high quality, prestige and exclusivity. (13)

3.2.1 Pricing

Pricing decisions in the corporate practice is necessary when:

- Changes in prices due to
 - Changes in costs.
 - Changes in demand.

- Changes in prices of competitors.
- The fixing of prices to the new product on the market. (12)

We can distinguish a three basic ways how to do the pricing:

Cost-oriented pricing is based on real cost of the product and profit margin. The profit margin must cover the overhead costs and also enable the company to generate profit. The company creates two types of costs - variable (the cost which depends on the quantity of produced goods) and fixed (independent of the quantity production). In the short term the product price must cover at least the variable costs that allow continue in production. In the long run it is necessary to cover the average cost of the product. There are two variants of cost-oriented pricing:

- Full cost calculations, which consist the variable costs and contribution on fixed costs of the product. Fixed costs are budgeted according to the height of expecting sale, which is dependent on price. Incorrectly estimated the height of sales can lead to a spiral effect the company can lose the position the market.
- Incomplete costs calculations, where the price is determined on the basis of the sum variable costs and gross margin required (gross margin), which is used to cover fixed costs and desired profit. (15)

Demand-oriented pricing is based on examining the relationship between price and quantity. It is not important, what are the costs associated with the production of the product, but its value as perceived by the customer. Consumer willingness to pay not depends on production costs, but on the benefits that the product will bring. The Company under this approach, trying to determine what amount of production are customers willing to buy at various prices, and then sets the price so that it has reached the maximum profit. In practice for obtaining of these data are used two procedures - questionnaire and observation of consumer behavior. Based on relationship is not only possible to determine the optimal price, but it can also be useful for example as a criterion for market segmentation, pricing, or differentiation. (17)

Competitive-oriented pricing is based on the price of competitor products. In this case the company will focus on the activity of competitors or on the average price in the industry. When the price will change the company has to change its price in similar way. It may fix the price of the same, higher or lower. It usually depends on the extent of product homogeneity and market status of the company. (17)

In setting prices for new products, the company must decide whether to choose a strategy of low or high prices. It is necessary to take into account the whole life cycle of the product and set price which lead to maximizing profit for this entire period. The high entry price usually makes a high profit. It is used mainly for luxury products intended for customers orientated on prestige. If the company decides to use a high price strategy it can take advantage of the rapid collecting cream. This strategy is appropriate for the companies with higher innovation potential. They can get a technological lead and protected him by patent or patterns. Thanks to high margins the company can quickly pay for research and development. (20)

On the other hand low prices bring lower profits, but the company can achieve a high quantity of sales that make it possible to realize economies of scale and high total profit. It is used mainly for meat products intended for customers orientated on price.

3.3 Communication policy

The aim of the communication policy is "by using information and targeted marketing strategies to overcome barriers to the customer." Today's markets are typically full of homogeneous products and the customer tends more toward passivity and indolence. It is therefore necessary to inform the customer about the benefits, products, services and thus positively influenced him and enticing to the purchase. Good-quality communication is a prerequisite for creating and maintaining strong long-term relationships with customers. (16)

According Kotler the company has five main communication tools. These are:

- Advertising - Any form impersonal paid by the presentation and communication of ideas, goods and services or identified sponsor.
- Sales promotions - Short-term incentives, which are to persuade the customer to purchase.
- Public Relations - Building good relationships with the various target groups and favorable publicity, building up a good image of the company.
- Personal selling - Personal presentation performed by dealers of the company for the purpose of selling and building customer relationships.
- Direct marketing - Direct connection with carefully chosen target consumers, which should provoke an immediate response and develop lasting relationships

with customers - using phone, mail, fax, e-mail, Internet and other tools for direct communication with by specific consumers. (6)

Company in the performance of its communication policy can use the entire mixture of the tools which were mentioned above then we talk about the communication mix. Like in the marketing mix, it is necessary to combine these tools with each other, coordinated them in order to be able to achieve an optimal outcome. (16)

3.3.1 Advertising

Advertising is any form of impersonal presentation and advertising ideas, goods or services of identified sponsor. Unlike other forms of communication policy the advertising targeting is on the large number of unknown people and market communication takes place through the things. The word or visual portrayal of advertising is known as a means of advertising. The bearer of advertising is medium that transmits the ad management. (5)

Among the advertising belong TV or radio spots, ads in newspapers, posters, web banners and the like. Bearer of publicity (media ad) are television, radio, newspapers, magazines, billboards, put up areas, means of mass transport of people, the Internet and more.

According Philip Kotler there are number of possible targets ads, such as:

- Informing consumers about a new product or feature and the creation of primary demand (informative advertising).
- Creation of selective demand brand and consumers' belief that their money will receive the highest quality (persuasive advertising).
- Remind a product to customer (remind advertising). (6)

Günter Wöhe divides the advertising goals on the economic and non-economic. Economic objectives such as profit, turnover or market share, focusing on shopping behavior. Non-economic have only mediated relationship to purchase. They may be a psychological nature (attention, memory, creation of preferences, feelings), or may follow wide spectrum of (number of respondents, the number of effected contact information). (21)

The scheduling process of advertising consists in several steps. When the ad goals were set, you must choose the object of advertising, which may be a product, product group or enterprise as a whole. Then is necessary to continue with selection of target groups, it

could be a groups of persons to whom the company wants to concentrate its advertising activities. It is also necessary to get information how these groups process the advertising processes and which feelings customers had. The next step is determining the budget. There are several approaches to the determination of its height, each of which has its pluses and minuses. Most common of these is the orientation on the turnover or profit. The budget is set based on the current business performance. This approach can have a countercyclical character, because advertising expenditure is not dependent on turnover, but vice versa. In the time of recession the spending on advertising are lower even though they should be higher. (5)

Orientation on competitors budget allows to not be behind rivals, on the other hand, the state of enterprise should not be similar with competitors. Information about the competitor budget is often inaccurate and outdated. Approach orientated on the financial amounts (current liquidity) is relatively simple but as in the case of the orientation of the turnover this approach is countercyclical. Closest to the optimum is budget oriented to the operational objectives, which is based on costs directly connected with advertising expenditures, which are necessary to the achievement of operational objectives and needs to promote each product. The problem lies in the difficulty to predict the effectiveness of each measure, and also needed the intensity and cost. (5)

The advertising budget is closely linked with selection of ad systems. Each medium can bring different profit from advertising and different costs. It is also necessary to choose media that will ensure the highest return as possible after reduction of expenses incurred. Ad Revenues are hardly measurable, therefore for to the approximate setting are used some various indirectly methods, such as the level of extension medium, range of medium, the likelihood of contact and image of the media. One of formula for determination of ad successful is the price which is used in the thousands. The lower this value is the better is the choice of medium.

$$Price (thousands) = \frac{Advertising\ costs / 30\ seconds}{number\ of\ receivers} * 1000$$

$$Price (thousands) = \frac{Advertising\ costs / Full\ page}{Costs} * 1000$$

The final phase of ad scheduling process is the creation of an ad management and the decision about the time schedule of advertising. According Wöhe advertising can be

created by written or by spoken word, picture of, music, speech and graphics. Ad may be based on rational or emotional basis. For the success of advertising is necessary to link Integral brand with the product. Advertising should be active original and attractive for its target customer and segment. (6)

3.3.2 Sales Promotion

Front place in communication policy has advertising. However in these times the consumers are starting to feel fulfill of advertisement and thus its effectiveness is decreasing. The producers are forced to use other tools of intensive communication policy such as activities of sales promotion. Sales promotion includes a number of measures which role is to influence customers and temporarily increased sales. They should support a product policy, pricing and distribution policy but with the highlighted aspect of their communication. (16)

Kotler lists several target groups where the sales promotion has to be targeted. Customer-oriented activities can increased sales, gain market share and in long-term, to persuade consumers to try out a new product, or retained the loyal customers. Can be used a wide spectrum of activities such as discount coupons, ad packages, various bonuses, stock sales, loyalty bonuses etc. Also companies can support dealers through various discounts and encourage or motivated them to sale, get more space on the shelves etc. Sales promotions targeted at the organization aims to get some business advantages, stimulate sales, reward customers from among the organization and motivate dealers. The role of support vendors (the sales staff) is through benefits and competitions get bigger favor vendors for new or current product and encourage them to acquire the new customers. (6)

3.3.3 Public Relations

„Public relations are social-communication activities, through which the organization operates on the internal and external public with the intention to create and maintain positive relations with them and so to achieve mutual understanding and trust.“ (16)

Today is not enough just to produce the products, but need to heed also on a social vision and moral values. Customer expects that company will behave socially and responsibly. If the company didn't fulfill these expectations then may lose its image and customers would lose interest about the company products despite the attractive offer.

Building of good public relations and a positive image of the company largely helps to the successful fulfillment of corporate goals.

Public relations have many forms and many tools of communication policy. The most important is building a good relationship with the media because it is necessary to get plenty of space in media and make sure that media information about the company are true. (16)

Enterprises often use various press releases and organize press conferences and presentations through media. Goal is to inform about the news concerning the company and its products. Enterprises also provide a variety of written and audiovisual materials to mediate that news to the public in best form.

Companies voluntarily show the report about its operations in order to enhance the transparency and made available to the public spaces (in the form of the OPEN DAYS). For improving the image of the company are used sponsorship and also financial and material support for culture, sport, disabled, charities and the like. Well executed PR activities can be same effective as advertising with lower expenditures. (16)

3.4 Distribution Policy

The product must be available:

- At the point of demand (spatial transformation).
- Quantity corresponding with customer needs (quantitative transformation).
- Comprehensive demand in corresponding quality (qualitative transformation).

Just as is the case with other policies ultimate goal is a long-term of maximizing profits. Sub-goals are to minimizing the supply costs and maximizing of distribution quotas and certainty of distribution. „*Distribution quota means degree of enlargement of the branded product. Certainty of distribution is important for other entities such as supermarkets, customers etc.*”(21) These three sub-goals are mutually competitive it means that achievement of one goal is likely to hamper the achievement of another goal. It is therefore necessary to choose such measures which support the overall effect as achieving maximum of all three objectives. Distribution policy addresses many issues in the field of business operation - from the physical distribution itself, through the choice and placement of sales channel to the form of sales or presentation. How increasingly grow the popularity of self-service outlets that allow customers to shop with only the minimum intervention by the sales staff. A company can save wages costs and set lower

prices. Similarly in the case of sales through the Internet called e-shop. The customer chooses from the comfort of his home and then sends the electronically order to the desired goods. In a few days the goods is delivered to the address which was entered. Cost savings due to the absence of stone Stores can bring significantly lower price, even while maintaining the same profit margins.

The manner of presentation depends on the type of products sold. Luxury products are mostly exhibited by imaginative ways. Expensive equipment and atmosphere may change the shopping experience and prolong the stay in the customer's store. These positive processes often and unexpectedly can lead to decision to purchase a product. Much less costly manner are standardized products of a mass character, which are not significantly different from competitive products and which have a low prestigious value. Product can be largely affected by the placement within the rack or shelf position. (6)

Decisions about distribution channels are between direct and indirect manner of distribution. Direct distribution channel works without mediators. Producer sells directly to the customer this option provides a high distribution security and direct access to information about customers. It does so through its sales represented, sales agent (sells only products from one manufacturer) or commercial agents (sells products from multiple manufacturers). Indirect distribution channel consist one or more mediators. The most common is wholesaler and / or retail. Wholesale is company which is primarily engaged in selling goods and services to organizations and continued with selling to consumers or businesses." Retail Revenue conversely originated primarily from sales to final consumers.

The planning, implementation and monitoring of the physical flow of materials and finished products from the point of use to the place where the customer needs are filled is called physical distribution or in marketing area so called marketing logistics. It is necessary to ensure that a desired type and quantity of products will at the right time on the right place. If turnover is not depending on the type of physical distribution, the target variable is representing by minimized distribution costs. Tools of physical distribution are about the right choice of storage locations (warehouses), duration and volume of traffic, vehicles and the transport routes. (6)

4. SALES ANALYSIS OF THE CHOSEN COMPANY

4.1 The company description

The following chapters deal with company sales policy. It is necessary to do analysis such as micro and macro environment, porters five analysis etc. The company which will be analyzed is Silvita s.r.o., as the business entity (next just Silvita). Silvita was founded in 2000 as a daughter company of the Contipro Group a.s. (which is one of the global leader in chemical industry and the biggest producer of the hyaluronic acid in the Europe). This daughter company was bought by the two managers and they are still working in the Silvita.

The Silvita is producer of food supplements and cosmetic products. Basic information about Silvita:

Table 1 The basic facts about the Silvita company

Name of the company:	Silvita s.r.o.
The law form:	Limited company
The company address:	Tvardkova 1160, 562 01 Ústí n. Orlicí, The Czech Republic
When company was established	5.9.2000
Equity:	620 000,- Kč
Shareholders:	Martin Ch. (310 000,- Kč, 1/2) Stanislava M. (310 000,- Kč, 1/2)
Number of employees:	19 (state to 1.1.2012)

Source: Own processing

The Silvita has currently 19 employees, 10 out of them working in management as the sellers or researchers. The rest of them are working in manufacture and they are divided between food supplements and cosmetics manufacture. Average turnover is slightly under the 30 mil Czech crowns, depends on the economy situation and we can say that the company turnover follows the economy fluctuations.

Detailed view of the network of customers and suppliers will be in the following chapters of this diploma thesis. But basic structure of the network of customers and suppliers is shown in the table below.

Table 2 Significant customers and suppliers for the company

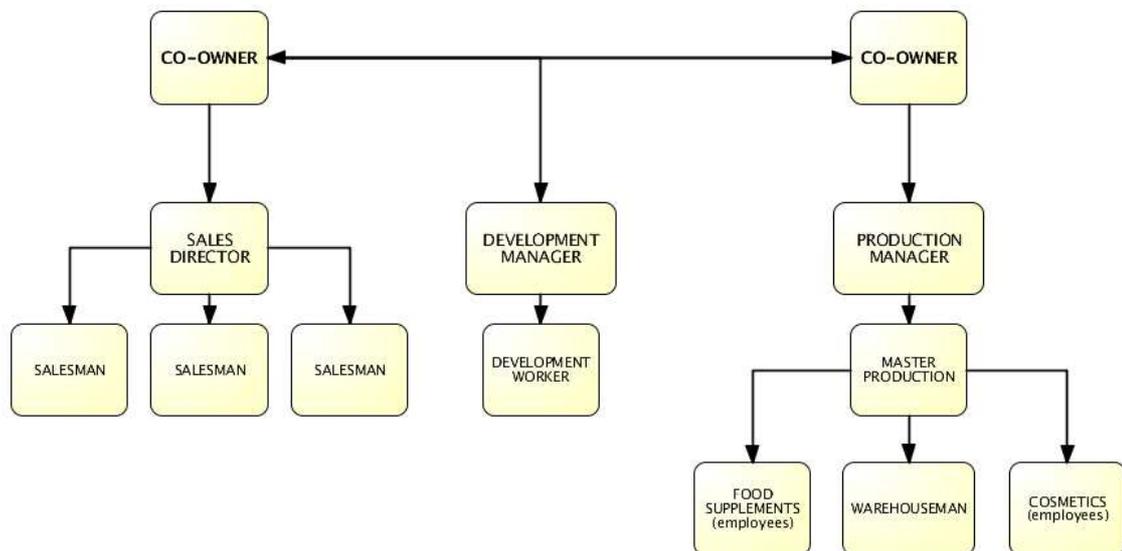
Supplier	Share	Customer	Share
ACE Trade	23%	PHOENIX	25%
DONAUICHEM	15%	ISOLINE EU	20%
BBCUT	10%	DR. MAX	13%
INTERTRADE	7%	Balatý V.	10,8%
TEREOS	6,6%	Pharmos	8,7%
GRAINER	5,7	ALIANCE Unichem	7,9%
OSTATNÍ	32,7%	Ostatní	14,6%

Source: Own processing based on the company internal sources

Organizational structure of the company is shown in the table below. Current owners divided their roles, one of them is in charge of the business part such as marketing activities, research and development and the second one is in charge of the manufacturing. Below them are the managers of each department. These managers are responsible for the sub-tasks and objectives. Below the managers are staff members responsible for the implementation of operational tasks and objectives.

This is a standard linear structure which was typical for manufacturing companies.

Figure 5 Organizational structure in the Silvita company (current state)



Source: Own processing by using software “Signavio”

5. MICRO AND MACRO ENVIRONMENT ANALYSIS

5.1 Macro environment analysis

At the beginning of the practical part of this diploma thesis is useful to do a short macro environment analysis which was done through the PEST analysis.

5.1.1 Political and legislative factors

The company was established in the Czech Republic and for long time the company products were sold just in the Czech Republic. In the Czech Republic was different situation in 2000 compared with current times. The Czech Republic is parliamentary democracy with relatively stable political situation.

The Czech economy is made up of small and medium enterprises. These businesses are supported by the state. Disadvantage of Czech economy is unclear tax system and high level of bureaucracy. The tax burden is under the European average according the Eurostat.¹ According a new research which was done the tax system in the Czech Republic is one of the most complicated in whole Europe. In the Czech Republic the huge threat is lack of the law enforcement for potential investors or entrepreneurs.

In recent times the WAT taxation was growing from 19% to 20%. This caused that company has to buy the goods for higher price and of course the final product is more expensive.

On the other hand tax on corporate income was reducing from 24% to 19%. Government try to rising indirect tax as measures how to save Czech economy. Unfortunately this measure would be a problem and slow the customer demand.

In 2004 the Czech Republic joined the European Union together with other nine countries. This step brought many positive for the business entities but also for people in general. There was a significant lowering of international barriers to trade within Europe but also the simplification of export and import conditions outside the EU due to the uniform policy in the Member States. Free movement of persons, goods, services and capital has brought many opportunities to enter other markets and also rising sales

¹ <http://www.mesec.cz/aktuality/danove-zatizeni-v-cesku-mirne-stouplo/>

potential. Also positive is harmonization and clear legal standards of the Member States.²

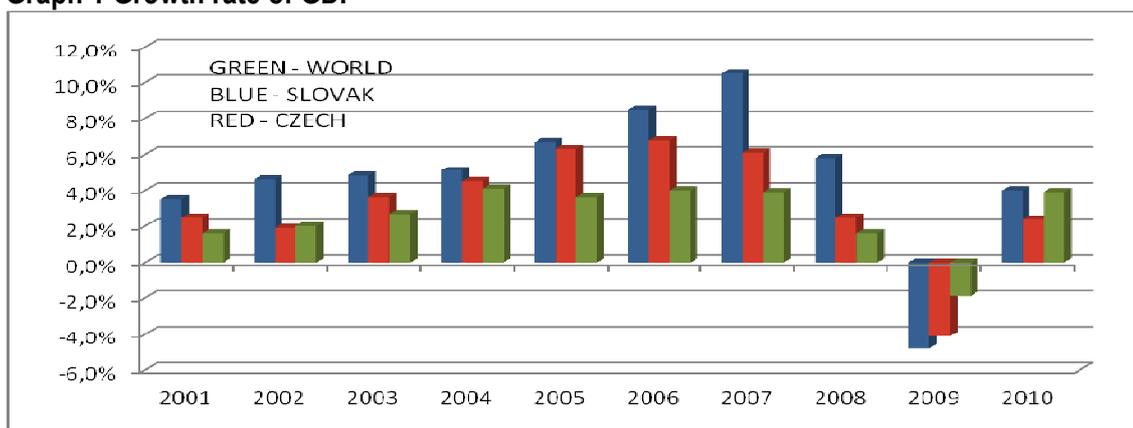
After the reducing transaction costs still remain some obstacles such as different currencies and related exchange risks (the Czech Republic is still not the member of eurozone). The single market also poses a greater threat to the entry of new competitors from abroad.

5.1.2 Economical factors

The Silvita company currently sells its products only in the Czech and the Slovak Republics. Czech and Slovak Republics are open economies and largely dependent on world markets. That is the reason why after the start of the global recession in December 2007 in the US were hit also the Czech and Slovak Republics.

The following chart (No. 9) shows the evolution of gross domestic product for the past 10 years. The chart shows that the global and national economy recorded until 2006 respectively 2007 upward trend in growth rate of GDP. The trend reversed after the recession in 2008 growth slowed significantly. In 2009 decline in GDP was obvious at the national level and worldwide level also. This significantly affected the sales of most companies. It was more difficult to realize their production to the same extent as before. Many companies had to cut production because of low demand in the market and many companies went bankrupt. In 2010, it is possible to monitor the recovery and **re-growth** economy. This is a positive signal that could mean growth in sales.

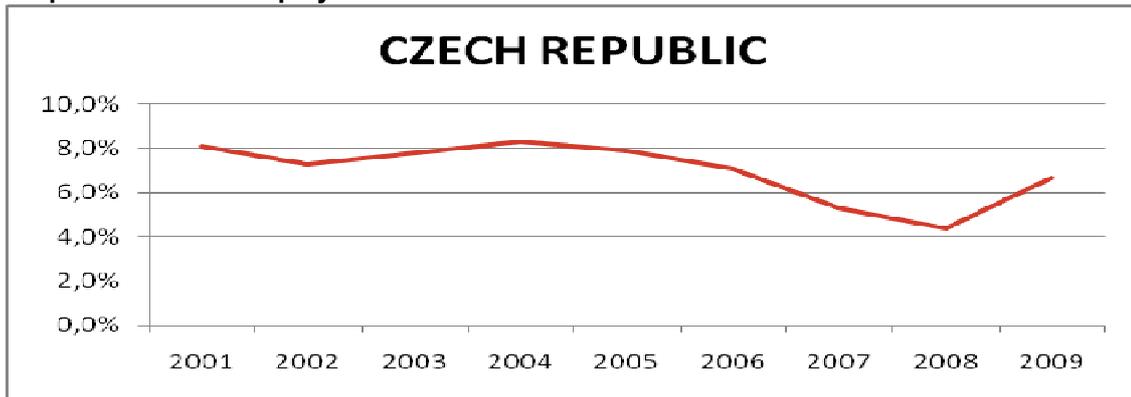
Graph 1 Growth rate of GDP



Source: Own processing based on <http://apl.czso.cz/ode/tab/tsieb020.htm>

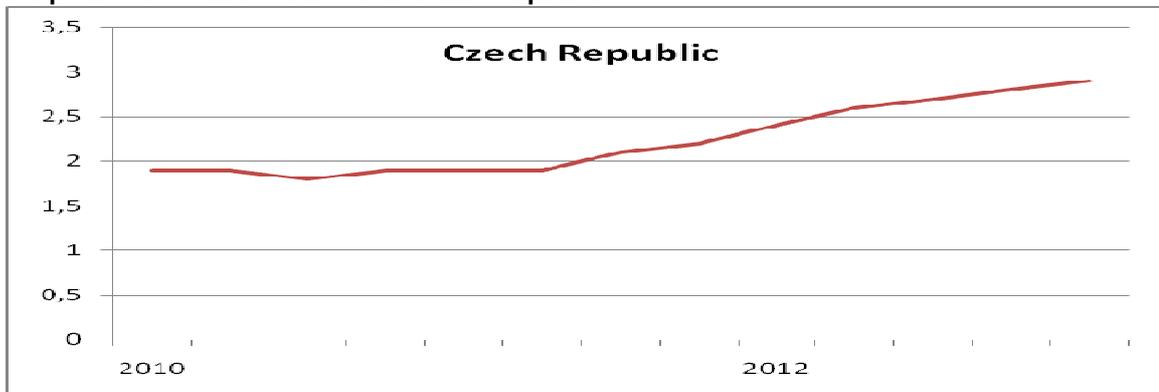
² <http://www.cevro.cz/cs/cevrorevue/aktualni-cislo-on-line/2006/2/66459-prinesl-vzal-ceske-republice-roce.html>

Graph 2 Rate of unemployment



Source: [http://www.czso.cz/csu/redakce.nsf/i/cr:_makroekonomicke_udaje/\\$File/90551718.xls](http://www.czso.cz/csu/redakce.nsf/i/cr:_makroekonomicke_udaje/$File/90551718.xls),

Graph 3 The inflation rate in the Czech Republic



Source: Own processing based on: http://www.czso.cz/csu/redakce.nsf/i/mira_inflace.

5.1.3 Social and cultural differences

Important demographic factor in these days and in developed countries is an aging. Less strenuous lifestyle and advanced health care allows people to live relatively long time. This fact has no significant impact at the analyzed company or national economy, but it could mean a change in sales politics or targeting area. Significantly higher influence on the companies may change the social situation of the population. The growth of living standards due to the higher economic level and the level of real wages causes a change of attitudes and orientation of consumers. They are more willing to invest into the luxury goods and their preferences are slowly shifting from price to quality. In practice it turned out that customers are now more willing to pay more for higher quality goods than in the past.

Other problems (for internationally active companies) are cultural differences and different mentalities of each Nations. For example, Czechs and Slovaks are largely similar. Analyzed company came across some differences when comes to the Slovak

market, especially in consumer preferences. It turned out that Slovak consumers are more price sensitive and they buy mainly cheaper goods. On the other hand, Slovaks are willing to pay for high quality products if these products are good for health. This may not be caused only cultural differences but also the fact that the Silvita company has different position in the Czech Republic and the Slovak Republic. And also customer base is different in the Czech Republic and the Slovak Republic. In 2005 the Silvita company entered the Polish market. Unfortunately Silvita was not successful and in 2007 the company decided to leave the Polish market. Before entering has not been done any survey of customer behavior on the Polish market. Sales policy which was successfully carried out on the Czech market was not accepted by the Polish consumers. The Silvita company had to use the exit strategy.

5.1.4 Technological Factors

The Silvita company is manufacturer and own products are producing in the company headquarters. The realization of technological changes (research and development) lies in the hand of the company. Development of the new products is managed by the owners of the company. They try to follow new trends in the field of cosmetics and food supplements. Also they try to follow the opportunities of innovation. The big advantage for the company is to be the first on the market with the own new product (my last diploma thesis was about the reengineering process "research and development" and I shorten this process about one month in the analyzed company).

Lately the most changes were in the material composition. Especially the NANO technologies were and still are very popular. But the Silvita company has not the technology which is able to process these technologies. In the field of distribution are relatively new the purchases over the internet. The company production is mostly sold through distributors to pharmacies but there is still space for purchases over the internet. The Silvita company has two webs which has a good potential, but unfortunately the owners are not able to work with them and even they didn't know about this potential. The potential of the company websites was discovered during the writing of this thesis (see table).

Table 3 Visits of "Hyalgel" product web page³

YEAR 2011 (month)	Number of visitors	Percentage
January	259	0,4%
February	5 679	9,2%
March	6 402	10,4%
April	6 085	9,9%
May	6 534	10,6%
June	5 376	8,7%
July	4 008	6,5%
August	3 553	5,8%
September	4 453	7,2%
October	4 913	8,0%
November	7 306	11,9%
December	7 014	11,4%
Overall	61 582	100%

Source: Own processing based on internal company data

Table 4 Visits of "Bonella" product web page⁴

Year (month)	Number of visitors	Percent
January	34 272	5,9 %
February	36 894	6,3 %
March	47 800	8,2 %
April	42 931	7,4 %
May	48 932	8,4 %
June	37 823	6,5 %
July	38 963	6,7 %
August	42 766	7,3 %
September	52 765	9,1 %
October	61 320	10,5 %
November	72 134	12,4%
December	65 462	11,3%
Overall	582 062	100%

Source: Own processing based on internal company data

One of the most popular channels for distribution and communication are social networks. The Silvita company is not active in this field. The true is that the target group of the company is composed of older people who are not as many active on social networks.

³ www.hyalgel.cz

⁴ www.bonella.cz

5.2 Analysis of competition

In the field of food supplements and cosmetics market are many competitors. Of course that each company has own segment of products and own core products. Silvita company has two core products which are the most important for the company. First and the most important is the HYALGEL product, which helps to improve joint mobility. Second is the BONELLA product, which helps prevent formation of stretch marks. How will be seen in the financial analysis (chapter 5.6.) the HYALGEL doing the biggest part of the company's turnover. And the biggest threat comes from the competitors which are producing the same product under the different brand name. These competitors are:

- **WALLMARK a.s.** (turnover – over 2 billion in 2009)
- **GREEN SWAN PHARMACEUTICALS CR a.s.** (in the Czech Republic more known as GS GONDRO). (turnover – over 900 millions in 2009)
- **ORLING s.r.o.** (turnover – over 60 millions in 2011)

These competitors are international companies and their turnovers are in billions (according to accounting documents, which are free to downloaded)⁵ of crowns besides the ORLING which is more similar company as the Silivita is. Both international companies also spend a hundred millions of crowns on marketing campaigns. The question is, why the Silvita company still sells their product if the company has to fight against these market leaders?

Market with these supplements is more specific than other markets. Most of production is sold through resellers as PHOENIX or DR. MAX. These resellers decided which products will be selling in pharmacies. The Silvita company holding a good negotiating position because their products are cheaper and customer feedback is also positive (see the appendix) because of high rate of hyaluronic acid. However the good negotiating position is advantage for the monitored company, companies such as WALLMARK will always powerful, because of their advertising and promotion. Silvita also motivates pharmacists with small non-financial gifts. Also they always carefully follow the competitors because the owners of the company know that these competitors could beat them.

⁵ www.justice.cz

Other competitors are supermarkets, online-shops and direct sellers. Silvita is not active on the internet and sells over the internet are lower than 1% of turnover (according internal information).

Silvita products portfolio has more than 20 products, but how was written the biggest threat come from the competitors which are producing a products which helps to improve joint mobility.

5.3 Porter's 5 competitive forces

5.3.1 The threat of new firms entering

The risk of entry of new competitors can be described as moderate to high. In favor of the entry of new firms can be considered:

- Low barriers to entry.
- Low capital intensity.
- Synergy benefits in terms of selling similar products as a complementary product range.
- Relatively high profitability of companies in the industry.

On the other hand, on the market is relatively high level of competition and the market has low growth potential. Currently, there are other sectors that are for potential entrepreneurs more attractive.

In recent years, through recession we can see that consumers are leaving from buying goods which are not directly linked with necessities to survive. Another factor that could discourage potential entrepreneurs is advances in the field of medicine. This is especially true in the case of dietary supplements to improve joint mobility.

5.3.2 Rivalry between current competitors

On the market with food supplements a cosmetics products is really high competition. According Silvita CEO, there are two options how to be interesting for the customers. Be the most expensive or to be the most cheap. Companies which are on the top (the most expensive) are international companies with huge marketing budget (see chapter 5.2). These companies are basically competitors to each other. And their fight is at the supermarket shelves.

Small companies are regional companies as Silvita. These companies try to find the best distribution ways because they are not able to be in the supermarkets, but they need sell

the goods. Also these small companies try to be the cheapest and offer some adding value to the customer. These advantages could be modern packaging, the online shop with target community (women). But still the biggest fight is about the pharmacist recommendation. These small companies must spend a lot of money as "motivation" for a pharmacist (importance of these recommendations was confirmed by the questionnaire - see Appendix).

5.3.3 Bargaining power of customers

The high degree of competition means a large number of vendors offering alternative and similar products, bargaining power stay clearly on the customer side. In case of dissatisfaction with the products, customer can change dealer. This change is very simple and essentially with zero transaction costs. Given that the offer significantly exceeds demand we can see that large vendors try to get favor with the customer and come to him as much as possible.

5.3.4 Bargaining power of suppliers

Bargaining power of suppliers depends on their size. Big suppliers are not willing to negotiate about the discounts or acceptable conditions. The biggest problem is amount of good which should be taken. Because of this reason, Silvita has to take the goods from supplier which is specialized at this kind of business. It means that this supplier buys the goods from bigger player and then sells exactly amount of goods to companies like Silvita. It means that Silvita and similar companies must buy more expensive goods.

Hyaluronic Acid is produced just by several companies in whole world. This Acid is very expensive and bargaining power is also at low level.

Chemicals are basic and necessary sources for production, unfortunately there are just a few suppliers. Although chemicals represent about the 80% of supplies Silvita has a low bargaining power.

5.3.5 The threat of substitutes

On the field of food supplements to improve joints mobility there is a threat which came recent. Progress in medicine came with surgery which can completely eliminate the problems with joints, especially the knee joints. This operation is based on implanting

own red blood cells directly into the affected area and this method is very successful. In the Czech Republic are about 10 hospitals which provide these operations.

There are no threats of substitutes in the cosmetics business or better say author of this diploma thesis do not know about any substitutes. But always there is an option like internal improvement of the products themselves.

5.4 Customer analysis

Analyzed company sells products which are for women and for men as well. In percentage we can say that almost 70% of products are for woman. How was mentioned before, the significant product is Hyalgel and this product is for both gender. The research which was done, show us that woman often buy this product in general and we can say that women mostly buy these products for men. This factor should be very important for the future marketing mix. And company should choose the target group as women thirty years old.

Also we can say that customers are people with health problems associated with old age and mothers (cream against stretch marks – bonella) and people caring about the own health. These people are usually prepared to pay a higher amount for the quality. But the company products are cheaper in comparison with competitors. The questionnaire shows that the price of company products is similar as customer wishes.

Conclusion of this chapter: the company should target at women 30 years old.

5.5 Market Research

The market research which was done as part of this thesis (questionnaire and the results of marketing research are shown in the appendix of this thesis) can help to understand what is important for the customers, their opinions and feelings on the field of Silvita products and their competitors. In the past the company didn't use any market research and hardly feedbacks as well. The market research which is part of this diploma thesis was conducted in the months May, June and July of 2012. A total of 178 respondents give us answers at the purposefully selected questions. Respondents can fulfill the survey in several forms such as on the internet, personally in selected pharmacy or when the customer came to the company for personal collection of goods.

The questionnaire contained 34 questions which were aimed at finding purchasing habits of the respondents, their purchase preferences, price sensitivity, interest on

selected products, brand awareness and so on. Most questions have been concluded with the selection of one answer. The other questions have had assessment scale. It was not required to respond to each question it means that some of them may not always exactly match the number of responses with the total number of respondents.

The only criterion for choice of the addressed persons was age at least 18 years. Preferred were persons residing in the territory of the Czech Republic (because of the Czech market is most important for the company) it was necessary to ensure the representativeness of the survey. Because of majority of the company customers are women we tried to find a higher number of women respondents. The other characteristics (age, education, marital status, employment ...) has been striving to achieve a balanced layout respectively layout corresponding to the total population of customer base. The age structure is represented by all age groups. Greater representativeness of the survey would provide pure random selection of respondents (which is technically demanding and significantly lower questionnaire responses) and larger size of selected file (higher number of respondents). However in contrast to a professional agency and its marketing possibilities it is impossible to do this professional survey and it goes beyond the possibility of student thesis. The results of this survey form the basis for the sales analysis of the company policy and references from this survey are in many places in the text of this thesis.

5.6 Financial analysis

Before the main target (sales analysis) is necessary to do a short and basic financial analysis of the Silvita company. Information in the financial analysis should be important for sales analysis. We cannot evaluate the sales analysis before the financial analysis. Because of the format of this master thesis I will be focusing just on the basic financial formulas which are important for the following parts.

The most important indicators are sales and profit. How we can see in following graphs the net profit is higher in contrast of 2011. But sales are lower. The net profit was growing because of lower costs (advertising) and optimization of manufacturing. The number of products sold was almost same in contrast of 2010 but at the expense of profit margins. Positive is that company still has a profit.

Table 5 ROA

YEAR	NET PROFIT (Thousand CZK)	ASSETS (Thousand CZK)	ROA
2011	418	14488	2,8 %
2010	335	16251	2 %

Source: Own processing based on accounting records of the Company

Table 6 ROE

YEAR	NET PROFIT (Thousand CZK)	Equity (Thousand CZK)	ROE
2011	418	11849	3,5 %
2010	335	11702	2,8 %

Source: Own processing based on accounting records of the Company

Table 7 ROS

YEAR	NET PROFIT (Thousand CZK)	SALES (Thousand CZK)	ROS
2011	418	26791	1,5 %
2010	335	30207	1,1 %

Source: Own processing based on accounting records of the Company

How could be seen in following graphs (that focus on liquidity) the Silvita company holds a favorable liquidity. Immediate liquidity should be better but in contrast with others companies it also good. And situation is better than the year before. This improvement is mainly because the current liabilities decreased compared to last year. The inventory turnover is raising (graph NO. ... inventory turnover). Overall liquidity situation is in order and stakeholders of the company can be satisfied for the owners of the company as well.

Table 8 Immediate liquidity

YEAR	Quick cash (Thousand CZK)	current liabilities (Thousand CZK)	Immediate liquidity
2011	2 398	2 500	0,95
2010	2 941	4 115	0,71

Source: Own processing based on accounting records of the Company

Table 9 Available liquidity

YEAR	Current assets - inventories (Thousand CZK)	Current liabilities (Thousand CZK)	Available liquidity
2011	9 729	2 500	3,89
2010	9 200	4 115	2,24

Source: Own processing based on accounting records of the Company

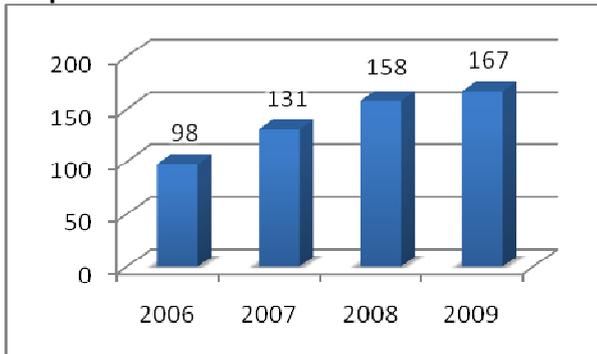
Table 10 Current liquidity

YEAR	Total current assets (Thousand CZK)	Current liabilities (Thousand CZK)	Current liquidity
2011	13 899	2 500	5,56
2010	15 112	4 115	3,7

Source: Own processing based on accounting records of the Company

The Receivables turnover is growing. This is caused by the customers and their lower payment discipline. But it is hardly possible to improve this situation, because main customers (how was mentioned) are wholesalers and important for the company is keep these wholesalers. Disadvantage is that company has to respect their condition. Receivables turnover which is longer than 70 days is unsatisfactory. And the company has to struggling with 167 days. The company should seek to shorten this time and reduced own capital consumption.

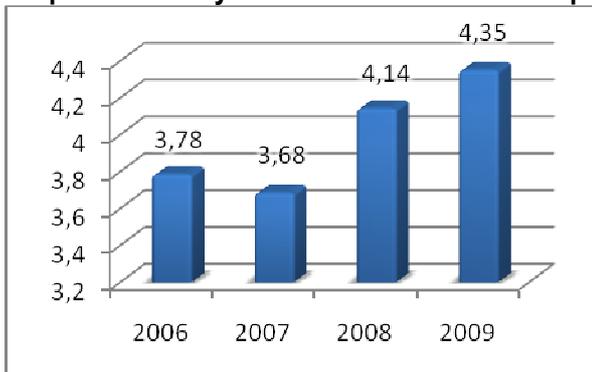
Graph 4 Receivables turnover of the Silvita company



Source: Own processing based on accounting records of the Company

The Inventory turnover was increased significantly. Higher inventory turnover decreases storage costs per unit of goods and increases the overall effectiveness.

Graph 5 Inventory turnover of the Silvita company



Source: Own processing based on accounting records of the Company

Generally it is possible to say that financial situation of the company is good. However certain problems have been identified in the case of receivables. The company should also seek to increase profitability by using an effective policy tools.

5.7 SWOT ANALYSIS

Analysis of macro-and microenvironment of the company concludes an analysis of strengths and weaknesses, opportunities and threats. Firstly strengths, development department is important part and customer (other companies) appreciate this opportunity. Financial health of the company can help in negotiations but the other hand small size of the company make negotiating position harder how was also mentioned in porters five analysis. And the most important is base of stable customers from the side of wholesalers. Unfortunately, missing is the lack of foreign sales and it doesn't help with the diversification of risks. This disadvantage could and should be changed as opportunity. The company also can penetrate the business with products for animals. Threat and not just for analyzed company is the economic recession because further weakening in demand could be critical. On the base of survey other opportunity could be more products with the hyaluronic acid.

Table 11 SWOT Analysis of the Silvita company

Strengths	Weaknesses
A wide range of products with various uses	Headquarters in rented premises
Development department	Missing foreign sales
Financial health of the company	Small size of the company in compare with competitors
Stable customers base	Lack of strategic planning
Experienced management	Name of the company is not well known
Employees	Website (their administration)

Opportunities	Threats
The possibility of penetration into foreign markets	The economic recession
Possibility of developing into other segments - products for animals	Financially strong competition
Products with higher rate of hyaluronic acid.	Withdrawal of the leased premises
Be first in food supplements segment whit smaller packages	Higher taxation
	New operations (using red blood cells)

Source: Own processing

5.7.1 Summary of Chapter five

Due to the ongoing financial recession is necessary to continue in measures to save costs. Based on the company's internal accounting this year the company expect lower turnover. Also is necessary to improve the products webpage and try to use their potential, because customers are using the Internet for purchasing more often than before (based on the market research and survey).

According the financial analysis should be carried out measures to reduce the inventory and receivables turnover as one of measures leading to better financial situation.

This chapter has discussed about the micro, macroeconomic analysis and the financial situation of the company. Another chapter is focusing on the sales policy of the company.

6. ANALYSIS OF THE SALES POLICY

6.1 Product policy

The product range in the Silivita is made up of food supplements and cosmetics. For company the most interesting products are food supplements. Sales numbers are still growing. Company offers **about 40 products** and it is not the widest selection in compare with competitors. All products are manufacturing in the Czech Republic in the company headquarters.

The company is trying to reach even the most demanding customers, so it is possible to find a range of standard and luxury products in the company product range. Luxury products are significantly more expensive so that is the reason why luxury products had a lower share in the company turnover.

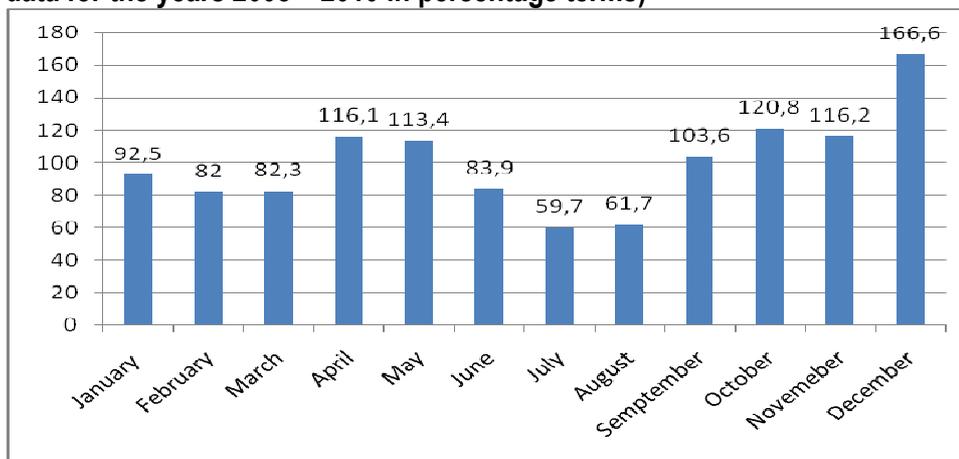
For Silvita is important to monitor the quality of their products. The marketing research shows that **customers appreciate the product quality** and most customers (53%) say that Silvita products are the highest quality products. On the other had 43% of customers consider that Silvita products are "only" quality. This creates space for tools communication policy in order to **inform consumers about the actual benefits** and about quality of products sold. Only 4% of customers said that Silvita products are poor-quality.

During the year Silvita struggling with a low demand in some months how could be seen in graph below. The company should find the product that could be sold in the summer months when the company feels the lack of demand in comparison with winter months or try to optimize production and employment resources on the basis of anomalies observed. Other option is strengthen marketing activities in January and February (advertising is generally cheaper) and try to persuade the customers to buy.

The main sign of the Silvita products is hyaluronic acid. Its uniqueness is perceived by the customers (results from marketing research). Another advantage is high innovativeness which is characteristic for the Silvita company. These attributes need to communicate with customers and show them the real benefits of Silvita products.

Recently the executive chef of Unilever company said⁶, that new packaging strategy for its products is sell them in half packs. The Unilever company is a manufacturer of powders and similar products. They think, that financial recession will continue and customers budget will be smaller and because of that customers will not be able to purchase their products, because firstly they will buy food and stuff like that. But **smaller packs and of course cheaper packs** can be a solution how to find a compromise. The Silvita company and its products are similar in nature they should try to follow this attitude and take over a new customers.

Graph 6 Number of purchases compared to annual average individual months (average data for the years 2008 – 2010 in percentage terms)



Source: own processing based on internal company data

6.1.1 Product Selection

The Silvita company is a manufacturing company which must still innovating. The innovation process is about constantly developing of new products, because it is necessary to try some new goods if the company wants to survive

One significant innovation in recent times has been such "Hyalgel FORTE". It is product against the joint pain with higher rate of hyaluronic acid. This product is selling really well, because in the Czech Republic much information were written about the hyaluronic acid in recent times and customers know that hyaluronic acid is really helpful. „Hyalgel FORTE" help the company raising the sales.

Selection of products that will be included in the sales range takes place based on several criteria. One of them is customer demand and compatibility with current

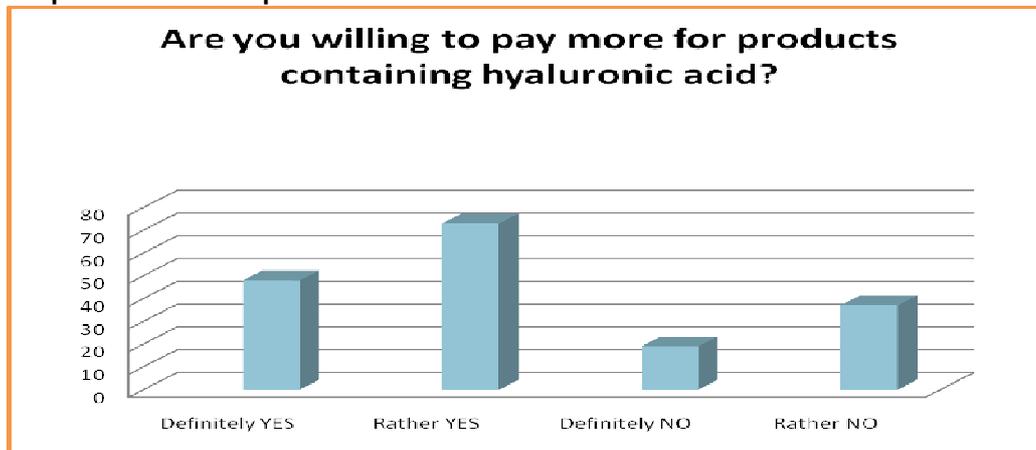
⁶ http://ekonomika.idnes.cz/evropany-zasahne-bida-unilever-nasazuje-mensi-baleni-vyroby-pub-/ekonomika.aspx?c=A120827_171259_ekonomika_spi

products. The Silvita also monitor developments in Western countries because the market here is more innovative. It is also necessary to check individual product and their marketability. The company regularly evaluates data from the sale and detects the popularity of different types of products among customers.

Changes in product range are made continuously. In the category of basic products are large controls twice a year and during these controls are some products replaced by other. In smaller scale are products replaced by other continually, depends on customer interest.

The true is, that decision making is in the owner's hands and their decisions are made by their experiences.

Graph 7 Evaluation questionnaire



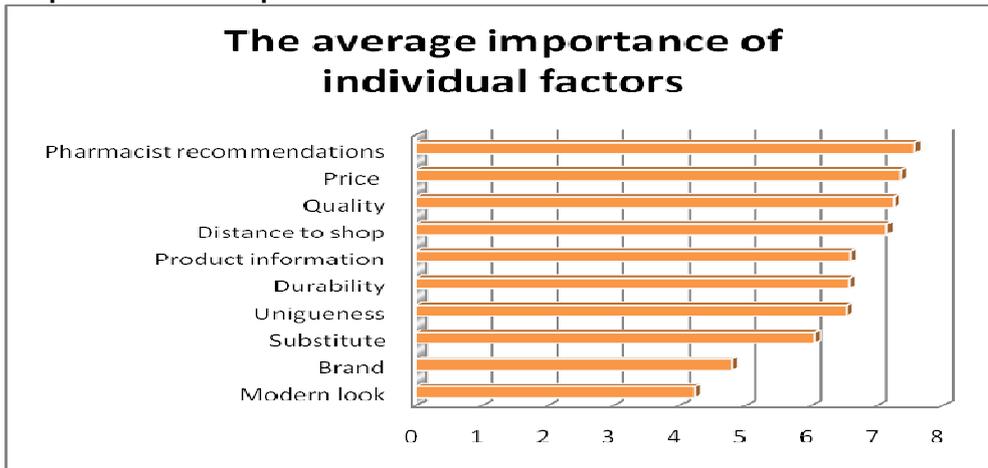
Source: own processing

6.1.2 Customer services

The most important service which is providing to the company customers is expert advice. Of course just, if the customer come or writes an email. An expert advice is giving by the manager of research department, but the main problem is that customers probably don't know about this possibility, because the company webpage, brochures or labels didn't have this information. Although this opportunity is not used often it because the **customers mostly believes to pharmacists how mostly respondents said in the survey.**

Among other services provided to customers include the possibility to exchange unused goods after purchase due to dissatisfaction or as a reason of inappropriate gifts and so on. In the company is missing some program for customer, which can introduce the philosophy of company, inform about the company its quality and its uniqueness.

Graph 8 Evaluation questionnaire



Source: own processing

6.2 Price policy

6.2.1 Price Strategy

Pricing strategy of the company is to offer high quality products at a corresponding price. Compared to competitors' it has a lower price, but it can also provide high adding value in the form of quality, unique product and customer services. Therefore the company is focusing at the tools of pricing policy instead of communication policy.

The decision for such an orientation is little bit problematic, because it is hard to lead the price war with multinational companies. But the true is that communication policy of multinational companies is stronger than the others, because they usually have larger marketing budgets in compare with the Silvita company.

It is difficult for the company to set a higher price of the product, because from the survey shows **that customers know the hyalgel brand**, but the Silvita name is almost unknown. The company products mostly buy customers whose are looking for cheaper products or customers who have long been loyal to the Silvita products. The Silvita products are not perceived as premium products, because of low price, brand and lack of TV advertising with national coverage.

In the table below are prices of the Silvita product and competitor products. In the second column are the prices of the product to help against joint pain. In the third column are the products against stretch marks. The fourth column contains lecithin prices.

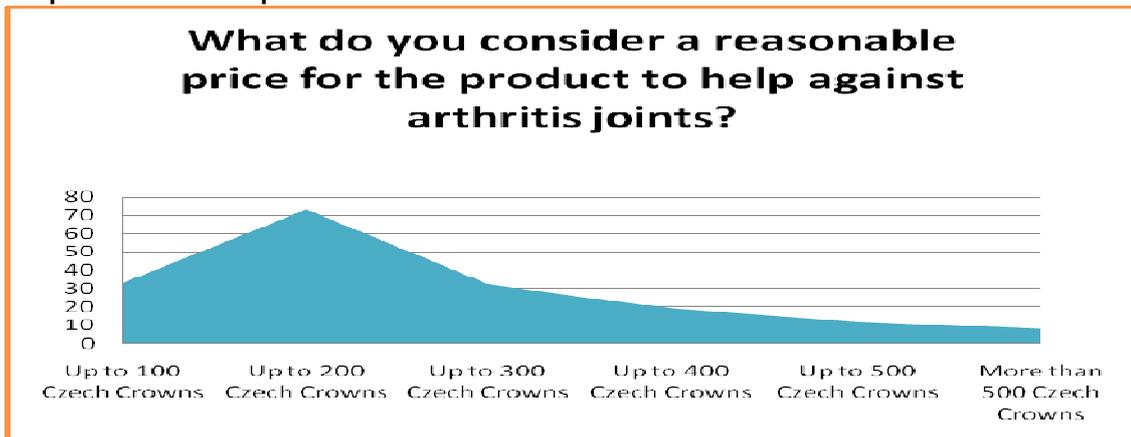
Table 12 price comparison

Name of the company	Product to help against joint pain	Products against stretch marks	Lecithin
SILVITA	191 CZK	85 CZK	104 CZK
WALLMARK	649 CZK	136 CZK	199 CZK
ORLING	445 CZK	-----	-----
SWISS	460 CZK	115 CZK	135 CZK
BARNY	600 CZK	-----	205 CZK

Source: own processing

It can be seen that the Silvita belongs between the cheapest producers. How was mentioned before, the only way how to raise the price and get a higher margins is to convince the customer by the tools of communication policy about the quality of products and support the Silvita brand, **but based on the survey customers are willing to pay for products against joint pain about 200 CZK.**

Graph 9 Evaluation questionnaire

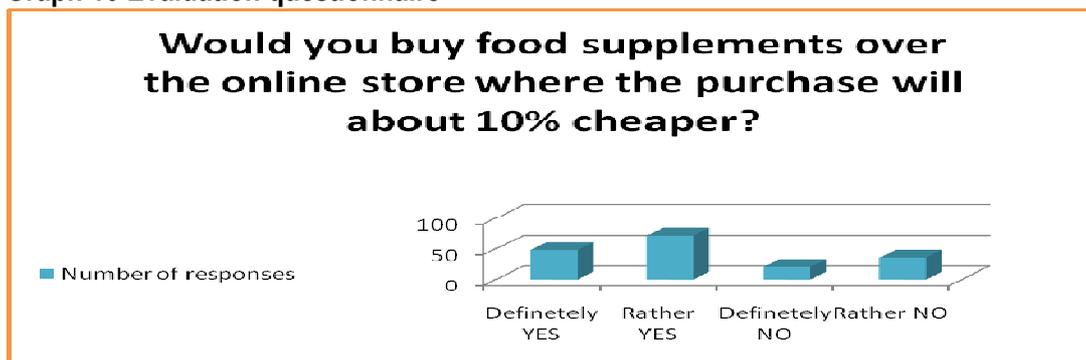


Source: own processing

The Silvita company sells via the Internet at prices about 15 to 20% lower than are prices in pharmacies. The Hyalgel costs 191 CZK in pharmacies, but just 154 CZK on the internet.⁷ Unfortunately customers mostly don't know about the Silvita company webpage where is possible to buy this product. In compare to products webpage (how was mentioned above) which are really popular. These prices (product prices on the internet) **need to be communicated with the customers** because of the survey where the customers said that they would buy these products on the internet if they will cheaper.

⁷ www.silvita.cz

Graph 10 Evaluation questionnaire



Source: own processing

6.2.2 Creation and setting of prices

The company uses a cost-oriented pricing when the costing calculation is based on the full cost. Calculation formula counts with value of the product and its marketability, and then is add the required margin in percentage expression. This percentage varies according to individual segments. Low margins are applied on the standard products where competition is strong and the customers are high sensitively on the price. Also for some new products that need to be put on the market but their acquisition price is compared with the willingness of consumers to pay high prices, should be also set as low. But the company has to count with only low margins. This business strategy was chosen for example in the case of lecithin tablets, when the low prices can help to penetrate the market strongly. In the case of luxury products are mostly applied higher prices and higher margins.

How could be seen in the table below, the Silvita gross margin increased in 2011 compare to 2010.

Table 13 Gross Margin of the Silvita Company

YEAR	SALES (Thousand CZK)	COSTS OF SALES (Thousand CZK)	GROSS MARGIN
2011	26791	21799	18,6 %
2010	30207	25164	16,7 %

Source: own processing

Prices calculated by the costing formula is necessary further adjusted, because similar products occurring in the tender of the company must have a similar price. For the sake of competitiveness, the price is also adjusted to prices of similar competitor products and finally price is "rounded-off" on the so-called "Bata prices".

The change in the price must be done in some cases. One of them is the change in price of competitor product. In this case the company must adjust the price of its products in order to remain competitive. Adjusting of lower price for product where is significant decrease in demand (ongoing degeneration phase in their life cycle) and the company needs to sell all goods and make the place in the stock for new product. Another reason for the adjustment of prices is a significant change in costs, but the company must act very prudently, because experience has shown that any increase in prices is perceived very sensitively by the customer. When the prices are raising the demand is very elastic and even a small increase may indicate a substantial decline in customers. In the case of price reductions is relatively inelastic demand and the companies must reduce the price significantly if they want to get more customers. For example, an enterprise regularly organizes various short-term events to support the sale, when the price is reduced. This reduction must be in the order of several tens of percent, otherwise the reaction by customers is minimal.

Table 14 Pricing of the Silvita company

Direct costs (Acquisition price of goods) + the proportion of overhead costs × margin in percentage expressed +/- adjust price to similar products occurring in the tender +/- adjust price to prices of similar competitor products +/- adjust price on “Bata prices“
= FINALL PRICE

Source: own processing

6.3 Communication policy

The company carries out various communication campaigns constantly throughout the year. Their implementation is based on the owner experiences which were gained over the years.

It means that the company has **not got any marketing plan even the exact schedule of those actions or the budget**. More detail plans of marketing activities is also missing and stay just in head of the company owners. When communicating with customers the company declares the following values of its brand:

- modernity
- openness
- dynamics
- accountability
- innovativeness
- accuracy

The company tries to get and attract not only new customers but also retain those present, because get the customer who was once lost back is much more difficult than to get a new customer. The survey which did as part of this thesis showed that on average only 2 out of 10 customers think that the company products are more expensive than optimal price is. The company should within its communication policy to convince customers about the quality of their goods and about price of the products. Customers need to understand the added value of products offered to and feel that the price is adequate and purchase of such product will be beneficial for them. **Communication with customers is just one-way and the company loosing the feedbacks**, whether positive or negative

6.3.1 Advertising

Marketability of the goods is necessary to promote by advertising. The company uses for its communications activities just the advertisement. Advertising campaigns are underway mainly with national coverage and the goal, as well as with other communication activities is the increase in turnover. On the base of advertising is then assessed the success these activities. In the case of advertising for a particular product is a measure of success increase revenues from this product. In the case of the broad institutional advertising aimed at strengthening the brand is monitored indicator of success the overall increase of the company revenues. Advertising budget is calculated by the terms of turnover and profit of the company. During the economic crisis the company calculated with lower spending on advertising and this measure have resulted in a reduction of promotional activities and orientation on the low cost marketing

activities. The disadvantage of the budget planning based on turnover / profit is its countercyclical development. During the crisis when the company needed increase the marketability of their products more than before the reduction in the budget resulted in an exactly opposite effect. According to the theoretical concepts it would be preferable to plan the advertising expenditure on the basis of operational advertising goals. It means that budget should be such a height as the company needs to achievement of operational objectives in the field of advertising.

The company uses a wide range of advertising media. Are they mainly magazines (mainly focusing on women and lifestyle), outdoor advertising (billboards) and local TV. The company try to leave a various leaflets in the stores such as posters, catalogs and their purpose is to inform customers about current products and about new products which might help with the company sales policy plan. In addition to the company itself are developing promotional activities also wholesalers and pharmacy in the case that they need to sell a residual goods. This is one of the advantages when the other entities share the marketing costs and disadvantage at the same time if they are promoted the competitors' products. In the choice of specific marketing activities the company selects on the base of media range by target consumer groups and advertising costs.

In the table below we can see advertising costs which follow the customer demand.

Table 15 cost of advertising in 2011

2011 (month)	Spent on advertising (czk)
January	145 295,-
February	159 030,-
March	364 974,-
April	231 219,-
May	228 207,-
June	140 655,-
July	66 397,-
August	187 177,-
September	52 186,-
October	333 561,-
November	331 620,-
December	591 218,-
Overall	2 831 539,-

Source: Own processing based on internal company data

6.3.2 Sales promotion

Silvita company is involved in various forms of market support. Similarly as in terms of advertisement, increase of company revenue represents chief aim of such activities. Regrettably, side data such as customer contact data or other information of valuable sort are not being observed within market support (consumer competition).

Recently the company organized a competition for customers where was possibility of describing the way how company products helped them. The winners won some company products. Although considerable amount of customer contacts was thus acquired by the company, the contacts are not further used. In addition, feedback provided by constant customers might be used by the company for instance to develop or sell its products.

Product sales, extraordinary sales events or consumer assurance of possibility to return the product in case it was bought for instance as inappropriate present also form part of market support. In addition, sales representatives with sales plans set in assigned regions are targeted by market support. The rewards for plan fulfillment are in financial character so that the employees are motivated to better results as well as personal commitment. Moreover, better service for pharmacies representing the chief sales channel is thus ensured.

Concerning market support, there is **a lack of loyalty programs for constant customers**, which in general increases the revenue in this type of business. The character of products produced by the company is such that the product is being bought repeatedly by the customer. Therefore loyalty program would support sustaining of customers. Constant customers would be allowed to obtain particular products for free in case of purchase of certain amount of goods. There again **exists possibility of customer contact data collection**, consumer buying behavior observation as well as notification concerning new company products. Expenses related to new product introduction to the market might thus be lowered.

6.3.3 PR activities

Silvita company is not consciously involved in PR activities. **Firstly, they are not active on social networks. Secondly, its product website activities cannot be regarded comprehensive and do not appear to have clear strategic development.**

Various cultural or socially beneficial subjects, for instance children's homes, kinder gardens or dance groups are supported by the company observed. Such institutions are provided with various sponsor gifts, i.e. mainly material goods. Products with nearing date of expiration can be used in such manner by the company. Simultaneously, the company can be publicized, its mark awareness can be raised and its reputation can be improved. The disadvantage might be represented by the fact that customers of the company are not informed about such socially responsible activities in sufficient manner.

6.4 Distribution Policy

Wholesale and pharmacy services are mainly utilized for distribution by the enterprise. Direct website or sales representatives based business forms 15 percent of the company sales. However, Internet business potential is high due to two reasons. Firstly, website attendance on company product website is high. Secondly, consumer interest is present, as indicated by the market research in the appendix of the thesis.

The Internet sale was launched in 2010 with nonexistent advertisement support or advertisement notification on product website. The website attendance on product websites is really high nevertheless, only minimum percentage of the share is formed by the website. **Thus there certainly exists growth potential** which would provide support for the company in terms of diversification of sales channels.

Sales assistants capable of choice counselling represent one of the major merits of the company when it comes to direct sale. Since the absence of such sales assistants forms the chief disadvantage of electronic sale, three solutions are suggested. Firstly, establishment of official customer phone info-line is proposed. Secondly, contact mini form with direct response is suggested to be placed straightly on product website. Finally, contact via online communicators such as Skype or ICQ could be established. Thus an employee of the company would be authorized to be at disposal throughout working hours in order to answer potential customer inquiries in real time. Moreover, the possibility to leave publicly available user comments concerning individual products would also have positive impact on customer awareness.

Although distribution via wholesalers such as Phoenix or DR.MAX is contract based, the distribution position of such wholesalers is not of permanent character. Thus constant improvement of the company is required so that its most convenient position possible is ensured. Similarly, the company is dependent on the behavior of consumers since it is their interest which maintains position of Silvita as one of the dominant food complement companies in the pharmacies.

Moreover, the company is required to motivate the pharmacists constantly by means of non-commercial benefits so that their goods are offered to undecided customers. Here Silvita faces an inconvenience in terms of the size of the company and therefore its limited resources as well as possibility of facing major global competitors.

It is understandable that Silvita company is not active on Facebook due to the age composition of its customers. Nevertheless, the absence of Facebook account may represent a difficulty since computer literacy of elderly part of the population is on the rise.

Furthermore, goods which are produced by the Silvita company for other business entities is one of the most profitable activity. According to the head of the company, the amount of such orders

decreased by half after financial recession. The advantages which can be provided by the company to potential customers interested in cooperation of such sort are research and development of assigned product, production, packaging of the product, storing as well as logistics.

6.4.1 Summary of Chapter six

The Silvita company sells more than 40 products, but how was mentioned just two to three have significant share on the company turnover. The Silvita has to support them, because their future is closely linked with their success on the market. In these times is necessary to support the products by many ways such as PR, communication policy, marketing etc. From that perspective the biggest issues which should be improved are communication policy and sales promotion. Although the company is almost the cheaper one and it is important to communicate with customers and try to keep them in long term. In this field the company has a many space for improvement. On the other side, the biggest advantage is customer feedback through the survey which was done as part of this diploma thesis.

7. SUGGESTED PROPOSALS AND THEIR CONTRIBUTION

7.1 Evaluation

The last chapter is consist overall summarization of the micro, macro analysis and sales policy in the analyzed company. Suggestions are based on the facts which were revealed by this thesis.

In this thesis have been identified many factors which significantly affect the Silvita company success in the corporate performance evaluation by the analysis of the Silvita sales policy.

There have been also identified some areas where the monitored enterprise is performing in a compliance with the theoretical concepts, on the other hand, the space for improvement and streamlining have been identified too.

The market research identified the Wallmark and the multinational corporations as the major competitors. They set their products price at a very high level due to high advertising costs and the promoting of their own brands. Because of that, they are able to sell the products with higher margin and lower production costs through the economies of scale and high bargaining power in dealing with the suppliers. The monitored company is trying to compete by the price but it is mainly focused on product quality. Unfortunately, there have been identified some customer care deficiencies. Due to low market share of this enterprise (only some units of percent), the enterprise is not able to significantly influence the market situation.

The financial analysis revealed the healthy and prosperous company which is able to keep a positive profit even during the economic crisis. The values of profitability and the indebtedness ratios are in compliance with theoretical recommendations. The only drawback was detected in the turnover of receivables which the monitored company should try to reduce.

A powerful sales tool of the company is product policy. In comparison with the rival companies, this company offers the high quality and unique products. The products quality and the pharmacist recommendations are two the most important attributes for the customers in their purchasing decisions even more important than a price (this information is made by the questionnaire). The price of these products is one of the lowest in the market. During the pricing, the company proceeds from calculating of full

costs and then, it is adjusted according to the prices of the similar products and the rival companies prices. The price of products also largely depends on the selected margin which is relatively low for the ordinary goods. On the contrary, for the luxury goods, the company applies a higher margin and higher introductory price in accordance with the theory.

As a means of communication policy with the customers, the company significantly uses the advertising. The advertising is added by sales promotion in form of the consumer competitions, the events etc. The company unfortunately does not use any customer loyalty program which could help to increase customer loyalty to the company and give them the impulse to some bigger purchasing activity.

The monitored company distributes products directly through a network of the pharmacy distributors and their business representatives are trying to interest the chemists where these distributors are not established. The company also uses an electronic selling via the Internet in which the customers do not show too much interest even though, according to the questionnaires, it should be different. Unfortunately, the company does not improve the Internet advertising and the e-shop support. It reduces the company potential sales.

There are some alternatives to increase total company sales and to maximize the profit for the long term. It is possible to widen the range of the goods which is sold only complementary at the moment. It could widen the company main focus. Namely, these products are the food supplements for animals, the drops for a peaceful sleep etc. Another possibility is the expansion into the foreign markets. The company had already entered the Polish market several years ago but it failed to extend the distribution network and build a background as in the domestic one thus the company left this market. Another alternative is to focus on the solvent customer and the luxury products. However, in this field of the market, there was identified significant competition so this could be quite difficult to gain a dominant position in the market for this company. Because of the high margins, the company could achieve high profit even at lower sales volumes due to the absence of regular customers. In addition to that, it is necessary to change the stores design, modify a range of products and strengthen the communications policy.

The further price reduction could be achieved by costs reducing (eg. by the multipacks, half packs, by counting off the overhead costs to a larger number of units in case of higher sales or by reducing the quality from high to standard for the cheapest products) and also by the margins reducing. The food supplements market is highly competitive so the question is whether is not risky to reduce the quality. Maybe, in the long-term viewpoint, it could bring it to the bankrupt.

7.2 Suggested proposals

The author of this thesis assumes that company should improve these areas of sales policy:

- Diversification of sales channels.
 - Sell more through their webpage and try to get a new key customer.
- Social networks.
 - Create a company profile on facebook.
- E-shop.
 - Edit the company e-shop and promote it more.
- Loyalty programs for customers.
 - Data collection, feedbacks.
- Planning.
 - Financial area.
 - Marketing are.
 - Sale area.
- Communication policy.
 - Focus on the target customer group.
 - Focus on the strengths and benefits of the product.
- Smaller packs.
- Penetration a foreign market.
- Food supplements for the animals.
- New products that fill a demand fluctuations.

In the table below are all suggestions including feasibility, pricing and importance of these steps. Each attribute is assigned a scale from 1 to 10 according to their difficulties, 1 – easiest and 10 - the most demanding.

Table 16 Proposals and their evaluation

Proposal	Feasibility	Costs	Importance
Diversification of sales channels	8	7	7
Social networks	1	1	2
E-shop	4	3	7
Loyalty programs for customers	4	4	6
Communication policy	6	7	8
Planning	2	1	3
Smaller packs	5	6	5
Penetration a foreign market	10	10	7
Food supplements for the animals	8	7	6
New products that fill a demand fluctuations	8	8	6

Source: Own processing

Conclusion

The main aim of this thesis was analysis of the selected firm. Based on an agreement with the owners of the selected firm was chosen sales policy. Sub-objectives were:

- Internal analysis.
- External analysis.
- Sales analysis.
- Suggested proposals based on internal, external and sales analysis.

Used was a wide spectrum of analysis which was focused on internal and also external environment of the company. Based on those findings were suggested several possibilities which could lead to the improvement of the current situation in the company.

Theme of this diploma thesis is more relevant than before. Sales policy is one of the most important parts in business. Companies struggled with decreasing in demand, because of the ongoing recession, it is very difficult to keep customers and sell them products without a sophisticated sales policy.

This diploma thesis is divided into the theoretical and practical work. In the practical part was done PEST analysis and was found that decreasing demand is a threat for the Silvita Ltd. Porter five analysis showed, that potential substitutes are surgeon operations which can completely fix the problems with knee joint. SWOT analysis showed threats and opportunities and based on SWOT analysis were suggested proposals for the Silvita Ltd.

Second part of practical part deals with the sales policy in the selected firm. There has been identified some factors which should be improved and survey which was done as part of this thesis showed some interesting facts that have been used for better understanding of customer needs. Suggested proposals are in chapter 7 and evaluation of these proposals are in the table 16 where has been evaluated their difficulties and values of these difficulties. These values were assigned in agreement with the owners of the Silvita Ltd.

Analysis of the selected firm and the main aim of this thesis (sales policy) have been successfully achieved. The main aim of the thesis was fulfilled.

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Appendix A: questionnaire

Hello

I want to ask you to fill out a questionnaire that is part of my dissertation research. Completing the questionnaire should not take more than 10 minutes. Thank you for completing which is important to the improvement of research and thus the whole thesis.

Thank you

Jakub Macat

VUT Business Faculty

Sex:

- 1) Male
- 2) Female

Age:

- 1) 18-20
- 2) 21-30
- 3) 31-40
- 4) 41-50
- 5) 51-60
- 6) 61-

Are you:

- 1) Employed
- 2) Entrepreneur
- 3) Student
- 4) Retired
- 5) Maternity leave
- 6) Unemployed

Marital status:

- 1) Married
- 2) Single
- 3) Divorced
- 4) Widower

Highest educational attainment

- 1) Primary school
- 2) High school
- 3) College

Are you using the social network?

- 1) Yes
- 2) No
- 3) I am going to

How are you getting food supplements?

- 1) By myself
- 2) My parents
- 3) My children
- 4) My wife / husband
- 5) Other.....

Where you are buying food supplements most often?

- 1) Pharmacy
- 2) Directly from the manufacturer
- 3) On the Internet
- 4) In the supermarket
- 5) Not buy food supplements
- 6) Other.....

Would you buy food supplements over the online store where the purchase will about 10% cheaper?

- 1) Definitely YES
- 2) Rather YES
- 3) Rather NO
- 4) Definitely NO

If your previous question was negative, could you tell us why?

- 1) Buying over the Internet is too complicated
- 2) Internet shopping is risky and dangerous
- 3) I prefer the pharmacist advice and recommendations
- 4) Long delivery time
- 5) Other

Please give marks to individual factors on these following questions. Scale of 1-10.

1 mean: Is not important to me

10 mean: Is very important to me

How much important are these attributes when you are purchasing food supplements?

Price

Quality

Brand

The modern look of the packaging

The uniqueness of the product

Distance to shop

Availability of nearby products from the same manufacturer

Product Information (leaflets, brochures, etc. ..)

Durability of the product

Pharmacist recommendations

It is important to you when the manufacturer behave is socially and environmentally responsible?

- 1) It is important for me
- 2) It is not important for me
- 3) I don't care

Do you have a favorite brand of food supplements?

- 1) Yes I have and always buy from them
- 2) Yes but sometimes I also buy from other manufacturers
- 3) No I don't have any
- 4) No I don't have any and I don't care about the branding

Are you interested more products containing hyaluronic acid?

- 1) Yes that would be great
- 2) No, the number of products with this acid is quite enough.
- 3) This acid would be useful in following product(s)

Are you willing to pay more for products containing hyaluronic acid?

- 1) Definitely YES
- 2) Rather YES
- 3) Rather NO
- 4) Definitely NO

Do you think that food supplement could be a good present?

- 1) Definitely YES
- 2) Rather YES
- 3) Rather NO
- 4) Definitely NO

For what occasion ?

- 1) Christmas
- 2) Nicholas day
- 3) Valentine's Day
- 4) Birthday
- 5) Other

Would you get your birthday a voucher to purchase the food supplements?

- 1) Definitely YES
- 2) Rather YES
- 3) Rather NO
- 4) Definitely NO

What do you consider a reasonable price for the product to help against arthritis joints?

What do you consider a reasonable price for the product with higher rate of hyaluronic acid to help against arthritis joints?

What do you consider a reasonable price for the syrup helps to sleep?

Do you know the Silvita company?

- 1) Definitely YES
- 2) Rather YES
- 3) Rather NO
- 4) Definitely NO

Do you know the Hyalgel brand?

- 1) Definitely YES
- 2) Rather YES
- 3) Rather NO
- 4) Definitely NO

Silvita (hyalgel) products are:

- 1) The most quality
- 2) Quality
- 3) Normal quality
- 4) Worse quality

Price of the Silvita company products are:

- 1) Expensive
- 2) Normal
- 3) Cheap
- 4) I am not sure

End of questionnaire.

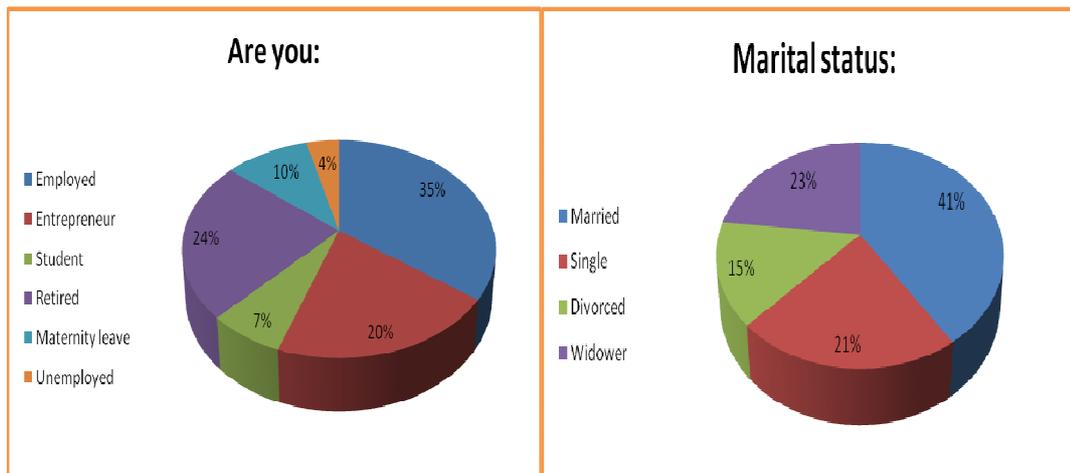
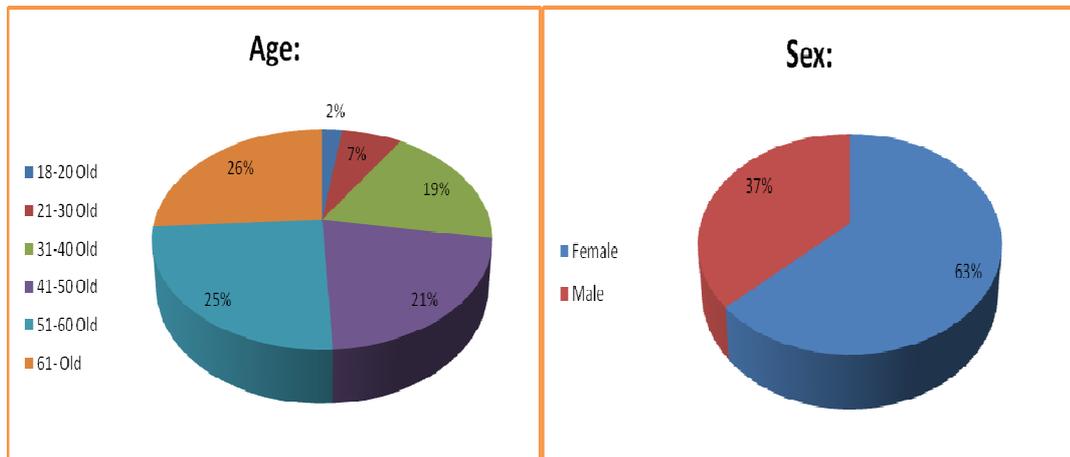
Thank you for your cooperation

Appendix B: Output of the questionnaire survey and its graphical representation.

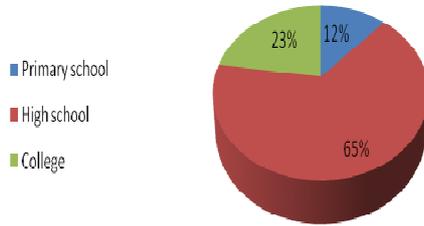
Number of respondents: 178

The time when data collection was carried out: May-July 2012

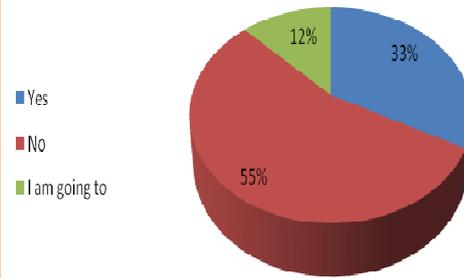
The questionnaire is shown in Appendix A.



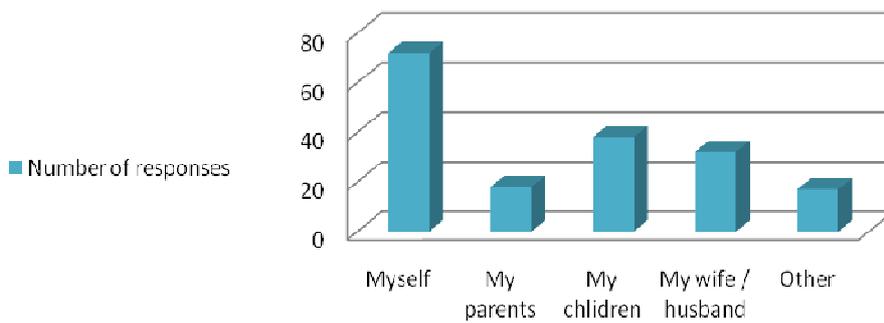
Highest educational attainment:



Are you using the social networks?



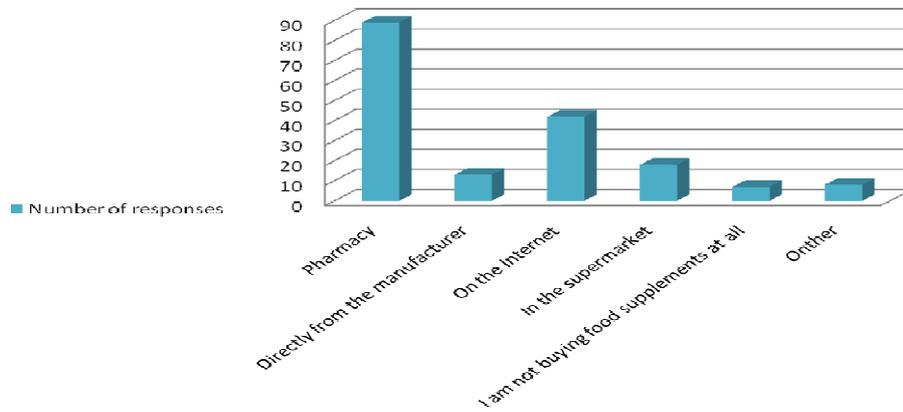
How are you getting food supplements?



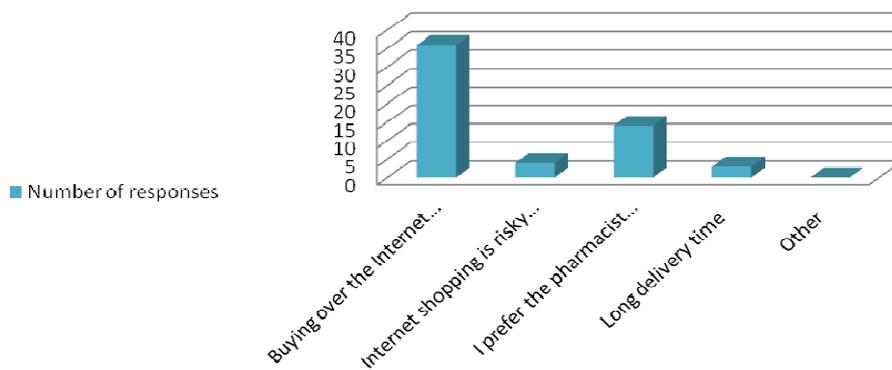
Would you buy food supplements over the online store where the purchase will about 10% cheaper?



Where you are buying food supplements most often?



If your previous question was negative, could you tell us why?



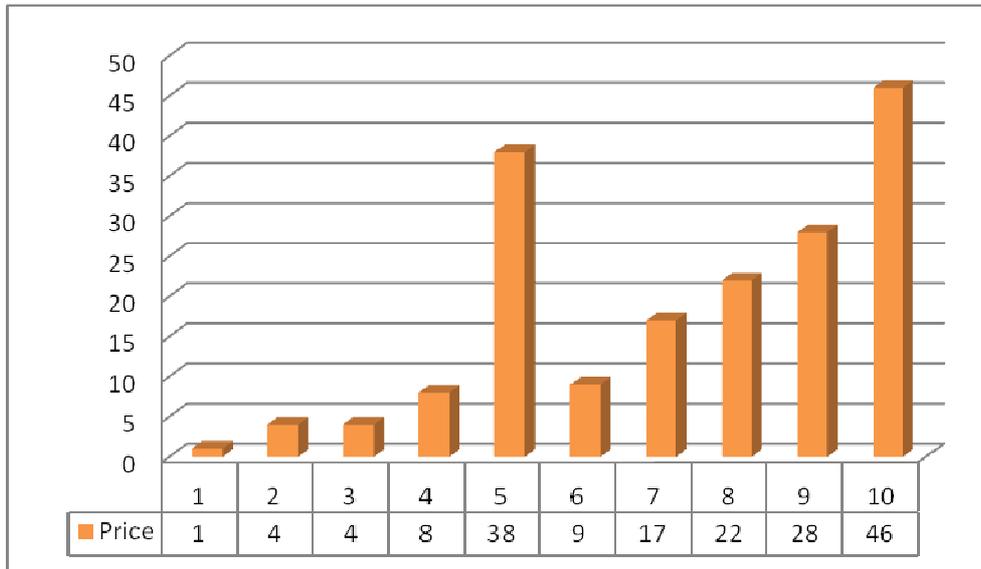
How much important are these attributes when you are purchasing food supplements?

Scale of 1-10.

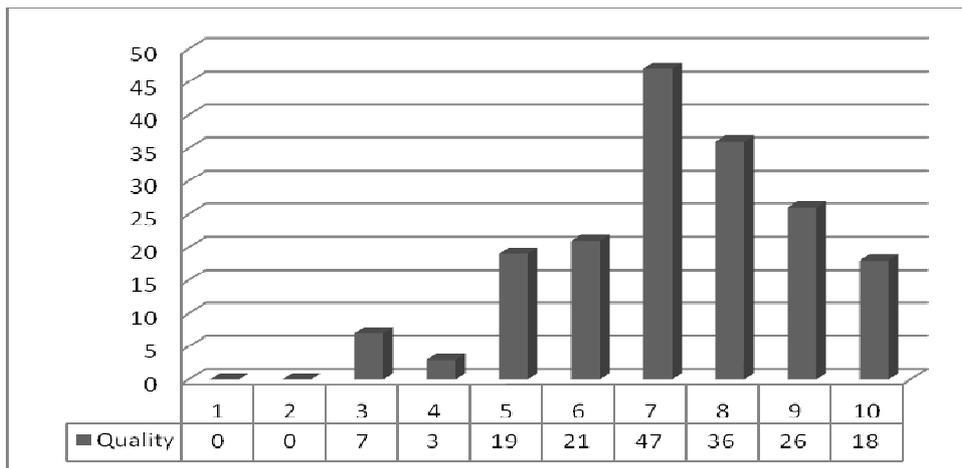
1 mean: Is not important to me

10 mean: Is very important to me

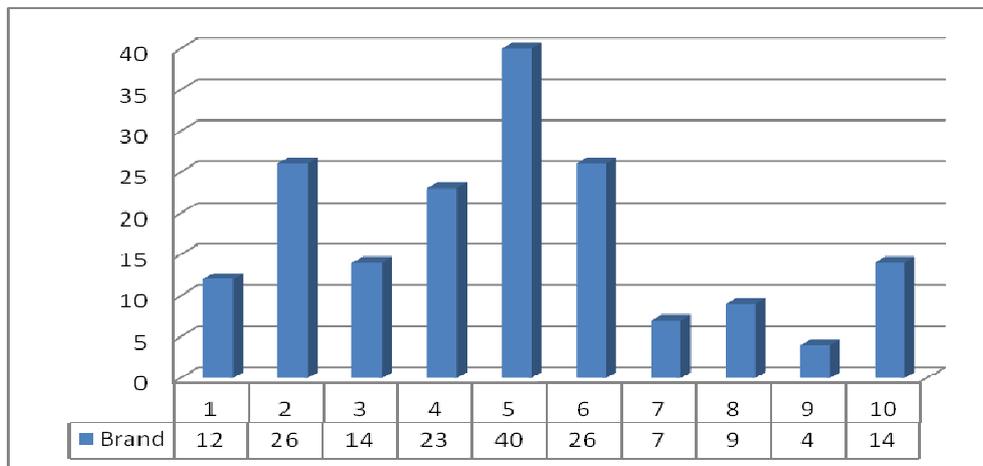
1. PRICE – AVERAGE 7,36



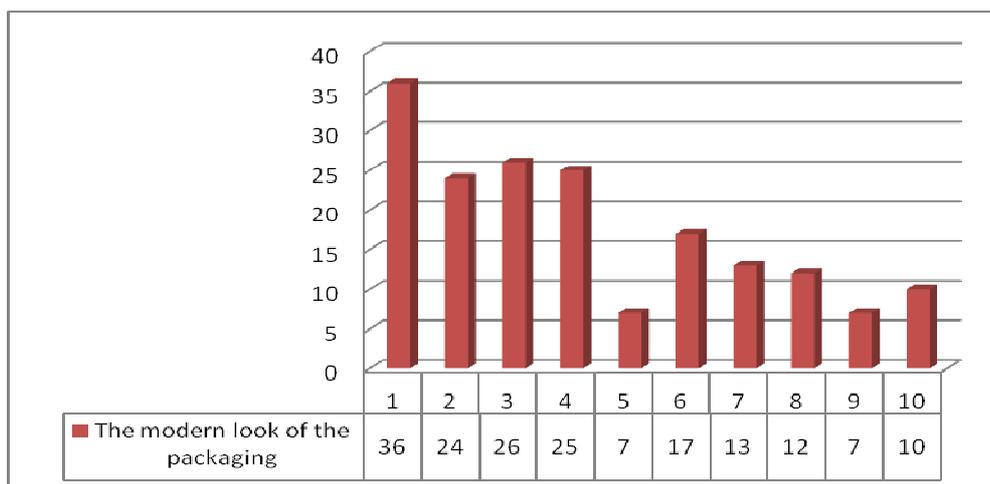
2. QUALITY – AVERAGE 7,25



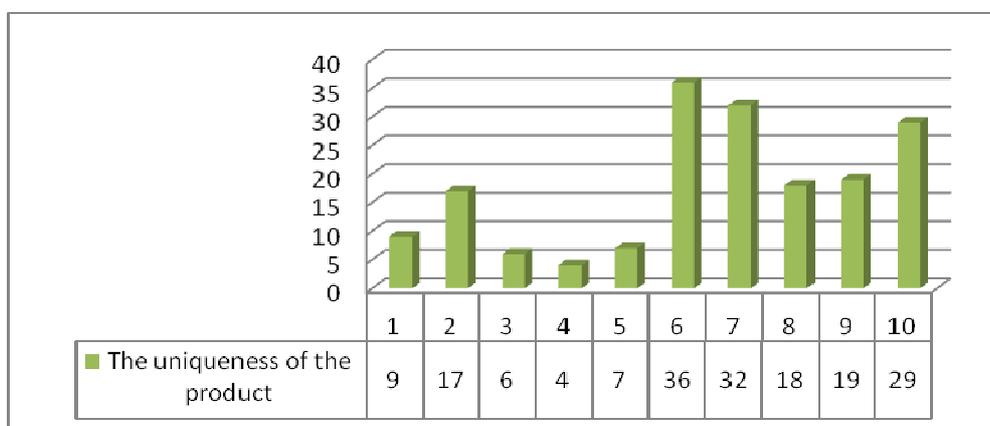
3. BRAND – AVERAGE 4,8



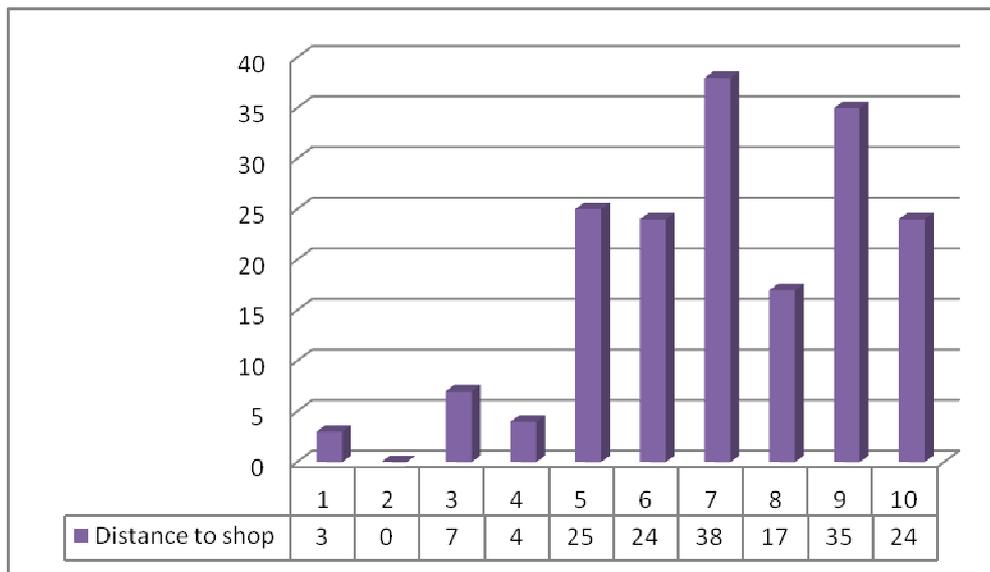
4. THE MODERN LOOK OF THE PACKAGING – AVERAGE 4,23



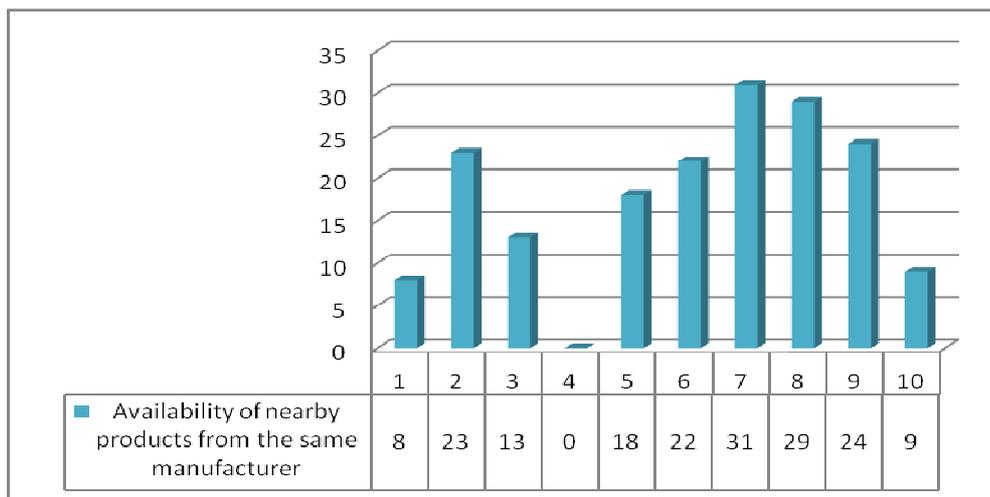
5. THE UNIQUENESS OF THE PRODUCT – AVERAGE 6,54



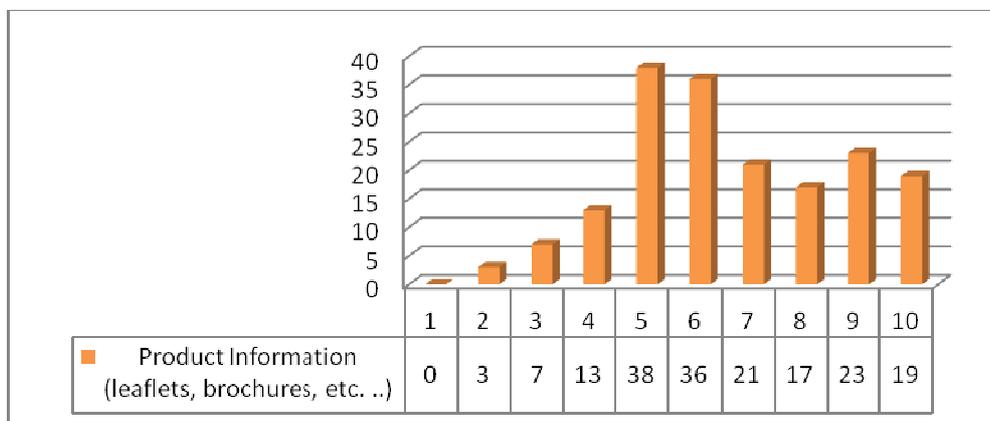
6. DISTANCE TO SHOP – AVERAGE 7,15



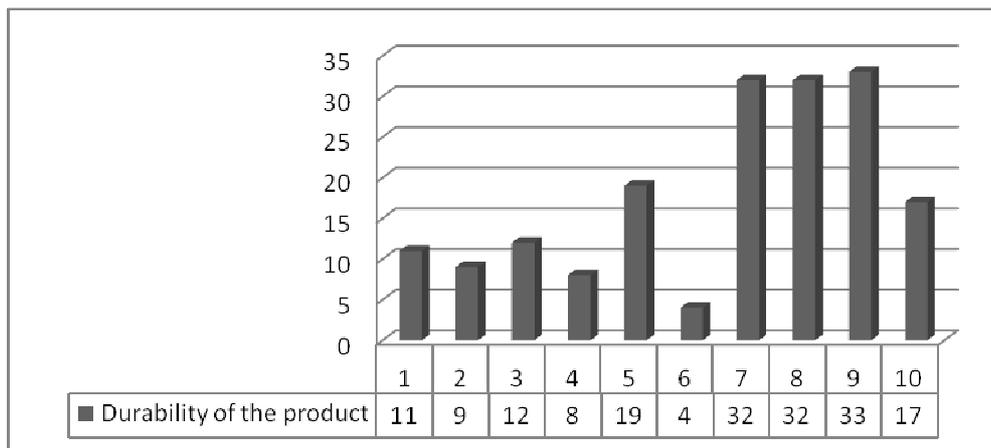
7. SUBSTITUTE – AVERAGE 6,05



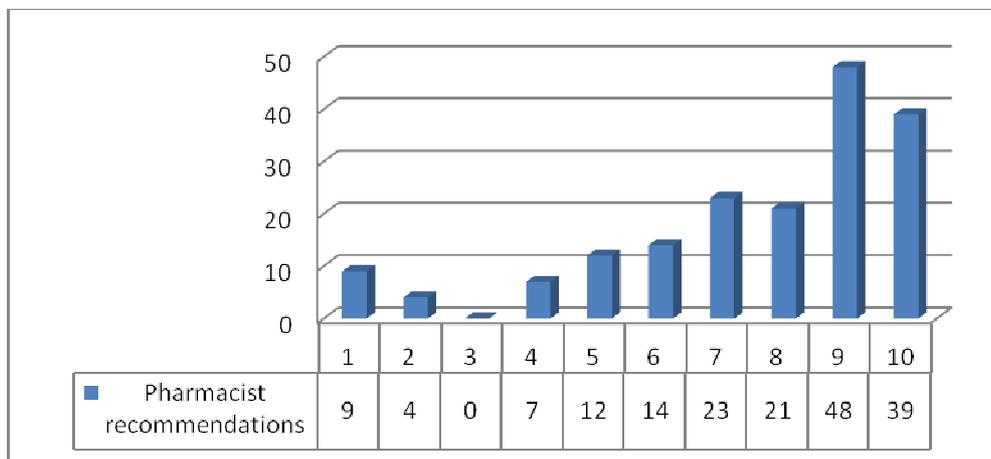
8. PRODUCT INFORMATION – AVERAGE 6,6



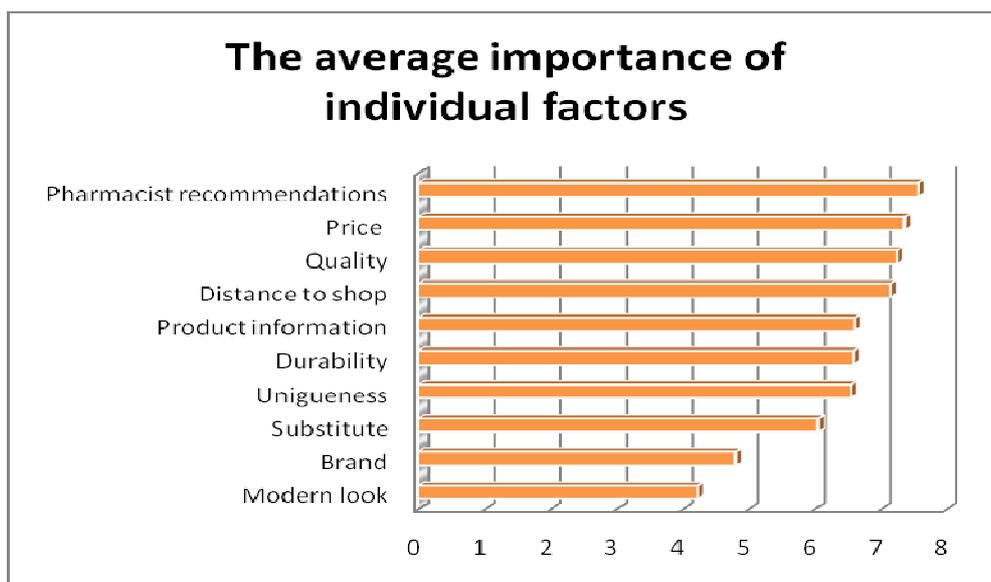
9. DURABILITY OF THE PRODUCT – AVERAGE 6,58



10. PHARMACIST RECOMMENDATIONS – AVERAGE 7,57



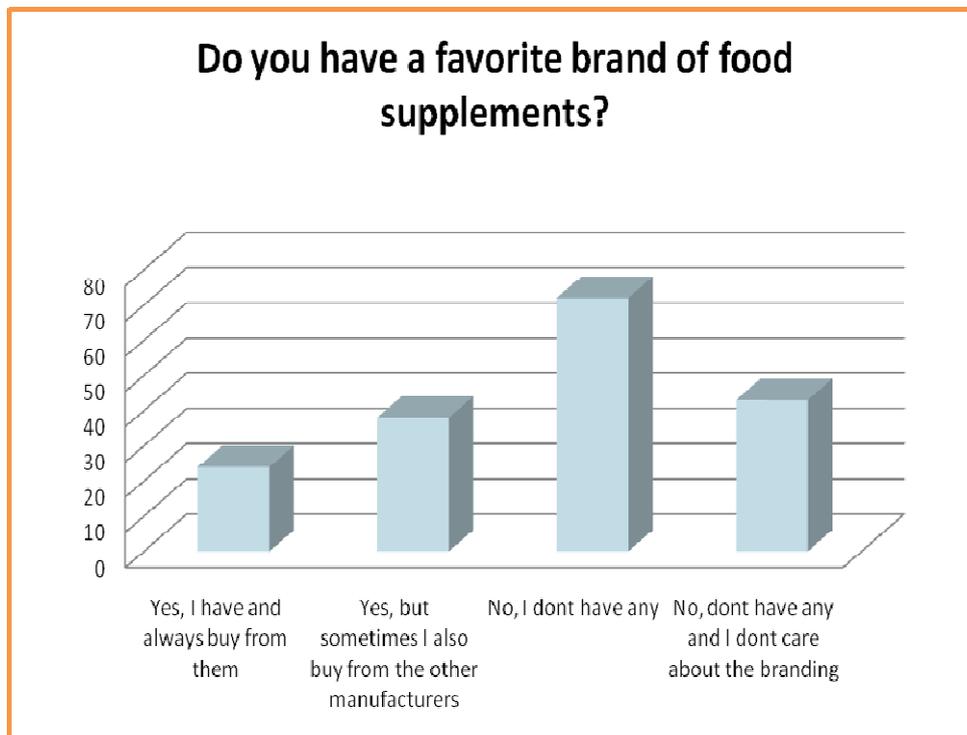
11. THE AVERAGE IMPORTANCE OF INDIVIDUAL FACTORS



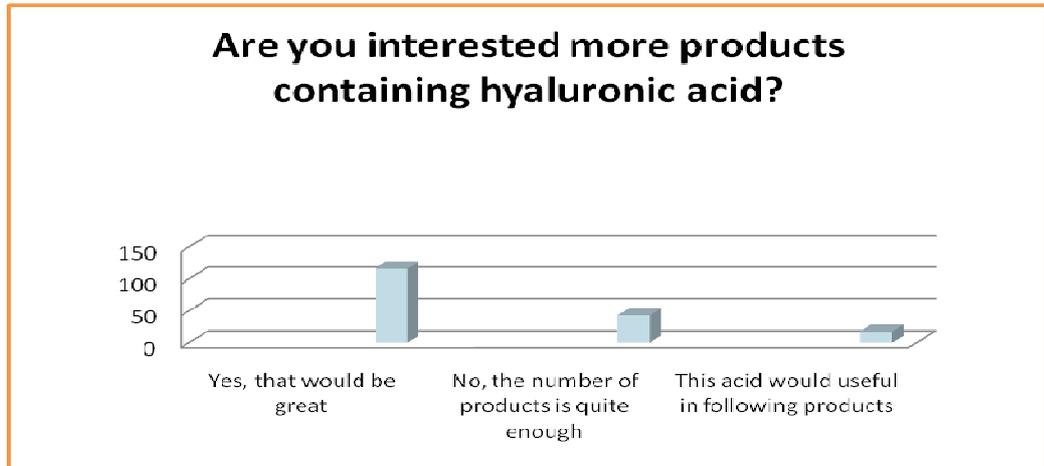
12. SOCIAL BEHAVIOUR



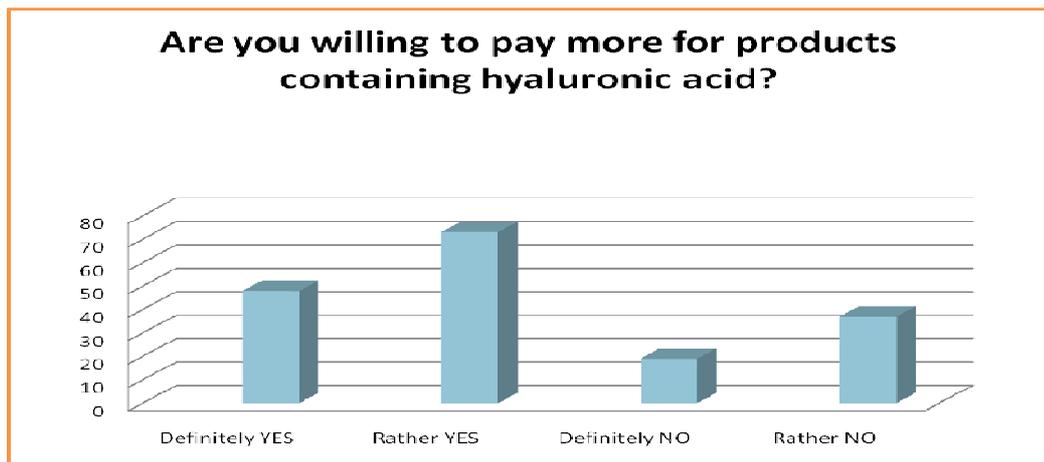
13. FAVOURITE BRAND



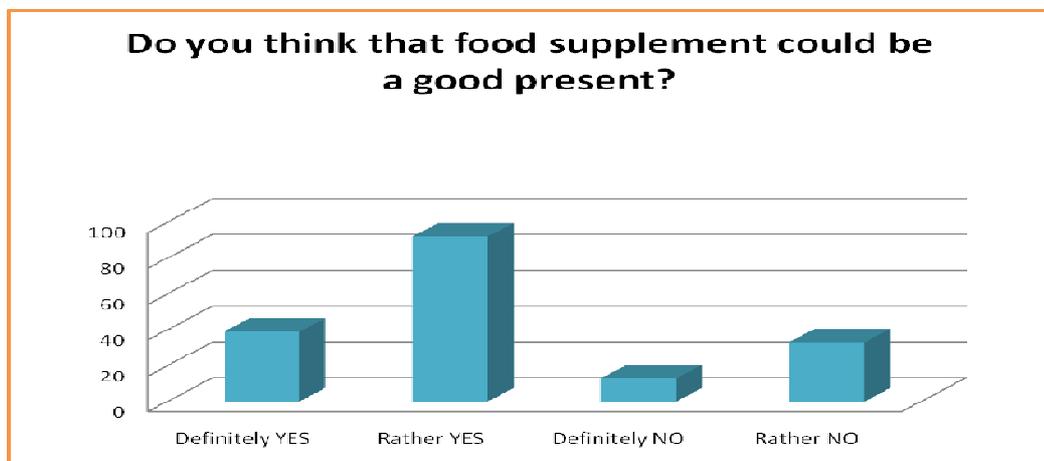
14. MORE PRODUCTS



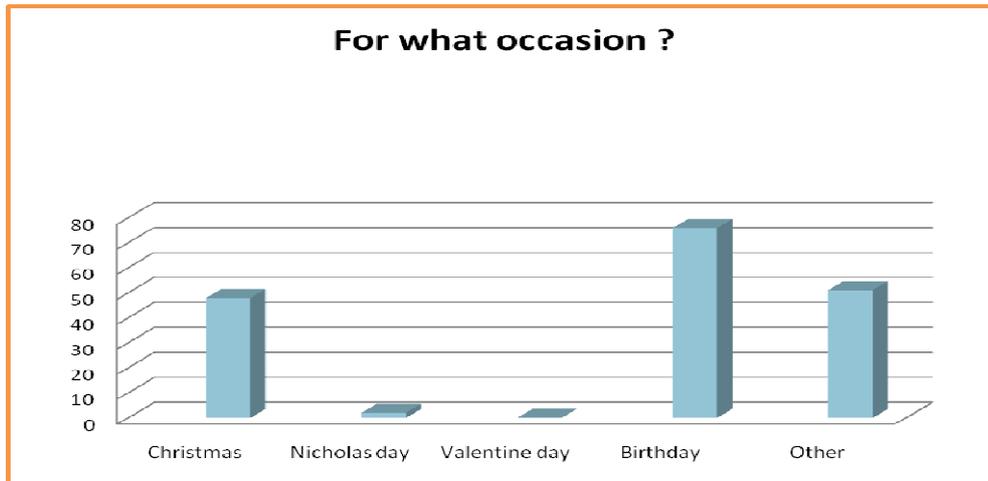
15. ARE YOU WILLING PAY MORE...



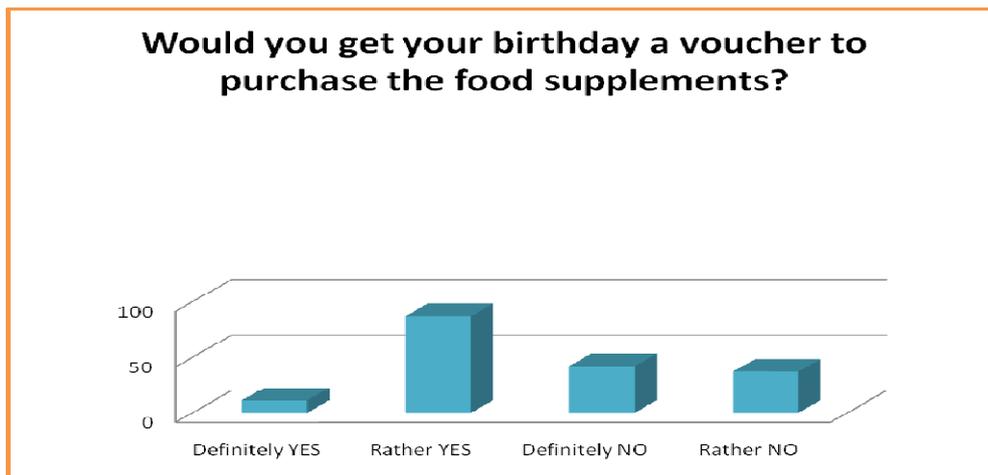
16. AS A GOOD PRESENT



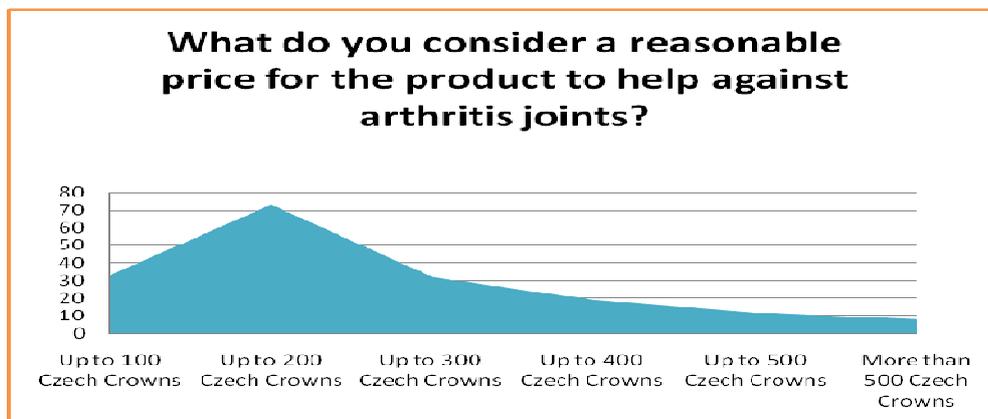
17. OCCASION



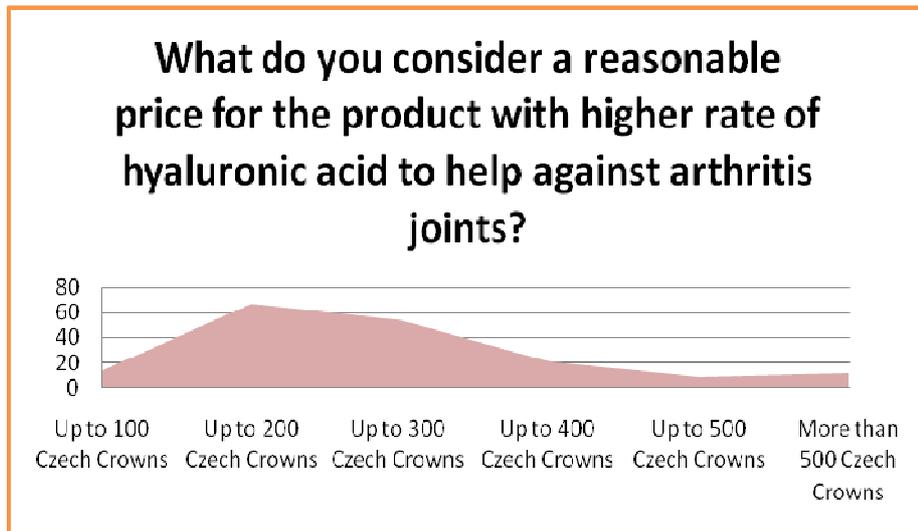
18. VOUCHER



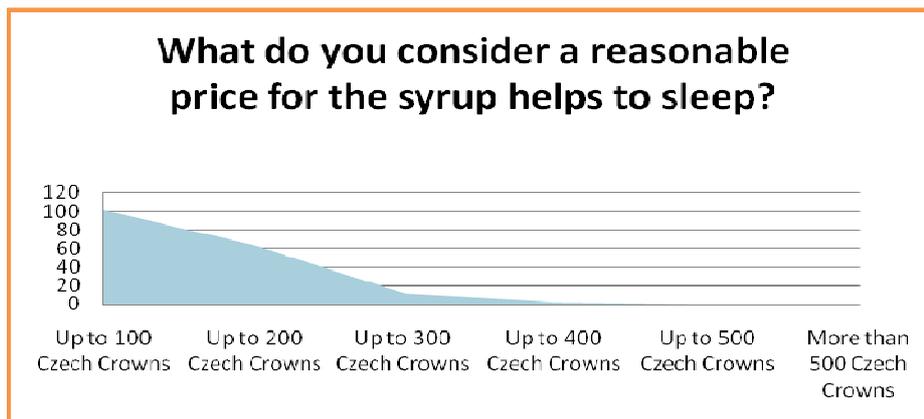
19. PRICE



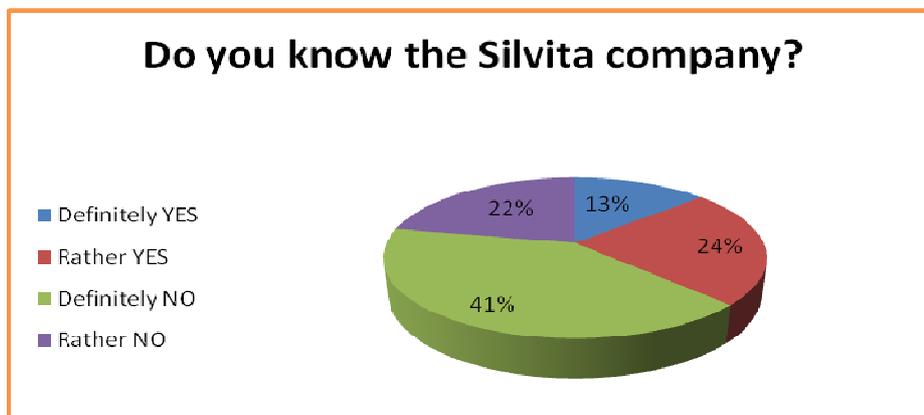
20. PRICE WITH MORE ACID



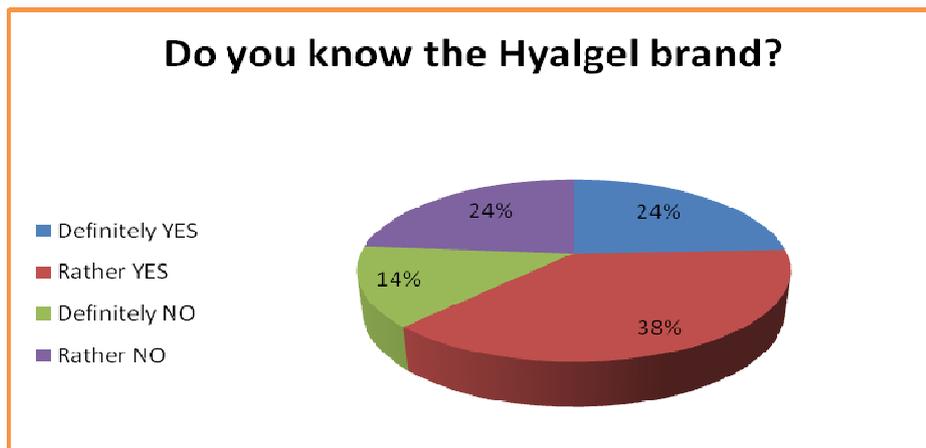
21. PRICE (SIRUP)



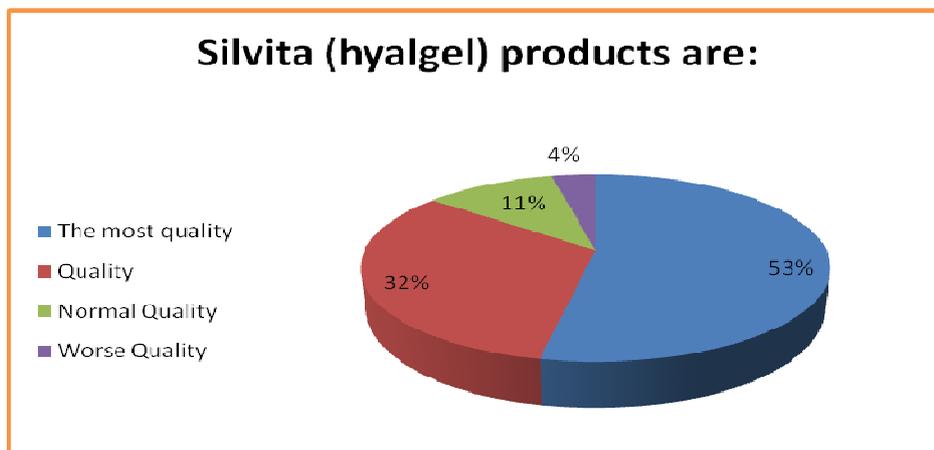
22. SILVITA



23. HYALGEL BRAND



24. PRODUCTS



25. PRICE

