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INTERNATIONAL EXPANSION OF A CHOSEN COMPANY

EXPANZE VYBRANÉHO PODNIKU NA ZAHRANIČNÍ TRH

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Proposals and Recommendations
Conclusion
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Appendices

List of literature:

KORÁB, V. a M. MIHALISKO. Založení a řízení společnosti. Společnost s ručením omezeným, komanditní společnost, veřejná obchodní společnost. PRAHA: Computer Press, 2005. ISBN 80-251-0592-X.

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ABSTRACT

The main aim of master's thesis "International Expansion of a Chosen Company" is to design a market entry strategy of company SLUTO s.r.o. in Austria. The review of literature is devoted to the issue of internationalisation and business strategies and possibilities of entering into the foreign markets. Current situation analysis focuses on the business environment analyses of company SLUTO, assuming its activity in the Austrian market, while the results obtained are further summarized in SWOT analysis. The last part of thesis, which is actually a business plan of SLUTO's Austrian subsidiary, offers proposals and recommendations based on the findings from the compiled analyses.

ABSTRAKT

Cílem diplomové práce „Expanze vybraného podniku na zahraniční trh“ je navrhnout strategii vstupu společnosti SLUTO s.r.o. na rakouský trh. Teoretická část práce je věnována problematice internacionalizace a podnikových strategií a možnostmi vstupu na zahraniční trhy. V analytické části práce jsou provedeny analýzy prostředí společnosti SLUTO s.r.o. za předpokladu její působnosti na rakouském trhu, přičemž získané výsledky jsou následně sumarizovány ve SWOT analýze. Návrhová část práce, jež je v podstatě business plánem rakouské dceřiné společnosti SLUTO s.r.o., pak v souladu s poznatky z jednotlivých analýz nabízí možné návrhy a doporučení.

KEY WORDS

internationalisation, business strategy, foreign market expansion, business environment analysis, market entry strategy, marketing mix, financial plan, Gantt chart

KLÍČOVÁ SLOVA

internationalizace, strategie podniku, expanze na zahraniční trh, analýza prostředí podniku, strategie vstupu na trh, marketingový mix, finanční plán, Ganttův diagram

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DECLARATION OF ORIGINALITY

I hereby declare that this master's thesis is originated entirely from me. Information derived from the published work has been acknowledged in the text and references are given in the list of reference. I also declare that I did not breach of copyright in the sense of Act. No. 121/200 Coll. on Copyright Law and Rights Related to Copyright and on the amendment of Certain Legislative Acts.

Brno, 31 August 2014

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Bc. Martin Nevídal

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TABLE OF CONTENTS

INTRODUCTION	11
PROBLEM STATEMENT, OBJECTIVES AND USED METHODS.....	12
1 REVIEW OF LITERATURE.....	13
1.1 Business Internationalisation	13
1.1.1 Process of Business Internationalisation.....	13
1.1.2 Reasons for Business Internationalisation	14
1.2 International Strategies	15
1.3 Porter's Generic Strategies	16
1.3.1 Cost Leadership Strategy	16
1.3.2 Differentiation Strategy	17
1.3.3 Focus Strategy.....	17
1.4 Foreign Market Entry Strategy	19
1.4.1 Modes of Foreign Market Entry	19
1.4.2 Factors Influencing the Choice of Market Entry Strategy	25
2 CURRENT SITUATION ANALYSIS	27
2.1 Introduction of SLUTO s.r.o.....	27
2.1.1 Basic Facts	27
2.1.2 Mission, Vision and Values	28
2.1.3 Organizational Structure	29
2.1.4 Services.....	30
2.2 PESTLE Analysis.....	31
2.2.1 Political Factors	31
2.2.2 Economic Factors	32
2.2.3 Social Factors.....	32
2.2.4 Technological Factors.....	33
2.2.5 Legal Factors.....	33
2.2.6 Environmental Factors	34
2.3 Porter's Five Forces Analysis.....	34
2.3.1 Rivalry	34

2.3.2	Threat of New Entrants	36
2.3.3	Threat of Substitutes	36
2.3.4	Bargaining Power of Suppliers	37
2.3.5	Bargaining Power of Buyers	37
2.4	Key Success Factors in F&A BPO Austrian Market.....	37
2.5	McKinsey 7S Framework	39
2.5.1	Strategy	39
2.5.2	Structure.....	39
2.5.3	Systems	39
2.5.4	Shared Values	40
2.5.5	Skills	40
2.5.6	Staff.....	40
2.5.7	Style	41
2.6	Financial Analysis	41
2.6.1	Bankruptcy Prediction Models	41
2.6.2	Financial Ratios	44
2.7	SWOT Analysis	49
3	PROPOSALS AND RECOMMENDATIONS.....	51
3.1	Market Entry Strategy in Austria	51
3.1.1	Current Situation.....	51
3.1.2	Legal Forms of Business in Austria.....	51
3.1.3	Austrian Limited Liability Company.....	53
3.2	SLUTO GmbH	54
3.2.1	Basic Facts	54
3.2.2	Mission and Vision	55
3.2.3	Marketing Mix	56
3.2.4	Organizational Structure	60
3.2.5	Financial Plan	62
3.3	Schedule	68
	CONCLUSION	70

REFERENCES	70
LIST OF TABLES AND PICTURES	77
APPENDICES	79

INTRODUCTION

Since the nineties of the last century, a number of changes have occurred in the context of world economy. These were especially the opening of Central and Eastern European markets, easier access to the markets of Asian and Latin American countries, increasing competitiveness of emerging economies (e.g. Brazil, India, Russia and China), development of modern communication technologies, new transportation systems, etc. Moreover, there were changes that forced businesses' managements to adjust their strategic thinking. There was no further possibility of savings in cost reductions in the form of streamlining production, which was the phenomenon of strategic management in the seventies and eighties of the last century, and the behaviour of customers has changed due to much better access to market information and their greater bargaining power related thereto. These and other changes have therefore led to the development of international activities of firms that had to ensure long-term value to stakeholders.

Well thought-out strategic management of businesses operating in foreign markets can improve firms' economic results and strengthen their competitiveness, because the internationalization gives them new opportunities. Operating in foreign markets is usually associated with an increase in sales and profits due to the larger number of business opportunities and, especially in case of manufacturing companies, it leads to cost reductions through economies of scale. It also allows optimizing business resources by transferring some activities to countries with more favourable specific conditions. These are very attractive potential benefits and therefore many firms took advantage of them.

However, the internationalisation of businesses does not always have to be motivated by the benefits mentioned. In the case of analysed company SLUTO s.r.o., the motivators for international expansion were different and the benefits of the internationalisation actually came as a side effect. The main reason of the company's international operation has been, in the first instance, an effort to provide economic support to company's clients, who have already decided to expand their business abroad, and who wanted to have their finance "under one roof".

Currently, the company SLUTO deals with a possibility of entering into the Austrian market for the same reason and the aim of this thesis will, therefore, be to design its suitable market entry strategy.

PROBLEM STATEMENT, OBJECTIVES AND USED METHODS

The analysed company SLUTO s.r.o. deals with the requests of its clients, whose intention is to expand in Austrian market, to provide its services in Austria, because they would like to have their finance “under one roof”. Therefore, the company management of SLUTO has already took a few steps toward the realization of foreign market entry and established cooperation with an Austrian company Hapala Consulting KG, which focuses on the similar business activities (accounting, taxes, payroll, etc.), in the form of strategic alliance. Nevertheless, this is a short – term strategy, because the intention of SLUTO management is to enter the Austrian market on its own behalf and to provide its services also to Austrian domestic customers in the recent years.

The main aim of this thesis, therefore, is to design a suitable market entry strategy of SLUTO in Austria.

To achieve the main aim of the thesis, the following partial objectives have been set out:

1. to process a review of literature on the issue,
2. to analyse the current situation of SLUTO and its business environment,
3. to propose and recommend suitable market entry mode, strategy and schedule for starting the Austrian business, following the results of analysis previously processed.

To achieve the results of the stated aim and partial objectives, the following methods will be used: PESTLE analysis, Porter’s Five Forces analysis, McKinsey 7S Framework, financial analysis (bankruptcy prediction models and financial ratios), SWOT analysis, Gantt chart and other methods if necessary.

1 REVIEW OF LITERATURE

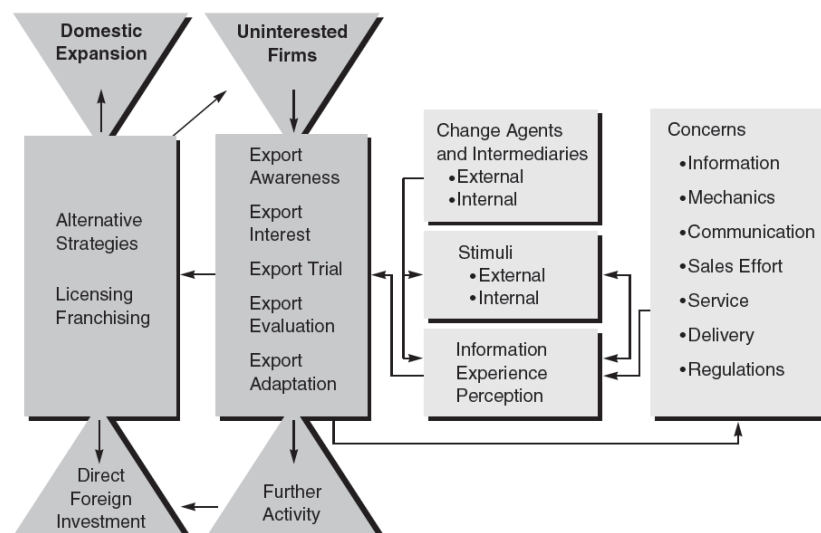
1.1 Business Internationalisation

There are many definitions that explain the business internationalisation and therefore it's very difficult to choose one. However, the common idea of all of them is that it's a process of increasing involvement of a business in international markets (Susman, 2007). In practise, the business is called multinational company (MNC) or multinational enterprise (MNE) and usually it's termed so in case of operation in more than one country.

1.1.1 Process of Business Internationalisation

Consequently, the same problem occurs with the process of business internationalisation theories. There is a plethora of view of the matter. According to Machková (2009), the Perlmutter's EPRG Model, Product Life-Cycle Theory by Vernon, "Uppsala-Model" of Johanson and Vahlne and so-called OLI Framework by Dunning are the most important theories that influenced the perception of the problem within the academic community.

In spite of differences, which the numerous theories provide, Czinkota et al. (2004) state that all the MNCs tend to follow certain patterns as they move beyond their own borders and suggest their own model of the typical process of internationalization – see the Picture 1.



Picture 1: A Model of the Internationalization Process

(adopted from Czinkota et al., 2004, p. 12))

1.1.2 Reasons for Business Internationalisation

The main reasons why MNCs internationalise are (Berndt et al., 2007):

- a) *economic* and *non-economic* reasons,
- b) “*defensive*” and “*offensive*” reasons,
- c) reasons oriented by *resources (funds)*, *production* and *sales*.

Ad a) *Economic reasons* include efforts to achieve profit, revenue growth, market share etc. *Non-economic reasons* are for example need to gain “social image”, power and influence.

Ad b) *Offensive reasons* arise when there is a unique competitive advantage (based on e.g. qualitative advantage), which can be further applied in international markets in order to exploit the market potential. On the contrary, when a MNC stabilizes its threatened domestic production by the foreign production or if a MNC goes international, because it has to follow its competitors, it’s called *defensive reasons*. Czinkota et al. (2004) indicate these reasons as proactive and reactive motivations to internationalise – see the Table 1.

Table 1: **Why Firms Go International** (Czinkota et al., 2004, p. 14)

Proactive Motivations	Reactive Motivations
▪ Profit advantage	▪ Competitive pressures
▪ Unique products	▪ Overproduction
▪ Technological advantage	▪ Declining domestic sales
▪ Exclusive information	▪ Excess capacity
▪ Managerial urge	▪ Saturated domestic markets
▪ Tax benefit	▪ Proximity to customers and ports
▪ Economies of scale	

Ad c) Reasons for internationalization oriented by *funds* arise e.g. when the MNC secures supply of certain cost effective materials through international cooperation. The reasons oriented by *production* are associated with lower production costs and transfer of production abroad. *Sales* reasons are connected with the sale of production abroad.

1.2 International Strategies

Barlet and Ghoshal (2002) introduced four basic strategies of MNCs for operating in foreign markets:

- global strategy,
- multinational strategy,
- international strategy,
- transnational strategy.

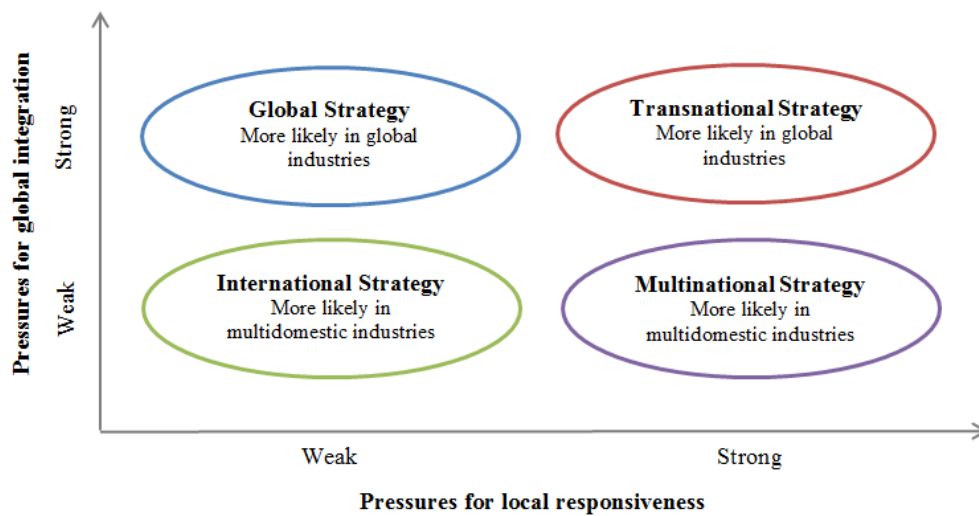
Each of these strategies has a specific characteristic and can be also defined by a certain level of global integration and local responsiveness – see the Table 2 and Picture 2.

Table 2: **Organisational Characteristics of MNCs** (Barlet and Ghoshal, 2002)

Organizational Characteristics	Global	Multinational	International	Transnational
Configuration of assets and capabilities	Centralized and globally scaled	Decentralized and nationally self-sufficient	Sources of core competencies centralized, others decentralized	Dispersed, interdependent, and specialized
Role of overseas operations	Implementing parent company strategies	Sensing and exploiting local opportunities	Adapting and leveraging parent company competencies	Differentiated contributions by national units to integrated worldwide operations
Development and diffusion of knowledge	Knowledge developed and retained at the centre	Knowledge developed and retained within each unit	Knowledge developed at the centre and transferred to overseas units	Knowledge developed jointly and shared worldwide

According to Tyll (2014), every MNC should have a strategic outlook towards managing its international activities and balance of the potential needs of global integration and global differentiation in order to secure its competitiveness. However, it's also very important to take into account that often it's very difficult to classify a company by one of these strategies, because in many cases there is a mixture of them. For example McDonald's, which is well known for its global strategy, had to adjust its strategy e.g. in

Indian markets, because it would be inappropriate to sell pork there due to the religious reasons.



Picture 2: Integration / Responsiveness Framework (based on Helienek, 2013)

1.3 Porter's Generic Strategies

Porter's theory of generic strategies, which is universally applicable (regardless of the specific industry) and independent of the particular company, product or service, describe how to pursue competitive advantage (and how to become successful) across the market scope in long term period. He states 3 basic strategies (Porter, 1980):

- cost leadership strategy,
- differentiation strategy,
- focus strategy.

1.3.1 Cost Leadership Strategy

In cost leadership strategy, a firm sets out to become the low cost producer in its industry. The sources of cost advantage are varied and depend on the structure of the industry. They may include the pursuit of economies of scale, proprietary technology, preferential access to raw materials and other factors. A low cost producer must find and exploit all sources of cost advantage. This strategy is therefore suitable in markets where the demand is price-elastic and is very close to perfect competition. The condition to produce "standard products" to "standard customers" should ensure success in the market (Porter, 1980).

On the contrary, it's important to take into account the possible risks of cost leadership strategy (Keřkovský, Vykypěl, 2006):

- technological changes devaluing the past investments or knowledge,
- low cost of a new competition due to the imitation of our strategy or investments in the latest technology,
- inability to affect the desired changes on the product because of enormous costs,
- customers' interest in competitors' products,
- cost inflation, which narrows the firm's ability to maintain adequate price difference.

1.3.2 Differentiation Strategy

The nature of differentiation strategy is to offer the customer a product, for which the customer is willing to pay more than to others, because the product is unique in comparison with the competition. The firm that pursue the differentiation strategy is usually the leader in the market that comes with new products / innovations / features. Moreover, there are other forms of differentiation: design or brand image, technology, customer service, sales network or any other means. Differentiation creates anti-competitive rivalry because customers are loyal to the proven brand and are less sensitive to prices (Porter, 1980).

As it is in the case of cost leadership strategy, differentiation strategy is threatened by several risks (Keřkovský, Vykypěl, 2006):

- differences in costs between the cost leadership competitors and competitors pursuing the differentiation strategy may be too large to maintain the customer loyalty to the brand,
- customers can forgo some features, services or image of the product to achieve cost savings,
- customers' needed of differentiating factor decreases (smarter consumer behaviour),
- imitation reduces the level of differentiation as the industry is more advanced.

1.3.3 Focus Strategy

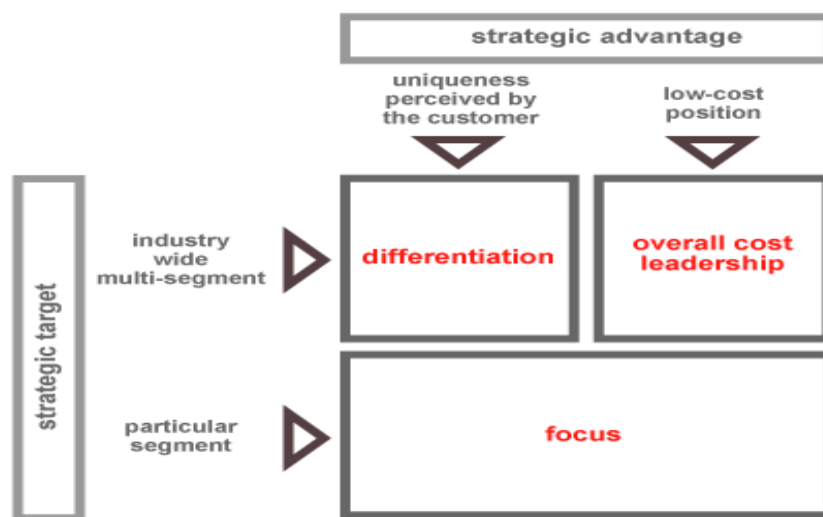
In general, the aim of focus strategy is to focus on a specific group of customers, product or geographic market. This strategy is based on the assumption that the company is able to achieve its chosen strategic objectives more effectively and efficiently than competitors

who deal with a wider range of activities. There are two variants of focus strategy. The cost-focus strategy seeks to benefit from the lowest cost in the target segment, while the differentiation-focus strategy aims to the differentiation (Porter, 1980).

There are some risks of focus strategy as well as in case of other strategies (Keřkovský, Vykypěl, 2006):

- difference in costs between competitors across the market increases so much that it eliminates the cost advantage deriving from focusing on a narrow customers, product or market,
- differences in the products or services between the focused objectives and the market itself are smaller,
- competitors find submarkets within the market of the strategic objective and completely negate the effect of concentrating the attention on focused customers, product or market.

All types of Porter's generic strategies are illustrated in Picture 3 according to the level of strategic target (industry wide multi-segment or particular segment) and competitive (strategic) advantage (lower cost, higher cost/differentiation).



Picture 3: **Generic Strategies** (adopted from McCubbrey, 2009, p. 65)

1.4 Foreign Market Entry Strategy

According to Koráb et al. (2007), the foreign market entry strategy is one of the possible “market-intense” strategies. They claim that this strategy is usually chosen in these circumstances:

- there are “promising” distribution channels on the new market or the barriers to enter the market are low,
- the company business is becoming global,
- the company is successful in the existing markets,
- existing market is in the phase of decline or is not so attractive anymore,
- there is unused production capacity in the company or human and financial resources available.

1.4.1 Modes of Foreign Market Entry

Foreign market entry strategy is connected with a large number of modes how to become international. These are the most important of them: exporting, contractual arrangements – licensing and franchising, cooperative strategies – strategic alliances, acquisitions and mergers, joint ventures, and wholly owned subsidiaries.

Exporting

Exporting is a process of selling goods or services produced in one country to other countries. It’s a dominant type of international activity for many firms because it requires the least investment overseas (Berndt et al., 2007).

The classical models of internationalisation suggest initiating exporting activities in countries that are very similar to the firm’s domestic market, but today’s exporting activities use various alternative methods of exporting and therefore this condition is not usually followed (Gurau and Ranchhod, 2007).

Table 3: **Advantages and Disadvantages of Exporting** (Ljubownikow, 2013)

Advantages	Disadvantages
<ul style="list-style-type: none"> ▪ No need for operational facilities in host country 	<ul style="list-style-type: none"> ▪ Lose any location advantages in the host country
<ul style="list-style-type: none"> ▪ Economies of scale in the home country 	<ul style="list-style-type: none"> ▪ Dependence on export intermediaries
<ul style="list-style-type: none"> ▪ Internet can facilitate exporting marketing opportunities 	<ul style="list-style-type: none"> ▪ Exposure to trade barriers
	<ul style="list-style-type: none"> ▪ Transportation costs

Licensing

Licensing allows a company to exploit the financial value of its intangible property such as patents, copyrights, trademarks, managerial skills, technology, procedures and others that can make it possible for the licensee to manufacture and sell in the host country a similar product to the one the licensor has already been producing and selling in the home country without requiring the licensor to open a new operation overseas (Gurau and Ranchhod, 2007).

Licensing is usually used in countries where the competition is too intense to create a subsidiary. The licensor earnings usually take forms of one time payments, technical fees and royalty payments, ordinarily calculated as a percentage of sales (Machková, 2009).

Table 4: **Advantages and Disadvantages of Licensing** (Ljubownikow, 2013)

Advantages	Disadvantages
<ul style="list-style-type: none"> ▪ Contractual source of income 	<ul style="list-style-type: none"> ▪ Difficult to identify good partner
<ul style="list-style-type: none"> ▪ Limited economic and financial exposure 	<ul style="list-style-type: none"> ▪ Loss of competitive advantage
	<ul style="list-style-type: none"> ▪ Limited benefits from host nation

Franchising

Franchising is a contractual relationship that is established between the parent (franchisor) and the individual who buys the business unit (franchisee) to sell a given product or conduct business under its trademark. The franchisor provides franchisee its extensive direction on how to operate the business – its know-how including the management system, all the services, trading and technical help etc. – for contractually set royalty (Ljubownikow, 2013).

Currently, the franchising is used especially by businesses that focus on retailing, hotels, fast food, gas stations etc. The industrial franchising is often connected with the right to produce. This is usually the production of less technology-intensive products, such as food products, clothes and shoes. The development of franchising is given by the advantageous form of cooperation for both large and small businesses. For the large ones the franchising represents rapid internationalization without excessive demands on capital resources and reduced risks associated with enter on foreign markets. For small businesses it's a possibility of limiting business risks and low levels of bankruptcy (Machková, 2009).

Strategic Alliances

Strategic alliances are formal or informal agreements between two or more companies from different countries that enable them to coordinate their business operations, exchange information, knowledge or technology, or collaborate on specific projects (Gurau and Ranchhod, 2007).

Berndt et al. (2007) distinguish 3 main kinds of strategic alliances:

- *horizontal cooperation*, which is formed by businesses from the same industry,
- *vertical cooperation*, which is characterized as a cooperation with suppliers, customers and distribution partners,
- *conglomerate, or diagonal cooperation*, which consists of partners from totally different industries.

The reasons for creating strategic alliances are many and varied. Some of them are e.g. (Gurau and Ranchhod, 2007):

- *stabilisation market shares* – large competitors in an oligopolistic market create informal (and usually illegal) agreements,
- *reduction of costs and risks or creation of economies of scales* – two or more MNCs, usually in high-tech sectors, such as biotechnology and pharmaceuticals, that share the costs of the research and development,
- *penetration into the foreign market* – using the facilities and knowledge of overseas partners.

According to Ljubownikow (2013), there are a few limitations of strategic alliances:

- reluctance to commit enough resources,
- difficulty of managing cooperative arrangements,
- risks of leakage of proprietary technology creating more powerful competitors,
- difficulty in producing quantifiable and balanced reward for all partners,
- in “mentor-protégé” relationship, the balance of power can shift of weaker partner, causing “senior” partner to withhold resources.

Acquisitions

The acquisition of a company is the purchase or takeover of one company (the target) by another (the acquirer, or bidder).

There are a 2 main types of acquisitions (Machková, 2009):

- *friendly takeover* – the aim of acquisition is strengthen of the acquirer and benefiting from synergy effects,
- *unfriendly takeover* – the aim of acquisition is liquidation of competition.

Mergers

Merger is a legal consolidation of two or more independent businesses into a new legal entity (Machková, 2009).

There are 3 kinds of mergers (Machková, 2009):

- *horizontal merger* – merger of businesses from the identical industry; it’s main benefit are economies of scale and increase market share,
- *vertical merger* – the aim of the merger is strengthen control of suppliers and customers,

- *conglomerate merger* – merger of businesses from the different industries, whose aim is diversification of business activities and associated risks.

Joint Ventures

Joint ventures are agreements realised between two or more companies, often between a domestic and a foreign one, to pursue common strategic objectives by creating a new entity. The aim of joint ventures is to combine the strengths and experience of both partners – e.g. foreign partner may offer funds or brand and the domestic one may offer better knowledge of the local market (Gurau and Ranchhod, 2007).

In comparison with strategic alliances, the joint ventures have less flexibility due to the increased commitment from the partners. Many joint ventures are short-lived because of the potential conflicts that can occur between partners, which are often marked by clashes of national and organisational cultures (Gurau and Ranchhod, 2007).

Table 5: **Advantages and Disadvantages of Joint Ventures** (Ljubownikow, 2013)

Advantages	Disadvantages
▪ Shared investment risk	▪ Difficult to find a good partner
▪ Complementary resources	▪ Relationship management
▪ May be required for market entry	▪ Loss of competitive advantage
	▪ Difficult to integrate and coordinate

Subsidiary

Subsidiary is a business, which is used to expand the activity of a parent company in overseas country by establishing a direct presence in the target market, while the subsidiary's stock is usually more than 50% controlled by the parent company (Gurau and Ranchhod, 2007).

If a parent company owns a foreign subsidiary, the company, under which the subsidiary is incorporated, must follow the laws of the country where the subsidiary operates, and

the parent company still carries the foreign subsidiary's financials on its consolidated financial statements. For the purposes of liability, taxation and regulation, subsidiaries are distinct legal entities (Shenkar and Luo, 2008).

According to Berndt et al. (2007), there are several motives connected with establishing a subsidiary:

- circumvention of tariff and non-tariff trade barriers,
- comparative expenditure benefits (cheaper raw materials or foreign labour),
- lower transport costs,
- circumvention of potential consumer patriotism ("buy national"),
- use of investment incentives,
- intense relationship with the authorities, customers, suppliers and domestic traders,
- better management and control of business activities "on the site".

On the contrary, there are also shortcomings such as high capital costs and costs associated with managing of a company as well as more political and economic risks (Berndt et al., 2007).

Branch

A branch (branch office) is a location, other than the main office, where the business of a company is conducted. It is not considered as a distinct legal entity from the foreign company, whereas a subsidiary is regarded as an independent business. From a practical point of view, the branch is “an extension” of the parent company – it can conduct transactions, hire staff, send profits back home etc., but it cannot act by itself and has no board of directors (Berndt et al., 2007). Below, the main differences between branch and subsidiary are provided.

Table 6: **Comparison of Branch and Subsidiary** (based on Berndt et al., 2007)

	Branch	Subsidiary
▪ Legal Type	Not a separate legal entity but an extension of the parent company	Separate legal entity distinct from its parent company
▪ Liabilities	Liabilities extend to parent company	Liabilities limited to subsidiary
▪ Taxation	Taxed as non-resident entity, local tax benefits not available	Taxed as domestic resident entity, local tax benefits available
▪ Profit / Loss	Included in the head office's (parent company's) income statement.	Generally not included in the parent company's income statement.
▪ Transfer Pricing Issues	High risk	Low risk

1.4.2 Factors Influencing the Choice of Market Entry Strategy

As stated above, there is a variety of strategies (market entry modes) for running the international business. The enter into new market is often connected with adaptation of number of specific features of international markets, various demands on the business, marketing and financial capacity, expansion of production capacity, adjustments of production program target markets, changes in human resources, etc. Therefore, before making a decision about entering the foreign market, the company should assess the internal and external factors influencing the entry (Machková et al., 2010).

Machková et al. (2010) state these factors (conditions of external and internal environment) to take into account when entering the new market:

- *political environment* – political system and stability, the membership of the country in various economic groups, political ties to other states, corruption, special interest groups,
- *economic environment* – economic growth, inflation, unemployment, industrial production growth, development of investments, balance of payments, demographic development, living standards, etc.,

- *business and political conditions* – customs and foreign exchange regimes, exchange rate policy, barriers to market entry,
- *legal environment* – stability and credibility of the legislative environment, conditions for foreign businesses, conditions for employing foreigners, the possibility of buying real estate and land, repatriation of profits, property control, etc.,
- *characteristics of the product* - what type of product will be sold,
- *characteristics of trading partners* – the legal form of the company, market position, reference, ownership structure, liability, etc.,
- *effectiveness of selected forms of business* - of costs and risks incurred, return on investment, expected profit.

According to Berndt et al. (2007), these are the most important influencing factors, which were confirmed also by empiric researches within the MNCs, when entering international markets:

- new/foreign market potential,
- accessibility of new markets,
- political stability and administrative burden in the given market,
- competitive intensity and risk of imitation of products,
- uncertainty related to future earnings,
- tax differences between home and host country,
- price differences compared to local companies.

All these factors, and many others, influence business environment (external as well as the internal one), and therefore it is necessary to analyse them to get basis for possible proposals of business strategy (Jakubíková, 2008).

2 CURRENT SITUATION ANALYSIS

2.1 Introduction of SLUTO s.r.o.

SLUTO s.r.o. (SLUTO) is a Czech outsourcing company, which was established in 2000 as a successor to an association of individuals (natural persons) engaged in accounting and taxes, which was founded in 1992. Currently, the company focuses on wider range of activities, employs an average of approximately 25 employees and greatly expanded the portfolio of clients. Since 2011, the company is registered in the Chamber of Tax Advisers of the Czech Republic. Apart from tax advisory, it outsources services such as accounting, payroll accounting, administration, legal representation, accounting IS technical support etc. SLUTO operates in the Czech Republic (headquarters in Prague, a branch in Brno) and Slovakia since 2011 (a branch in Bratislava) and there is an effort to expand also in other European countries, while Austria and Poland should be covered as the first ones (SLUTO, 2014).

2.1.1 Basic Facts

Below, the publicly available information about the company are provided (MFCR, 2014).

Company Name: SLUTO s.r.o.

Company Headquarters: Týnská 1053/21, 110 00 Praha 1, Czech Republic

Legal form: Limited Liability Company

Identification number: 25595318

Tax identification number: CZ25595318 (VAT payer)

Date of Registration: 28/03/2000

Scope of Business:

- Bookkeeping and Tax Accounting,
- Accounting Advisory,
- Tax Advisory,
- Production, Trade and Services Not Specified in Annexes 1-3 of Trade Act (*Brokering services; Wholesale and retail trade; Providing software, IT consultancy, data processing, hosting and related activities, web portals; Advisory and consultancy,*

expert studies and reports; After-school education, organization of courses and trainings, including instructor services)

Statutory Authority:

- Ing. Tomáš Slavík, executive head,
- Ing. Jitka Schlagmannová, executive head.

Registered Capital: CZK 200,000

Shareholders:

- Ing. Tomas Slavik
Stake: CZK 100,000; Paid: CZK 100,000; Business Share: 50%
- Ing. Jitka Schlagmannová
Stake: CZK 100,000; Paid: CZK 100,000; Business Share: 50%

2.1.2 Mission, Vision and Values

The mission of SLUTO s.r.o. is based on company's motto: "not just accounting". It means that company supports its clients in broad portfolio of services far beyond the "regular" accounting treatment. In other words, SLUTO gets rid of its clients of unnecessary (administrative) duties so that they can devote their time to their business (SLUTO, 2014).

The company's vision follows its motto – it's to become a successful consulting company in the industry that is markedly different from its competitors in its scope of services, approach and care, while maintaining the high efficiency inside the company (SLUTO, 2014).

SLUTO promotes the following values (SLUTO, 2014):

- *savings* – saving client's time and money,
- *confidence* – convenience, individual approach, long experience in the area of activity,
- *guarantee* – responsibility for flawless results, guarantee for the services, insurance against mistakes,
- *flexibility* – modern equipped offices, utilization of the latest technology, adaptability on customers' needs

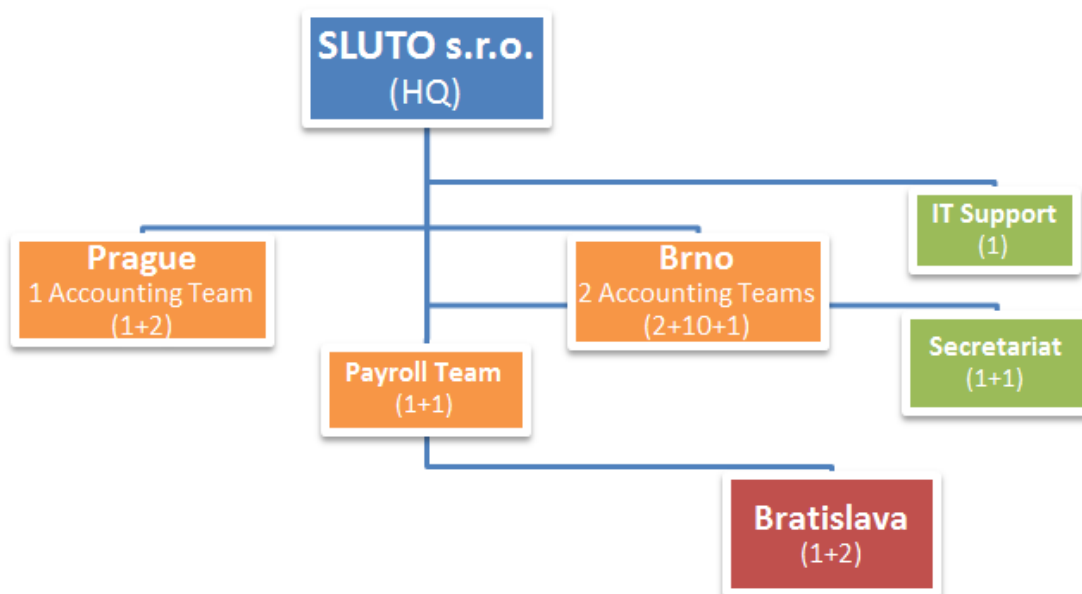
- “*across the branches*” – providing services regardless of number of customers’ branches and location their office, effort to cover the territory in other European countries in accordance with needs of clients.

2.1.3 Organizational Structure

The organizational structure of SLUTO is quite complicated because of interdependence between all the departments in the company. As it was stated above, the company headquarters (HQ) is located in Prague and consists of 2 persons, who are executive heads, managing directors and shareholders at the same time. All the departments are under the control of HQ and have their own “middle management”. The company employs an average of approximately 25 employees.

The Czech division consists of Prague HQ (1 team leader + 2 accountants) and Brno branch (2 team leaders, 10 accountants, 1 part-time employee) and Payroll Team (1 team leader, 1 accountant), which is located in Brno and keeps payroll accounting for all the Czech clients. The Slovak division consists of 1 team leader, 1 accountant and 1 part-time employee.

Secretariat and IT Support are special departments, which work across the entire company and are connected both the Czech and Slovak division.



Picture 4: **Organizational Structure** (own work)

2.1.4 Services

As stated above, SLUTO focuses on a broad range of activities following its motto “not just accounting”. The services that company offers are listed below (by (SLUTO, 2014)).

- **Accounting**

There are 4 main types of accounting services provided: external accountant, internal accountant, online accounting externally and online accounting internally. The difference between the mentioned types lies in the place of processing the documents (company’s office, customer’s office) and information system (IS), in which the bookkeeping is processed (in client’s IS, company’s IS). Every customer can choose an option, which is adjusted to its requirements, asking price and offered in accordance with presented advantages and disadvantages of each possibility.

- **Payroll Accounting**

Payroll accounting operates on essentially the same principle as the previous one – there are the same 4 main types of providing services.

- **Tax Advisory**

Tax advisory is usually included in the accounting services, but there is a possibility of providing additional services in the area of taxes in case of client’s needs and requirements. SLUTO s.r.o. is registered in the Chamber of Tax Advisers of the Czech Republic that ensures high quality in tax services.

- **Legal Services**

Legal services are mainly provided in cases such as representation in negotiations with government offices and design and implementation of internal directives (guidelines). SLUTO also provide the services of external legal advisor.

- **Administration Services**

Administration services include operations with client’s data mail box, statistical reporting (INTRASTAT, CSO etc.), keeping stock records, rental of meeting or training rooms, IT services (hosting of economic IS, administration of client’s IT), etc.

- **Support in Customers’ Business Activities**

Support in customer’s business activities contains services such as support in establishment of a new company, sales of Ready Made companies, providing (virtual)

headquarters/seat/office, mediation of business licenses at the Trade Licensing Office, processing the registration requirements for specific business sectors and others.

▪ **Support in Customers' Strategic Business Decisions**

These are services connected with transformation of companies (including cross-border ones) – e.g. mergers and acquisitions; revitalization and reorganization of companies, company liquidations et cetera.

2.2 PESTLE Analysis

PESTLE analysis will consider political, economic, social, technological, legal and environmental factors that can somehow affect the external business environment of SLUTO s.r.o. in terms of its market entry in Austria.

2.2.1 Political Factors

Austria has been a member of the European Union (EU) since 1995. This important milestone in its history has drawn an influx of foreign investors attracted by Austria's access to the single European market, increasing international competitiveness and proximity to the aspiring economies of the European Union. In 2002, Austria became a member of the Eurozone and is therefore even closely integrated with other EU member countries. These are very important factors for SLUTO's entry due to the Czech membership in the EU and its Euro changeover plan (EUROPAINSTITUT: Fritz Breuss, 2010; European Commission, 2014).

Political situation inside Austria seems to be very favourable as well. According to the Political Stability and Absence of Violence Index (The World Bank, 2013), Austria ranked 8th in 2012 and was unchanged from 2008 (both out of 203 countries). Its ranking recovered from a period low of 18th out of 204 countries in 2011, when Freedom Party, extreme right wing political party, gained votes and prominence in the 2011 general election, bringing the possibility of potential political instability to Austria. In the last parliamentary elections, which were held in September 2013, the Freedom Party won minority of votes. Overall, however, the political situation is in a very good condition and there are basically no political factors that should prevent any firm's entry into Austrian market (Euromonitor International, 2014b).

2.2.2 Economic Factors

Austria is the 11th richest country in the world in terms of GDP per capita (\$42,597) and has a well-developed social market economy that focuses on the tertiary sector (services, banking, public services, commerce, transport, tourism), which contributes the major share to Austria's GDP with 67% (International Monetary Fund, 2013; The Austrian Foreign Ministry, 2014).

The country is open to foreign trade, which proves Austrian government that actively pursues foreign direct investment, whilst its geographic position makes it attractive as a central European hub for business operations. Total exports equated to 40.1% of total GDP in 2013, demonstrating openness, whilst FDI intensity was 1.6% of total GDP in 2012 (Euromonitor International, 2014b).

In terms of economic factors, it's important not only to take into account what the overall economic position of the country is, but also the forecast of country economic development in the coming years. According to economic outlook of the Oesterreichische Nationalbank (2014), the Austrian economy should grow by 1.6% in 2014. Exports should continue to be the main driver of the upswing in 2014, benefitting from the gradual recovery in the euro area and the moderate improvement in the global economy. Growth should accelerate to 1.9% and 2.1% in 2015 and 2016, respectively, being increasingly supported by domestic demand. HICP inflation is expected to decrease to 1.8% in 2014 and to 1.7% in 2015. According to the forecast, inflation will also remain moderate in 2016 (1.9%).

For illustration of selected macroeconomic indicators' developments, which demonstrate above mentioned claims, see Appendix 1.

2.2.3 Social Factors

Austria is a relatively small country. It has about 8.5 mil inhabitants (est. from 2014), while most of people live in small cities (villages), which have population less than 100,000 inhabitants. There are just 5 cities (est. from 2014) that are inhabited by more than 100,000: Vienna, Graz, Linz, Salzburg and Innsbruck. In general, it's better to start up a business in greater cities because of more opportunities, especially for new (foreign) entrants, and therefore the above mentioned cities appear as the most suitable for SLUTO's market entry (Statistik Austria, 2014).

Besides the demographical factors, there are also factors focused more on population's behaviour. From this perspective, the today's big "social" problem in business is corruption, which may complicate the market entry as well as the functioning of the market. Corruption could be considered as an issue in Austria because of its ranking of 26th out of 177 countries in Transparency International's Corruption Perceptions Index 2013, which was low compared to its Western European counterparts, such as the Netherlands (8th) and Belgium (15th). The corruption was investigated especially in state-owned enterprises, past monopolies (such as Telekom Austria) and banks. On the other side, the Czech Republic was ranked 57th, so the Austrian business environment may be finally perceived as "more fair" by the Czech entrepreneur (Transparency International, 2014).

2.2.4 Technological Factors

In this case, the technological factors have almost no (external) effect on assessing the entry into the Austrian market. The technology used in this industry (generally computer equipment or appropriate software) is usually accessible to the whole market without any threats, which are connected e.g. with manufacturing companies. Moreover, there is also possibility to use the same technology in domestic as well as in foreign market – often it's just a question of language interface. Technologies (technological factors) are, in this case, more important to follow from the point of view of internal business environment and firm's ability and willingness to track trends in order to increase the company's efficiency.

2.2.5 Legal Factors

By "Doing Business Project", which measures the business regulations and their enforcement for local firms across 189 economies and selected cities at the subnational level, Austria was placed 30th by the World Bank in June 2013. It compares variety of variables such as days and costs related to starting business, dealing with constructions permits, getting electricity, getting credit, etc. Overall, it could be said that the conditions for starting a business in Austria are very favourable in comparison with the Czech Republic, which is ranked 75th in the reporting period (The World Bank, 2014a).

Taxes are other key factors that are taken into account when assessing enter into a foreign market. Austria's standard corporate tax rate is 25.0% in 2014 (19.0% in the Czech

Republic) with possibility of preferential treatment for group taxation (allows companies to offset their income against losses of group entities), which is a unique feature, making Austria very attractive as a destination for company headquarters or holding companies. The total tax rate¹ equated to 52.4% of commercial profits, comparing unfavourably with the Czech Republic of 48.1%. The labour tax and contributions² were 34.7% of commercial profits versus 38.4% for the Czech Republic in 2014. There are many different tax rates and therefore it's not possible to identify, which country is "better" from the point of view of taxation. Moreover, it's important to take into consideration what kind of entry mode is chosen, because the taxation depends on it as well (Euromonitor International, 2014b).

2.2.6 Environmental Factors

Due to the nature of SLUTO's business activities, the environmental factors have virtually no impact on its macro environment and company's entry into the foreign market.

2.3 Porter's Five Forces Analysis

Porter's 5 forces analysis will consider industry forces (rivalry, threat of new entrants, threat of substitutes, bargaining power of suppliers and bargaining power of buyers), which could protect or threaten SLUTO's position in Austrian market.

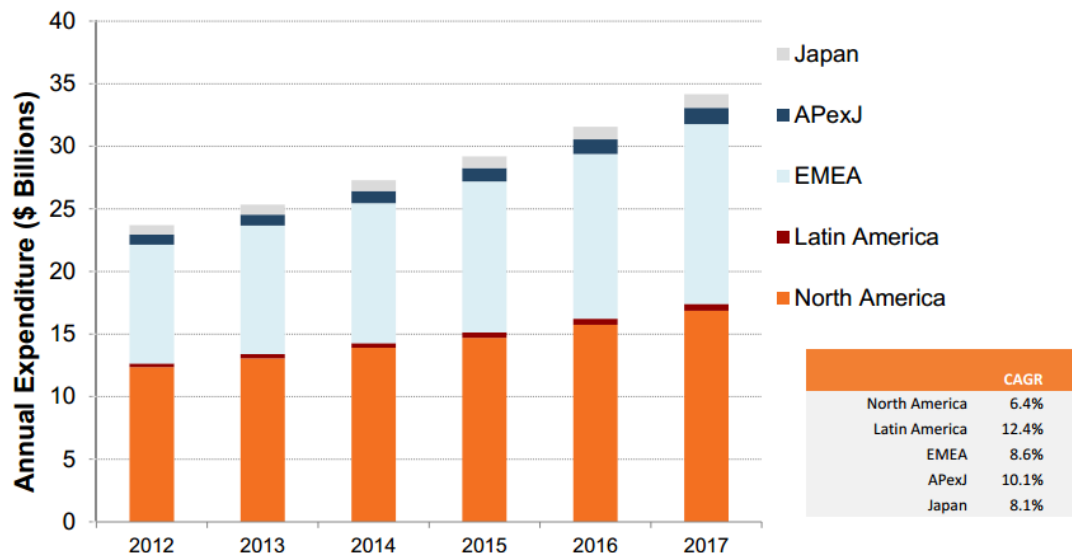
2.3.1 Rivalry

According to CBI (2013), about 45% of Austrian companies outsource their accounting and related services to specialised accounting services providers. KPMG Institutes (2013) conducted a study of Finance and Accounting (F&A) Business Process Outsourcing (BPO) world-wide market development and it was found that there is expected grow at a

¹ *Total tax rate* measures the amount of taxes and mandatory contributions payable by businesses after accounting for allowable deductions and exemptions as a share of commercial profits (The World Bank, 2014b).

² *Labor tax and contributions* is the amount of taxes and mandatory contributions on labor paid by the business (The World Bank, 2014c).

CAGR³ of about 8% in EMEA (Europe, the Middle East and Africa) between 2012 and 2017 – see the picture below. The value of grow for Austria can vary from the overall EMEA value, but positive development in F&A BPO Austrian market is evident, which is very positive in terms of market potential.



Picture 5: **F&A BPO Services Market Regional Outlook**
(adopted from KPMG Institutes (2013))

These are some of the possible competitors in the Austrian finance and accounting (F&A) business process outsourcing (BPO) market (CBI, 2014):

- *ECA Schreiner & Stiefler* – finance and accounting services provider, based in Krems (Eca-schreiner-stiefler.at, 2014).
- *Hübner & Hübner* – provider of accounting services, tax consulting, business administration and payroll accounting, based in Vienna. Hübner & Hübner cooperates with various offices across the Central and Eastern European countries (Huebner.at, 2014).

³ Compound Annual Growth Rate (CAGR) is the average year-on-year growth rate of an investment over a number of years. While investments usually do not grow at a constant rate, the compound annual return smoothes out returns by assuming constant growth (TheFreeDictionary.com, 2014)

- *Klinger & Rieger* – provider of accounting services, audit, tax advisory, payroll accounting and supplementary services, based in Salzburg (Klinger-rieger.at, 2014).
- *Mazars Austria* – large global provider (72 countries) of accounting services, audit, tax consultancy, financial risk solutions and management consulting with a branch in Vienna since 1995 (Mazars.at, 2014).
- *Partner-Treuhand* – provider of accounting services, audit, tax advisory, payroll accounting and supplementary services, based in Salzburg (Gps-treuhand.at, 2014).

The competition is obviously much wider. Above mentioned competitors are just a sample of selected companies in terms of their size and range of provided services with an emphasis on international cooperation. In practise, the competitors may include larger or smaller companies, natural persons engaged in the accounting services etc.

2.3.2 Threat of New Entrants

Following the increasing development of F&A BOP market in EMEA (see above), it can be stated that there is a great threat of new entrants – both domestic and foreign ones. Other reasons are:

- the services provided are not unique – see below.
- initial capital investment for new entrants is relatively low (businesses providing services, in general, are not capital intensive),
- government restrictions (regulations) are not an issue (see chapter 2.2.5).

2.3.3 Threat of Substitutes

The services provided by F&A outsourcing companies are not very differentiated (e.g. accounting itself and financial statements are (or should be) the same from any provider) and therefore there is a great threat of substitutes.

Basically, the supplement services provided by the entrants may be identified as the only differentiation (which is e.g. “necessary administrative work” that is usually defined as “the waste of client’s time” or additional services associated with the statutory duties) that can be simultaneously considered as an industry force that protects SLUTO’s entry

into Austrian market (see SLUTO's mission, vision & values and services provided in chapter 2.1).

2.3.4 Bargaining Power of Suppliers

The bargaining power of suppliers is very low because of the fact that there is no production in the analysed industry. The suppliers are simply only PC equipment and software providers, office equipment providers and overhead services providers that ensure the running of the offices (eventually office rentals). There is relatively large concentration of mentioned suppliers in the Austrian market as well as in the Czech one (in some cases it's possible to use the services of experienced suppliers in other countries – e.g. SW, office equipment etc.) and the switching costs are substantially zero. It can be therefore stated that the bargaining power of suppliers doesn't threaten SLUTO's entry into the Austrian market.

2.3.5 Bargaining Power of Buyers

Buyers have a great bargaining power that can threaten SLUTO's position in the market because of several reasons:

- buyer information is high as they can easily compare the prices, range of services as well as the quality (performance) of providing services (reviews, discussion forums etc.) on the Internet,
- services in the market are not very differentiated (see above),
- switching costs are relatively low.

2.4 Key Success Factors in F&A BPO Austrian Market

According to KPMG (2014) that conducted a report about the world-wide state of the outsourcing industry in 2013, it was found that enterprises, when deciding on outsourcing F&A services, are very focused on achieving operational effectiveness, namely:

- reduction of operational costs (87% of respondents),
- greater flexibility to scale operations (82% of respondents),
- process standardization (74% of respondents).

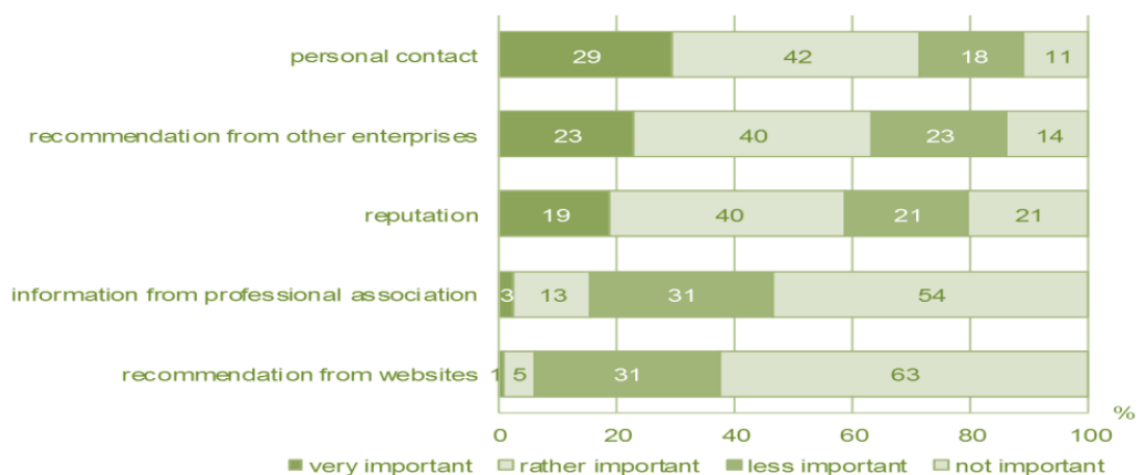
Core areas of strategic focus when outsourcing F&A services include (KPMG, 2014):

- accessing better talents (70% of respondents),
- gaining access to better technology (62% of respondents),
- improving analytical capabilities (62% of respondents).

According to CFRR (2013), the most important factors for Austrian companies in selecting an external F&A service provider are:

- personal contact – very or rather important for 71% of those respondents who use the services of external providers,
- recommendations from other enterprises – important for 63% respondents,
- reputation of the service provider – very or rather important for 59% of respondents.

In the picture below, there are the results of the mentioned question raised in the survey of CFRR (2013).



Picture 6: **The Most Important Factors When Selecting an External F&A Service Provider**
(adopted from CFRR (2013))

According to CBI (2013), important factors for the potential customers in F&A BPO market in Austria, when deciding on foreign supplier, are:

- German language skills,
- competitive and transparent pricing,
- (international) references,
- specialisation,

- cultural differences and proximity.

2.5 McKinsey 7S Framework

McKinsey 7S Framework will consider the factors affecting the internal business environment of SLUTO such as strategy, (organizational) structure, (information) systems, shared values, skills, staff and (leadership) style.

2.5.1 Strategy

The “strategy” factor in 7S analysis is essentially a plan how to achieve sustained competitive advantage and how to successfully compete in the market. In this context, therefore, the company’s mission and vision can be taken into account. As it was already stated in chapter 2.1.2, “the philosophy” of the company is based on motto “not just accounting”, which means that company supports its clients in broad portfolio of services far beyond the “regular” accounting treatment. And this is basically what makes SLUTO different from the other competitors and what their principal competitive advantage is.

2.5.2 Structure

The (organizational) structure of SLUTO is described in detail in chapter 2.1.3.

2.5.3 Systems

The daily activities in SLUTO are extensively conditioned by the information systems used in the company. There are 4 basic information systems: CRM software BMD, accounting software POHODA, software for creating forms and electronic filing FORM studio and office suit MS Office (Slavík, 2014).

BMD primarily maintains the data about the customers and suppliers of the company – it’s the administration of contact details. In addition, BMD handles other features such as office administration, management of workflows that supports the company’s processes, integrated system of clients’ documents archiving etc.

POHODA allows the company to perform its main activities – bookkeeping and payroll accounting. POHODA is divided into various parts (agendas), such as bookkeeping, invoicing, payroll accounting, property and others and it can also create financial statements, VAT (and other) tax returns etc. POHODA is the main accounting system and most of SLUTO’s accountants work and spend most of time on it.

FORM studio is software designed for creating tax forms and other forms for communication with authorities, such as tax offices, state administration, insurance companies etc. It is also possible to electronically communicate with the authorities via “data box” in FORM studio.

MS Office is primarily used for communication with the customers via e-mail client Microsoft Outlook. The other most used programs are the text editor Microsoft Word, and Microsoft Excel spreadsheet (Slavík, 2014).

2.5.4 Shared Values

SLUTO’s shared values are: savings, confidence, guarantee, flexibility and “across the branches” and are described in detail in chapter 2.1.2.

2.5.5 Skills

The actual skills and competencies of the employees working for the company substantially correspond with the services that SLUTO provide its customers – see the chapter 2.1.4.

A lot of them are, moreover, proved by membership in professional organizations, such as The Chamber of Tax Advisors of the Czech Republic, Chamber of Certified Accountants of Czech Republic, Brno Regional Chamber of Commerce, Confédération Fiscale Européenne, Chamber of Certified Accountants of Slovak Republic etc., which should guarantee high expertise in performed activities.

On the other side, there are also some shortcomings in employees’ skills, such as lack of foreign languages knowledge. Company, whose intention is to provide services across the European Union, should therefore focus on it and motivate employees to improve their language skills e.g. by (partial) payment of language courses.

2.5.6 Staff

SLUTO employs an average of approximately 25 employees, so according to the classification of EU standards it’s a small company. Thanks to such a small number of employees, everyone knows each and therefore the interpersonal relationships are well-disposed (Slavík, 2014).

Executives as well as the most of other SLUTO employees have a degree in accounting, tax consulting, corporate finance and business. The company management seeks to participate in regular courses and seminars especially regarding the legislative updates, both at national and international level, in order to ensure the professionalism of the company as a whole.

2.5.7 Style

SLUTO is led by 2 persons, who are executive heads, managing directors and shareholders at the same time, and 6 other middle managers, who lead accounting teams across the branches.

The leadership style in SLUTO may be characterised as participative – the managing directors as well as the middle managers do not interfere in work of “regular” employees a lot. They assess the work done, tell them what they did well or wrong and what to avoid next time. The managers are kind of advisors, who encourage team members to participate and discuss, while the responsibility and final decisions are made by themselves (Slavík, 2014).

2.6 Financial Analysis

Financial analysis will be focused on bankruptcy prediction models and selected financial ratios based on information gathered from financial statements of SLUTO for the years 2011, 2012 and 2013.

2.6.1 Bankruptcy Prediction Models

In terms of bankruptcy prediction models, the Altman Z-Score, Index IN05 and Kralicek Quicktest will be processed in order to ascertain SLUTO’s financial standing.

Altman Z-Score

For calculation of Altman Z-Score values in reporting period, the following formula has been used (Růčková, 2010):

$$Z = 0.717 X_1 + 0.847 X_2 + 3.107 X_3 + 0.42 X_4 + 0.998 X_5$$

X_1 = Working Capital / Total Assets,

X_2 = Retained Earnings / Total Assets,

X_3 = EBIT / Total Assets,

$X_4 = \text{Registered Capital} / \text{Other Sources},$

$X_5 = \text{Total Sales} / \text{Total Assets}.$

In the table below, the values of calculated Altman Z-Score are provided. According to the interpretation of Altman Z-Score by Sedláček (2009), SLUTO is in “grey zone” in the reporting period (which is defined by the range $1.2 < Z \leq 2.9$ and means that distress may or may not be impending). However, because of the fact that the values are approaching 2.9, it could be said that there is not probability that SLUTO will go into bankruptcy in the coming years.

Table 7: **Altman Z-Score** (own work)

	2011	2012	2013
Working Capital / Total Assets	0.80	0.63	0.66
Retained Earnings / Total Assets	0.43	0.20	0.30
EBIT / Total Assets	0.09	0.28	0.20
Registered Capital / Other Sources	0.05	0.04	0.04
Total Sales / Total Assets	1.64	1.17	1.54
Altman Z-Score	2.88	2.69	2.89

Index IN05

Index IN05, which is an adjusted value and bankruptcy prediction model for the Czech economy, has been calculated as follows (Vochozka, 2011):

$$\begin{aligned} \text{IN05} = & 0.13 \times \frac{\text{Total Assets}}{\text{Other Sources}} + 0.04 \times \frac{\text{EBIT}}{\text{Interest Expense}} + 3.97 \times \frac{\text{EBIT}}{\text{Total Assets}} + 0.21 \times \\ & \times \frac{\text{Total Revenue}}{\text{Total Assets}} + 0.09 \times \frac{\text{Current Assets}}{(\text{Short-Term Payables} + \text{Short -Term Bank Loans})} \end{aligned}$$

The interpretation of Index IN05 is very similar to Altman Z-Score. It differs only in the values of each “zones” – “grey zone” is defined by the range $0.9 < \text{IN05} \leq 1.6$ (Vochozka, 2011). As it’s evident from the table below, SLUTO was in “grey zone” in 2011 and since 2012 it has been in the category of “value creation”. It indicates that SLUTO has been in good financial standing, which was mainly caused by increasing sales and associated profits in 2012 and 2013.

Table 8: **Index IN05** (own work)

	2011	2012	2013
Total Assets / Other Sources	2.05	1.79	1.86
EBIT / Interest Expense	3.95	11.50	8.28
EBIT / Total Assets	0.09	0.28	0.20
Total Revenue / Total Assets	1.35	1.45	1.59
Current Assets / (Short-Term Payables + Short-Term Bank Loans)	1.78	1.56	1.65
Index IN05	1.24	2.26	1.84

Kralicek Quick Test

Kralicek Quick Test is based on the numerical evaluation of indicators representing the four basic areas of financial analysis – financial stability, liquidity, profitability and profit (loss). These indicators are (Sedláček, 2009):

- Self-Financing Ratio = *Equity / Total Assets*,
- Period of Debt Repayment From Cash Flow = *(Other Sources - Short-Term Financial Assets) / Balance Cash Flow*,
- ROA = *EBIT / Total Assets*,
- Cash Flow as a Percentage of Sales = *Net Cash Flow / Sales*.

For calculation of Kralicek Quick Test overall rating, the values of given indicators were, first of all, classified according to the Table 9 (see below). Then, the arithmetic average of obtained points from the financial stability area (which is the 1st and the 2nd indicator) and profit (loss) area (which is the 3rd and 4th indicator) were calculated. Finally, the overall rating was calculated as the arithmetic average of financial stability area and profit (loss) area obtained values.

Table 9: Numerical Evaluation of Kralicek Quick Test Indicators (Sedláček, 2009)

Indicators	Excellent	Very Good	Good	Bad	Threatened with Insolvency
	1 point	2 points	3 points	4 points	5 points
Self-Financing Ratio	> 30%	> 20%	> 10%	> 0%	negative
Period of Debt Repayment From CF	< 3 years	< 5 years	< 12 years	> 12 years	> 30 years
ROA	> 10%	> 8%	> 5%	> 0%	negative
CF as a Percentage of Sales	> 15%	> 12%	> 8%	> 0%	negative

According to the interpretation of Kralicek Quick Test by Sedláček (2009), SLUTO was in very good or good financial condition in the reporting period (see below). The worse result in 2011, in comparison with the following years, was caused primarily by increase in receivables that significantly affected the indicator “CF as a Percentage of Sales”. SLUTO’s overall rating is, however, still very good and there is not a threat of insolvency.

Table 10: Kralicek Quick Test (own work)

	2011	2012	2013
Self-Financing Ratio	51.22%	44.06%	46.13%
	<i>1 pt.</i>	<i>1 pt.</i>	<i>1 pt.</i>
Period of Debt Repayment From CF [years]	6	3	6
	<i>3 pts.</i>	<i>2 pts.</i>	<i>3 pts.</i>
ROA	9.32%	28.28%	19.85%
	<i>2 pts.</i>	<i>1 pt.</i>	<i>1 pt.</i>
CF as a Percentage of Sales	-22.05%	1.96%	0.29%
	<i>5 pts.</i>	<i>4 pts.</i>	<i>4 pts.</i>
Overall Rating	2.75	2	2.25

2.6.2 Financial Ratios

Analysis of selected financial ratios will be compiled in accordance with the interpretation of various authors (see below) and methodology of industry analysis of the Ministry of Industry and Trade of the Czech Republic (MITCR, 2014), the follow-up to the annual reports of the Czech Statistical Office.

The values of selected ratios will be compared in the context of the industry breakdown by the analyses of MITCR (2014) - namely with the values corresponding with classification of economic activities "CZ-NACE", group 69, "Legal and Accounting Activities". Industry comparison will be made only for selected ratios due to the lack of data provided.

Profitability Ratios⁴

Apart from the ROS 2011 ratio, SLUTO has managed to maintain all profitability ratios values well above the industry averages (see the Table 11). It was caused primarily by large annual increases in sales by 23% in 2012 and 13% in 2013, which led to the huge increase in profits that consequently affected the profitability ratios. In addition, the sales were managed to increase while maintaining low level of costs (virtually unchanged) and assets, which is below the industry level (see Appendix 2 for detailed financial statements of SLUTO). Overall, it can be therefore stated that the profitability of SLUTO Czech business is very high.

Table 11: **Profitability Ratios of SLUTO & Industry Averages**
(own work based on MITCR (2014))

	2011		2012		2013	
ROE (<i>EAT/Equity</i>)	9.76%	4.89%	47.97%	5.66%	29.95%	12.85%
ROA (<i>EBIT / Total Assets</i>)	9.32%	5.19%	28.28%	4.04%	19.85%	5.71%
ROS (<i>EBIT/Sales</i>)	5.69%	6.71%	24.15%	3.88%	12.91%	5.42%

SLUTO vs. *MITCR Industry Analyses*

Liquidity Ratios & Working Capital⁵

According to Vochozka (2011), the acceptable current ratio should vary from 1.6 to 2.5 and should not fall below 1. SLUTO's current ratios differs from acceptable values as well as from industry averages in the reporting period. It's caused by very low value of

⁴ Profitability ratios have been calculated by the formulas of Vochozka (2011).

⁵ Liquidity ratios and working capital have been calculated in accordance with the formulas of Vochozka (2011).

short-term payables in 2011 and very high values of 2011-2013 long-term receivables that are probably irrecoverable and therefore distort the values of current ratios.

Cash ratio is below the industry averages throughout the reporting period. On the other side, by Vochozka (2011), the minimum value of cash ratio should be 0.2, so the company should be able to promptly pay its short-term payables.

The greater value of working capital indicator, the better solvency of the company. In the reporting period, the working capital didn't change a lot, but it's still positive, so SLUTO can be considered as financially stable company. However, the working capital should be distorted by irrecoverable receivables and therefore the real level of working capital can be lower.

Table 12: **Liquidity Ratios & Working Capital of SLUTO & Industry Averages**
(own work based on MITCR (2014))

	2011		2012		2013	
Current Ratio (Current Assets / (Short-Term Payables + Short-Term Bank Loans))	11.63	1.47	3.12	1.80	3.32	1.36
Cash Ratio (Short-Term Financial Assets / (Short-Term Payables + Short-Term Bank Loans))	0.28	0.34	0.17	0.42	0.18	0.53
Working Capital (Current Assets – Short-Term Payables)	6,877		6,204		6,870	

SLUTO vs. MITCR Industry Analyses

Debt Ratios⁶

According to Sedláček (2009), the acceptable total debt of a company to its total assets should range between 40% to 50%. It can be said that SLUTO essentially meets these recommended values, while the industry average is more indebted. In terms of debt settlement period, there is a general rule “the sooner, the better”; Sedláček (2009) claims that ideal period of debt repayment is 8 to 10 years. In this regard, SLUTO is in a very good condition.

⁶ Debt ratios have been calculated according to formulas of Sedláček (2009).

Table 13: **Debt Ratios of SLUTO & Industry Averages**
(own work based on MITCR (2014))

	2011		2012		2013	
Total Debt (Other Sources / Total Assets)	48.78%	65.09%	55.94%	66.47%	53.87%	52.65%
Self-Financing Ratio (Equity / Total Assets)	51.22%	34.91%	44.06%	33.53%	46.13%	47.35%
Debt Settlement Period [years] (Other Sources – Short-Term Financial Assets) / Balance Cash Flow)	6		3		6	

SLUTO vs. MITCR Industry Analyses

Efficiency Ratios⁷

As it was already mentioned, there is a low level of SLUTO's total assets in comparison with the industry averages, which has favourable impact on its efficiency ratios. Both total assets turnover ratio and fixed assets turnover ratios are above the industry averages and the acceptable (recommended) values of Sedláček (2009). The high values of fixed assets turnover ratio are caused by low proportion of fixed assets on total assets – SLUTO doesn't own any buildings (it works in rented premises) or other property, besides the necessary equipment (see Appendix 2 for detailed financial statements of SLUTO).

The receivables and payables days ratios show that there is a problem with debt collection in SLUTO, which takes much longer than debt payment. In other words, SLUTO provides its business partners interest-free loan and should therefore find ways to reduce its trade receivables in order to avoid possible insolvency.

⁷ Efficiency ratios have been calculated in accordance with the formulas of Vochozka (2011).

Table 14: **Efficiency Ratios of SLUTO & Industry Averages**
(own work based on MITCR (2014))

	2011		2012		2013	
Total Assets Turnover Ratio (Total Sales / Total Assets)	1.35	0.83	1.45	0.90	1.59	1.05
Fixed Assets Turnover Ratio (Total Sales / Fixed Assets)	15.8 7	1.69	16.5 0	1.84	31.1 3	2.58
Receivables Days Ratio [days] (Trade Receivables / (Total Sales / 360))	75		76		80	
Payables Days Ratio [days] (Trade Payables / (Total Sales / 360))	6		31		24	

SLUTO vs. *MITCR Industry Analyses*

2.7 SWOT Analysis

The SWOT analysis, which has been elaborated in accordance with the results of previous analyses, sum up the strengths, weaknesses, opportunities, and threats of SLUTO when assuming its operating in Austrian market.

Table 15: **SWOT Analysis** (own work)

Strengths	Weaknesses
<ul style="list-style-type: none"> ▪ large range of services provided 	<ul style="list-style-type: none"> ▪ insufficient foreign language skills of employees
<ul style="list-style-type: none"> ▪ high level of expertise 	
<ul style="list-style-type: none"> ▪ using the latest technologies 	
<ul style="list-style-type: none"> ▪ favourable overall financial standing: high profitability, low level of indebtedness, efficient assets utilization 	
Opportunities	Threats
<ul style="list-style-type: none"> ▪ favourable start up environment in Austria 	<ul style="list-style-type: none"> ▪ poor Czech customers' payment behaviour
<ul style="list-style-type: none"> ▪ F&A BPO (world-wide) market potential 	<ul style="list-style-type: none"> ▪ relatively high taxation in Austria
	<ul style="list-style-type: none"> ▪ strong industry competition
	<ul style="list-style-type: none"> ▪ great threat of new entrants
	<ul style="list-style-type: none"> ▪ great threat of substitutes
	<ul style="list-style-type: none"> ▪ great bargaining power of customers

From the point of view of internal elements of SWOT analysis, the current position of SLUTO in the market is very good e.g. thanks to the large range of services provided, high level of expertise, using the latest technologies and favourable overall financial

standing. The lack of SLUTO's employees' foreign languages knowledge was identified as the only significant weakness.

The SWOT analysis external elements are facing each other. On one side, the business environment in Austria is favourable for start-ups as well as the world-wide market potential of F&A BPO services, but on the other side, there are threats such as strong industry competition, great threat of new entrants, great threat of substitutes and great bargaining power of customers. Another threat is poor Czech customers' payment behaviour, but it is a problem of the company as a whole, it is not relevant for considering the market entry.

In spite of it all, the market entry of SLUTO in Austria is recommended, because most of the threats mentioned are associated with the "general" threats of the business in F&A BPO market and are "valid" basically throughout the world. Therefore, if the company takes the advantage of its strengths to reduce its vulnerability to external threats (SWOT "S-T" strategy), there is a high potential for success of SLUTO in the Austrian market.

3 PROPOSALS AND RECOMMENDATIONS

3.1 Market Entry Strategy in Austria

Following the results of SWOT analysis in the chapter 2.7, the proposals and recommendations regarding the market entry of SLUTO s.r.o. in Austria will be provided in this chapter.

3.1.1 Current Situation

As it has been already stated, in relation to market entry in Austria, the SLUTO company management has already took a few steps toward the realization of their intentions. It has established cooperation with an Austrian company Hapala Consulting KG, which focuses on the similar business activities (accounting, taxes, payroll, etc.), in the form of strategic alliance.

The main aim of this alliance is to start business in Austria on the basis of “partner office” in order to provide support to SLUTO’s clients, who have already decided to expand their business in Austria, and who would like to have their finance “under one roof”.

SLUTO is de facto in the intermediary position. It mediates its clients the services of Hapala Consulting KG for an agreed commission of 20%. However, this is a short – term strategy, because the intention of SLUTO management is to enter the Austrian market on its own behalf and to provide its services also to Austrian domestic customers in the recent years. Therefore, the suitable market entry mode will be proposed.

3.1.2 Legal Forms of Business in Austria

The Austrian legal forms of business are pretty much the same as the Czech ones. The local Company Law basically provides the following types of companies (ABA, 2014):

- Company with Limited Liability (GmbH),
- Stock Corporation (AG),
- Societas Europaea (SE),
- General Partnership (OHG),
- Limited Partnership (KG),
- Dormant Partnership (stGes),
- Registered Civil Law Partnership (EEG),

- Civil Law Partnership (GesBR),
- Cooperative (Gen),
- Associations,
- Branches of Foreign Companies.

According to the Austrian Business Agency (2014), foreign investors most often decide to set up the company with limited liability (GmbH) to run their business in Austria. The agency states that a branch is slightly more expensive to set up and run because it is not the “usual” way to do business in Austria. Besides, a branch must file the annual accounts of the foreign enterprise with the Austrian court in German language, which produce additional costs.

The selection of the most appropriate market entry mode is also influenced, inter alia, by the conditions that must be fulfilled in accordance with the Austrian law to obtain a license needed for performance of the profession of accountant. In Austria, there is “Kammer der Wirtschaftstreuhänder” (KWT), which is a chamber of accountants, tax advisors and auditors. In other words it’s an umbrella organization of these professions that, inter alia, grants the mentioned licenses. To become a certified public accountant or a tax advisor in Austria, it’s required to (KWT, 2014):

- get a degree in economics or law,
- pass an exam organized by the chamber,
- have three years of professional experience,
- others.

According to that law, a managing director of a company has to possess this licence in case that the intention of the company is to provide accounting or tax consulting services and to act on behalf of its client. Unfortunately, there is a problem for shareholders (managing directors) of SLUTO with the condition “to have 3 years of professional experience”, which has to be done in Austrian business environment, because it’s basically impossible for them to spend 3 years in Austria due to this experience. Therefore, one of the managing directors of Austrian subsidiary (branch) should be an experienced (Austrian resident) accountant or tax advisor that has already obtained the license.

Based on these facts, the subsidiary in a legal form of limited liability company, appears to be the most suitable market entry mode in Austria. It's a legal form, which complies with the vision of the management of SLUTO and therefore it will be taken into account in the further proposals.

3.1.3 Austrian Limited Liability Company

Limited liability companies in Austria can be set up by one or more shareholders and the shares cannot be traded on a stock exchange, but must be transferred by means of a notarial deed. Shareholders may be individuals or legal entities, residents or non-residents, Austrian or foreign citizens. In other words, the company has completely independent status irrespective of whether it is controlled by foreign shareholders or not. The liability of each shareholder, as the legal form's name says, is limited to the amount of the share investment (ABA, 2014).

GmbH comes into legal existence upon its registration in the commercial register. The minimum share capital is € 35,000 with each share at a minimum of € 70. At least half of this amount must be raised in cash before registration, whereas the remaining part may be raised in assets other than money (contribution in kind) (ABA, 2014).

The corporate bodies of GmbH are (ABA, 2014):

- *shareholder's meeting*, which is the supreme body of the GmbH; it appoints and recalls managing directors and determines their remuneration as well as their terms of employment;
- *managing directors*,
- *supervisory board*, which is required by law in certain cases, but is of minor importance to a GmbH owned by foreign investors.

Dividends may only be paid out of net profits as shown in the financial statements. Any other payment of dividends is not allowed (ABA, 2014).

Austrian subsidiaries are subject to unlimited corporation tax, which means that profits are taxed at a rate of 25%. A lump sum of € 500/year (=minimum corporation tax) has to be paid even in a loss situation. The incomes from transfer of shares of the Austrian subsidiary to the parent company (Czech SLUTO s.r.o.) are exempted from tax in the

Czech Republic according to the §19 (1) of Czech Act No. 586/1992 Coll. On Income Taxes.

The Process of Establishing GmbH

The process of the establishment of a subsidiary in form of a limited liability company is very quick (app. 3 – 4 weeks) and the costs are reasonable (app. 5% of the share capital) – see the table below.

Table 16: **Process of Establishing GmbH** (based on Businessinfo.cz (2014))

Step no.	Activity	Costs	Duration	Place Institution
1	Confirmation from the Chamber of Commerce about establishing the new business entity.	no charge	1 day	
2	Notarization of LLC Operating Agreement.	€ 1300 - 1800	4 days	notary
3	Deposit of the minimum capital required into the bank account.	no charge	1 day	bank
4	Registration at the Commercial Court and publishing the announcement about company establishment in the Wiener Zeitung (<i>Austrian newspaper</i>).	€ 300	7 - 14 days	Wiener Zeitung
5	Registration of a trade at the trade authority.	no charge	1 day	municipal office
6	Tax registration at a tax office.	no charge	12 days	tax office
7	Employees' social security registration via ELDA (electronic system of social security office).	no charge	1 day	ELDA
8	Registration at the municipal office.	no charge	1 day	municipal office
	Total	€ 1600 - 2100	3 - 4 weeks	

3.2 SLUTO GmbH

In this chapter, the business plan of SLUTO Austrian subsidiary in the form of limited liability company (GmbH) will be prepared, following the proposals from the chapter 3.1.

3.2.1 Basic Facts

Bellow, the proposal of the basic facts about possible Austrian subsidiary is provided.

Subsidiary Name: SLUTO GmbH

Location: Vienna, Austria

Legal form: Gesellschaft mit beschränkter Haftung (Limited Liability Company)

Scope of Business:

- bookkeeping,
- payroll,
- tax advisory,
- other services.

Managing Directors:

- Ing. Tomáš Slavík,
- Ing. Jitka Schlagmannová,
- *Austrian Certificated Public Accountant / Tax Advisor / Auditor*

Registered Capital: € 50,000

Shareholders:

- SLUTO s.r.o.
Stake: € 50,000; Business Share: 100%

3.2.2 Mission and Vision

The intention of SLUTO management is to preserve the principles such as mission, vision and values of the company regardless of the specific business location – in other words to build on them all over the Europe.

The company mission, which is based on motto: “not just accounting”, will be preserved in Austrian subsidiary as well. The mission’s general meaning is to provide clients broad portfolio of services far beyond the “regular” accounting treatment such as administrative duties, IT support associated with the accounting services, legal support etc. (All the services provided in Austria will be further defined in terms of marketing strategy.)

Following the previous proposals, the vision of Austrian subsidiary is essentially the same as the Czech one: to become a successful consulting company in the Austrian industry and to be markedly different from the competitors in its scope of services, approach and care, while preserving the high efficiency inside the subsidiary.

SLUTO's values, such as savings, confidence, guarantee and flexibility, which are mostly related to the customers, will be preserved in Austrian subsidiary as well.

3.2.3 Marketing Mix

In this chapter, the marketing mix that is associated with four P's, which are product, price, place and promotion, will be defined for the Austrian business environment.

Product

As it has been already stated, the original (Czech) portfolio of services, as well as the other stuff, will be preserved in the Austrian subsidiary. However, some of the services have to be adjusted or omitted due to the specific Austrian business environment. Therefore, the following services will be provided.

- **Bookkeeping**

Bookkeeping (accounting / tax evidence) will be the “main service” of the subsidiary. There will be an effort to preserve 4 types of accounting services (external accountant, internal accountant, online accounting externally and online accounting internally), which are provided even in the company HQ. Every Austrian customer can therefore choose an option, which is adjusted to its requirements, asking price and offered in accordance with presented advantages and disadvantages of each possibility (type of services).

One of the big advantages of SLUTO when entering the Austrian market is that SLUTO has implemented an economic software BMD, which is very popular in Austria. SLUTO currently uses BMD as a CRM software, but it is primarily a software for processing bookkeeping, payroll, taxes etc., so there will not be a need to implement a new economic software across the company. Moreover, it could be one of the reasons for potential customers why to have SLUTO GmbH processed the accounting services.

- **Payroll Accounting**

Payroll accounting operates on the same principle as the “regular accounting” – see above.

- **Tax Advisory**

Tax advisory will not be included in the price of accounting services for the company's clients as it's usual in the headquarters. In Austria, there is different practise, and therefore the tax advisory will be considered as a separate service.

▪ **Administration Services**

Administration services associated with the bookkeeping and other services provided, will be certainly included in the subsidiary's portfolio of services. These services will be provided in accordance with the clients' needs and could include services such as statistical reporting, IT services (hosting of economic IS, administration of client's IT), support in negotiations with authorities and others.

▪ **Legal Services**

Legal services will be, as well as in the headquarters, provided in cases such as representation in negotiations with government offices, implementation of internal directives (guidelines) etc., while the services will be provided externally by external lawyer.

▪ **Other Services**

Other services will include services that will be provided in accordance with needs of customers. These services will be individually charged.

Price

The existing "EUR" pricing policy of SLUTO, which has been used for the Czech and Slovak customers, has to be radically adjusted for the Austrian business environment, because the prices in Austria are generally much higher.

The pricing policy will be set up higher than the current pricing policy of SLUTO, but below the pricing policy of Austrian competitors due to the subsidiary's position of "newcomer" in the market. The pricing policy of Hapala Consulting KG, the current Austrian partner of SLUTO, will be therefore used as an inspiration of average pricing policy of Austrian F&A companies.

In the Table 16 there are prices, which will be applied in case that there would not be a monthly tariff dealt between the company and customer. The monthly tariff will be agreed individually with the client based on its legal form, services required, number of accounting documents processed per month, number of employees, etc. The monthly tariff will be cost-effective for the client.

Table 17: **Price List for Austrian Subsidiary** (based on SLUTO (2014))

Bookkeeping		
accounting tax evidence processing	hourly rate of € 60	
Payroll Accounting		
processing of wage for 1 employee	€ 20	monthly tariff
Tax Advisory		
1 hour of tax advisory or representation in dealing with authorities	€ 130	every hour started
Tax Returns		
income tax return statement for a natural person	from € 80	(*included in monthly tariff)
income tax return statement for a legal entity	from € 130	(*included in monthly tariff)
VAT return statement	from € 65	(*included in monthly tariff)
other tax return statements	from € 75	
Lump-Sum Activities		
annual tax evidence processing, accounting balance, income tax return statement	from € 80	for an entrepreneur (natural person)
annual accounting, accounting balance, income tax return statement	from € 80	for a legal entity
Other Activities		
1 hour of generic accounting (included in a tariff)	€ 60	every hour started above the limit of services stated for a month
1 hour of non-accounting services	€ 60	actions not included in a contract
1 hour of accounting, economic or organizational advisory, qualified work, or administration	€ 75	every hour started
other activities	by appointment	
<p><i>The prices do not include VAT.</i></p> <p><i>* Included for clients who have already paid at least 6 tariff payments.</i></p>		

Place

The distribution of subsidiary's services in terms of providing accounting, tax and other services, will take place in the subsidiary office (the services of external accountant), in the client's company (the services of internal accountant) or online (the services of online accounting externally or internally) – depends on chosen type of services.

Considering the above mentioned distribution channels, the location of subsidiary office has to be appropriately selected. Vienna, as the capital and the largest city of Austria, appears to be the most suitable city for starting a business. The office will be located in the city centre and will be available 9AM to 5PM from Monday to Friday. The costs of office rental are shown in the table below.

Table 18: **Office Rental Costs in Vienna** (based on Officerentinfo.at (2014))

Location	Vienna City Centre
Contract	Contract Rent
Area	app. 50 sqm
Price	€ 12-16 per 1 sqm
Monthly Rental Fee (services included)	app. € 850

Promotion

The most important and in fact the only form of SLUTO promotion are websites, because the other forms of promotion have not been effective so far. In 2014, the company finished its image-transformation and the websites have been therefore revitalized as well. In this context, the company management intention is to focus the promotion solely on websites.

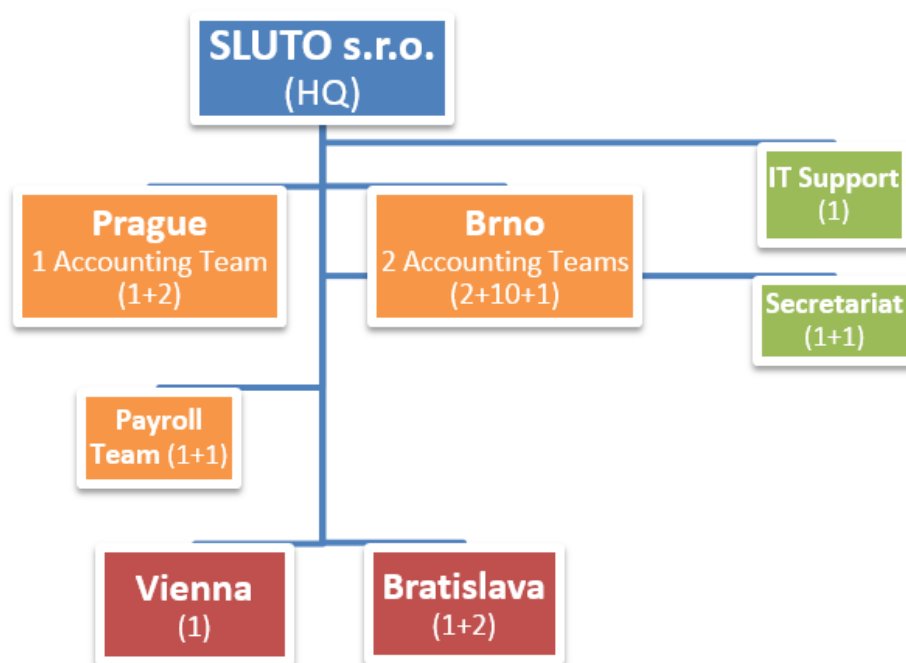
One of the “new” websites features is a possibility to change the language of websites. Currently, the websites are translated into 3 languages – Czech, Slovak and English. Following the market entry in Austria, it's recommended to translate the websites also in German in order to increase the number of potential Austrian customers. According to Langeo.cz (2014), the price of the translation will be about € 250 to 500.

Another way how to increase the number of Austrian customers via websites is to focus on search engine optimization (SEO). SEO will help to position the SLUTO website in German to be found near the top among the search query when the potential Austrian

customers will look for a new accounting services provider. In case of unsatisfactory search engine position, it's recommended to appeal to a SEO analyst. The price of SEO analysis ranges between € 500 to 1000 (IMP net, 2014).

3.2.4 Organizational Structure

The organizational structure of the Austrian subsidiary will be very simple at the beginning of its start up. In the first year, there is an intention to employ just 1 employee, who would be the managing director of the subsidiary at the same time. In the following years, there is an intention to increase the number of employees according to the subsidiary's needs.



Picture 7: **Organizational Structure of SLUTO with the Austrian Subsidiary** (own work)

The entire SLUTO company organizational structure will not change a lot – see the picture above. However, some of the company departments, which are currently common for all the divisions (branches), cannot be shared in Austria any more. These are primarily the secretariat and payroll departments, which should be separated especially because of usage of different languages and laws in the countries. So far, this measure hasn't been needed, because the languages and laws are very similar for the Czechs and Slovaks and there was no reason to separate them. However, the work of mentioned departments will be, for these reasons, solely done by the Austrian subsidiary.

As it has been already mentioned, in the very first year of the subsidiary operation, there will be an employee, who will be one of the managing directors at the same time. The reason is that, under the Austrian law, a company, which intends to provide accounting or tax consulting services, has to be managed by a person (managing director), who possess the licence needed, when acting on behalf of the clients. In Austria, it's a chamber "Kammer der Wirtschaftstreuhänder" that grants these licenses under fulfilment of certain conditions (see them listed in the chapter 3.1.2). Therefore, the employee, who will start up the Austrian subsidiary, has to be adequately qualified and will receive, in return, a much higher salary than the other subsidiary employees.

In the Table 18, there is a proposal of subsidiary salaries for the managing director and an accountant, who will be hired probably after 1 or 2 years from subsidiary establishment. The amounts of salaries were designed in accordance with a survey that has been conducted in order to determine the average amount of salaries in Accounting & Finance industry in Austria (Salaryexplorer.com, 2014). The calculation has been performed by the Brutto Netto Rechner (2014), while any reductions (children, exemptions etc.) and benefits have not been taken into account, apart from the 13th and 14th salaries.⁸

⁸ In addition to the regular salary an employee in Austria is additionally paid a vacation bonus (so-called 13th monthly salary) and a Christmas bonus (so-called 14th salary), each amounting to a full monthly salary if set forth in the collective bargaining agreement or employment contract; these bonus payments are subject to lower taxes (Arbeitsmarktservice Österreich, 2013).

Table 19: **Proposed Subsidiary Salaries in EUR** (own work)

	Monthly Salary	13th Salary	14th Salary	Annual Salary
Managing Director Salary				
Gross Salary	6,000	6,000	6,000	84,000
Employee Contributions (social contribution, income tax)	2,559	1,286	851	32,845
Net Salary	3,441	4,714	5,149	51,155
Employer Contributions (social contribution, local tax, pension insurance and others)	1,458	1,754	1,124	20,405
Total Amount Paid by Employer	7,458	7,754	7,124	104,405
Accountant Salary				
Gross Salary	4,000	4,000	4,000	56,000
Employee Contributions (social contribution, income tax)	1,629	845	882	21,275
Net Salary	2,371	3,155	3,118	34,725
Employer Contributions (social contribution, local tax, pension insurance and others)	1,185	1,169	1,165	16,580
Total Amount Paid by Employer	5,185	5,169	5,165	72,580

3.2.5 Financial Plan

In this chapter, the estimated start-up costs, monthly operating cost and forecasting (profit and loss account, cash budgeting and balance sheet) of subsidiary's financial standing for the first 3 years of business will be proposed.

Start-Up Costs

In the Table 19, there are estimated costs associated with setting up a subsidiary in Austria that will be incurred in 2015 before the real beginning of business. The item "Subsidiary Establishment Costs" in the amount of €1,850 has been calculated as the average costs related to the setting up a limited liability company in Austria – see the Table 15 for more details. The following items "Office Equipment" and "Computer Equipment and Electronics" include purchase of furniture, computer equipment, printer, mobile phone,

and other devices needed. The “Promotion” costs have been calculated in accordance with the proposals in the chapter 3.2.3 and the “Others” include costs such as office accessories, specialized literature etc.

Table 20: **Start-Up Costs in EUR** (own work)

Subsidiary Establishment Costs	1,850
Office Equipment	3,000
Computer Equipment and Electronics	1,700
Promotion	1,200
Others	200
Total Estimated Start-Up Costs	7,950

Monthly Operating Costs

In the Table 20, there are subsidiary’s estimated monthly operating costs. The amounts are calculated for 2016, because there is expected increase of costs in the following years – see the amounts in profit and loss account.

“Salary & Travel Expenses” item has been calculated as a sum of annual salary (employer contributions included) divided by 12 (because of 13th and 14th salary in Austria) and the expected monthly travel expenses. The amounts are based on calculations in the Table 18. In the following years, the hire of another employee is expected – that’s the reason of such a significant increase in profit and loss account.

Other costs are associated with the operating of the office. “Office Rental Costs” have been based on the calculations in the Table 17 and others amounts of costs are estimated in accordance with the average prices in the Austrian market. The amount of item “Training Courses” is a proportion of estimated annual amount of € 500. The last item “Others” include costs such as refreshments, detergents and other (cannot be classified) costs.

Table 21: **Estimated Monthly Operating Costs in EUR** (own work)

Salary & Travel Expenses	8,800
Office Rental Costs	850
Outsourced Cleaning Services	150
Internet Connection	30
Telephones	75
Office Supplies & Postage	40
Training Courses	40
Others	100
Total Estimated Monthly Operating Costs	10,085

P&L Account 2015-2018

In the Table 21, there are expected revenues and expenses in 2015-2018 period. In 2015, there are start-up cost that will be incurred before the real beginning of business – for more details see the Table 19. The costs in the 2016-2018 period are based on expected monthly operating costs by the Table 20. There is an increase in 2017 in the item “Salaries” because of new expected employee hired as well as the increase in “Office Rental Costs” that are expected to grow of 5% per year.

In 2016, the economic activity of Austrian subsidiary will really start. At the beginning, the services “Accounting & Payroll Accounting” will be provided to 3 or 4 average size “stable clients” (25-30 hours of work per month). Besides these stable clients, the company will provide its services also to “random clients”, who are clients that will ask to one-time services – these are the other revenues in the table. In 2017, there is expected growth of number of “stable clients” to 5 or 6, which is simultaneously associated with hiring new employee. In the following years, there is expected annual sales growth of 15%.

As it's evident from the P&L Account, the losses until 2017 are expected, while the break-even should occur in 2018. In Austria, the profits are taxed at a rate of 25% and the corporate tax is paid even in the loss situation – that's why the lump sum of € 500/year is given in the statement.

Table 22: **P&L Account 2015-2018 in EUR** (own work)

	2015	2016	2017	2018
Revenues	0	96,100	187,620	215,880
Sales	0	96,100	187,620	215,880
Bookkeeping & Payroll Accounting	0	75,600	160,850	185,000
Tax Advisory	0	15,600	20,280	23,350
Lump-Sum Activities	0	400	640	800
Other Activities	0	4,500	5,850	6,730
Expenses	5,040	121,960	201,872	202,696
Salaries	0	105,600	184,200	184,200
Office Rental Costs	850	10,200	10,710	11,246
Other Expenses	3,250	5,220	5,742	6,030
Depreciation	940	940	1,220	1,220
Operating Profit	-5,040	-25,860	-14,252	13,184
Income Tax	500	500	500	3,296
Net Profit	-5,540	-26,360	-14,752	9,888

Cash Budget 2015-2018

The Table 22 basically shows the payment of listed expenses and revenues in the Table 21. The payments of services provided are based on assumption that the invoices are issued after the end of (monthly) accounting period with one-month maturity. In reality it means that the customer pays for the services after 2 months from the time when the services were provided. In addition, in this case, it's expected that all the receivables will be paid and that all the customers follow the payment terms.

As it's apparent from the Cash Budget, the subsidiary will be in trouble with cash flow at least until the end of 2018, even if there will be a profit according to the P&L Account. Therefore, it's recommended to set up a possibility of bank overdraft, which should help the company to handle the demanding financial situation in the first few years. After all, there is an apparent trend of increasing cash in the reporting period, so the closing balance could be finally positive in 2019.

Table 23: **Cash Budget 2015-2018 in EUR** (own work)

	2015	2016	2017	2018	Total
Total Receipts	50,000	80,070	172,365	211,225	513,660
Total Sales	0	80,070	172,365	211,225	463,660
Bookkeeping & Payroll Accounting	0	63,000	146,600	181,050	390,650
Tax Advisory	0	13,000	19,500	22,880	55,380
Lump-Sum Activities	0	320	640	720	1,680
Other Activities	0	3,750	5,625	6,575	15,950
Other Deposits	50,000	0	0	0	50,000
Total Payments	8,800	112,720	196,012	201,976	519,508
Salaries	0	96,800	177,650	184,200	458,650
Office Rent	850	10,200	10,710	11,246	33,006
Equipment	4,700	0	1,410	0	6,110
Other Payments	3,250	5,220	5,742	6,030	20,242
Income Tax	0	500	500	500	1,500
Surplus/Deficit	41,200	-32,650	-23,647	9,249	-5,848
Opening Balance	0	41,200	8,550	-15,097	
Closing Balance	41,200	8,550	-15,097	-5,848	

In the Table 23, there are the accounts receivable and payable during the period 2015-2015 that have been calculated in accordance with foregoing Cash Budget and above stated payment terms.

Table 24: **Accounts Receivable & Payable 2015-2018 in EUR** (own work)

	2015	2016	2017	2018
Total Accounts Receivable	0	16,030	31,285	35,940
Bookkeeping & Payroll Accounting	0	12,600	26,850	30,800
Tax Advisory	0	2,600	3,380	3,850
Lump-Sum Activities	0	80	80	160
Other Activities	0	750	975	1,130
Total Accounts Payable	500	9,300	15,850	18,646
Salaries	0	8,800	15,350	15,350
Office Rent	0	0	0	0
Equipment	0	0	0	0
Income Tax	500	500	500	3,296
Other Payments	0	0	0	0

Balance Sheet 2015-2018

In the Table 24, there are balance sheets of the Austrian subsidiary in net asset value as at 31/12 of given year.

The item “Equipment” is annually depreciated in amount of 20% (the expected useful life of assets is 5 years). All the other values stated are essentially based on the values from the aforementioned statements (and are also explained in there).

Table 25: **Balance Sheet 2015-2018 in EUR (NAV)** (own work)

	2015	2016	2017	2018
Total Assets	44,960	27,400	34,295	37,730
Fixed assets	3,760	2,820	3,010	1,790
Equipment	3,760	2,820	3,010	1,790
Current assets	41,200	24,580	31,285	35,940
Accounts Receivable	0	16,030	31,285	35,940
Short-Term Financial Assets	41,200	8,550	0	0
Total Liabilities	44,960	27,400	34,295	37,730
Equity	44,460	18,100	3,348	13,236
Registered Capital	50,000	50,000	50,000	50,000
Profit / Loss - previous years	0	-5,540	-31,900	-46,652
Profit / Loss - current year	-5,540	-26,360	-14,752	9,888
Other Sources	500	9,300	30,947	24,494
Accounts Payable	500	9,300	15,850	18,646
Bank Overdraft	0	0	15,097	5,848

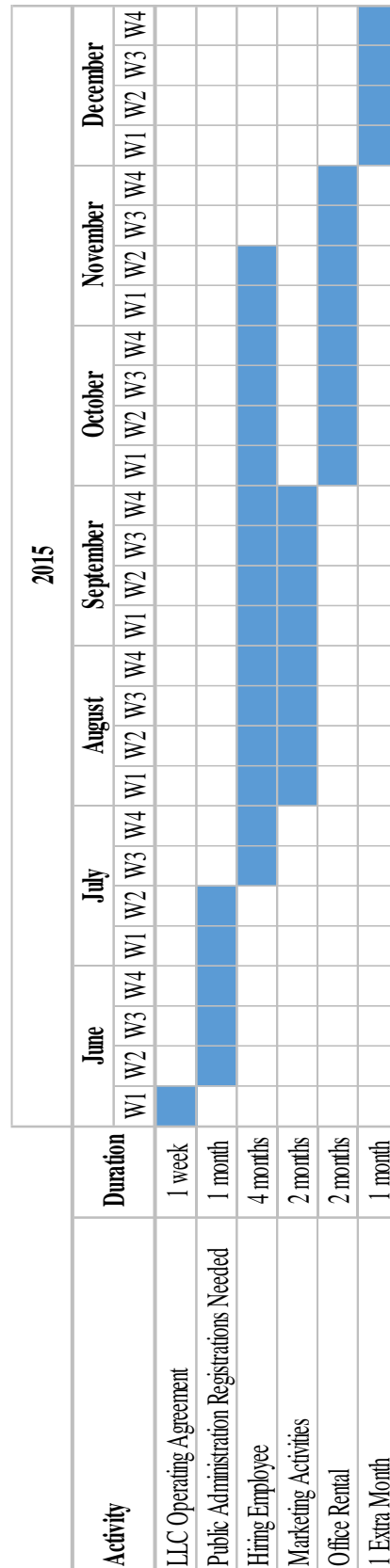
3.3 Schedule

In the Table 25, there is a schedule of preparations that have to be done before the real start of the Austrian subsidiary economic activity. The intention is to establish the subsidiary in Austria in mid-2015 in order to get a time of about 6 months for preparations. These will include arrangement of LLC operating agreement, carrying out the required activities within the public administration (these are described in detail in the Table 15), searching and hire of an employee, equipping the office rented and taking a few steps under the proposed marketing strategy in order to get awareness in the Austrian market. December 2015 will be a month for the final arranging before the real beginning of business.

Table 26: **Schedule of Before Starting Preparations** (own work)

Activity	Description	Duration
LLC Operating Agreement	arranging the contract conditions	1 week
	creating the contract	
	signing of the contract at a notary	
Activities Within the Public Administration Required	process of establishing GmbH within the public administration	1 month
Hiring Employee	searching for a suitable employee	4 months
	creating and signing an employment contract	
	employee registration in the Commercial Register as a managing director	
Marketing Activities	websites translation and adjustments	2 months
	SEO in the context of Austrian business environment	
Office Rental	searching an office to rent	2 months
	equipping the office (furniture, ICT technology, internet connection, mobile phone etc.)	
1 Extra Month Before The Real Beginning of Business		

Picture 8: **Gantt Chart of Before Starting Preparations** (own work)



CONCLUSION

The main aim of this thesis has been to design a market entry strategy of company SLUTO s.r.o. in Austria.

Following that, the review of literature was undertaken in accordance with the first partial objective. The issues dealt were business internationalisation (its process and reasons for internationalisation), international strategies, Porter's Generic strategies and foreign market entry strategy (modes and factors influencing the choice of market entry strategy).

The second partial objective has been met by processing the analysis of the current situation of SLUTO and its business environment. In this context, the introduction of company SLUTO has been done and the following analyses have been processed: PESTLE analysis, Porter's Five Forces analysis, Key Success Factors in F&A BPO Austrian Market, McKinsey 7S Framework and financial analysis. The obtained results from the mentioned analyses were summed up in the SWOT analysis.

It was found that from the point of view of internal elements of SWOT analysis, which are favourable for new market entry because of very good current market position of SLUTO, the external elements, on the contrary, are actually facing each other. The problem is that on one side, the business environment in Austria is favourable for start-ups as well as the world-wide market potential of F&A BPO services, but on the other side, there are threats such as strong industry competition, great threat of new entrants, great threat of substitutes and great bargaining power of customers. In spite of it all, the market entry of SLUTO in Austria has been recommended, because most of the threats mentioned are associated with the "general" threats of the business in F&A BPO market and are "valid" basically throughout the world. Moreover, if the company takes the advantage of its strengths to reduce its vulnerability to external threats (SWOT "S-T" strategy) in the Austrian market, there is a high potential for its success.

In terms of the last partial objective, a business plan of SLUTO's subsidiary in Austria has been proposed. First of all, the limited liability company was chosen as the most suitable form of business in Austria. Then, the Czech SLUTO company parameters, such as mission and vision of the company, marketing mix elements and organizational structure, have been adjusted for the Austrian market conditions in order to preserve the

principles of the company regardless of the specific business location. Finally, the financial plan, including estimated start-up costs, monthly operating cost and forecasting of subsidiary's financial standing for the first 3 years of business, and schedule of preparations, which should be done before the real start of the Austrian subsidiary economic activity, were proposed.

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LIST OF TABLES AND PICTURES

List of Tables

Table 1: Why Firms Go International.....	14
Table 2: Organisational Characteristics of MNCs.....	15
Table 3: Advantages and Disadvantages of Exporting.....	20
Table 4: Advantages and Disadvantages of Licensing.....	20
Table 5: Advantages and Disadvantages of Joint Ventures.....	23
Table 6: Comparison of Branch and Subsidiary.....	25
Table 7: Altman Z-Score.....	42
Table 8: Index IN05.....	43
Table 9: Numerical Evaluation of Kralicek Quick Test Indicators.....	44
Table 10: Kralicek Quick Test.....	44
Table 11: Profitability Ratios of SLUTO & Industry Averages.....	45
Table 12: Liquidity Ratios & Working Capital of SLUTO & Industry Averages.....	46
Table 13: Debt Ratios of SLUTO & Industry Averages.....	47
Table 14: Efficiency Ratios of SLUTO & Industry Averages.....	48
Table 15: SWOT Analysis.....	49
Table 16: Process of Establishing GmbH.....	54
Table 17: Price List for Austrian Subsidiary.....	57
Table 18: Office Rental Costs in Vienna.....	59
Table 19: Proposed Subsidiary Salaries in EUR.....	62
Table 20: Start-Up Costs in EUR.....	63
Table 21: Estimated Monthly Operating Costs in EUR.....	64
Table 22: P&L Account 2015-2018 in EUR.....	65
Table 23: Cash Budget 2015-2018 in EUR.....	66
Table 24: Accounts Receivable & Payable 2015-2018 in EUR.....	66
Table 25: Balance Sheet 2015-2018 in EUR.....	67
Table 26: Schedule of Before Starting Preparations.....	68

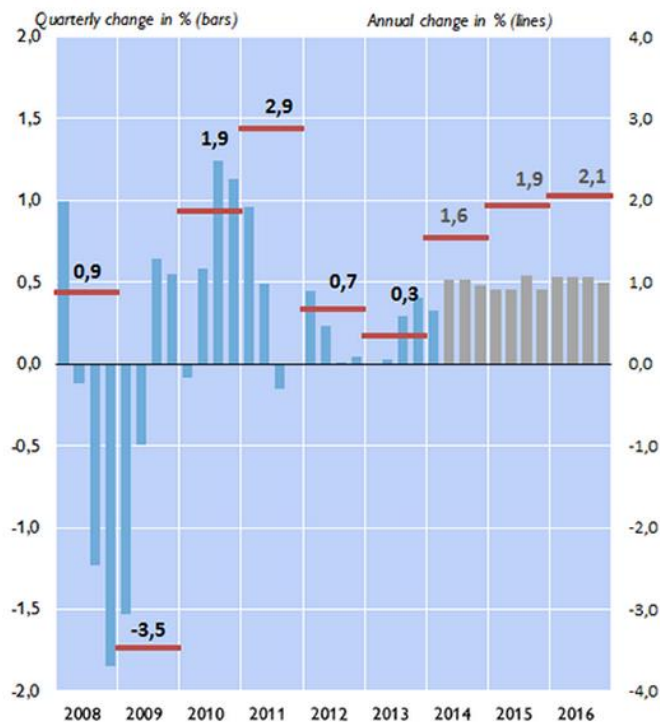
List of Pictures

Picture 1: A Model of the Internationalization Process	13
Picture 2: Integration / Responsiveness Framework.....	16
Picture 3: Generic Strategies.....	18
Picture 4: Organizational Structure.....	29
Picture 5: F&A BPO Services Market Regional Outlook	35
Picture 6: The Most Important Factors When Selecting an External Service Provider .	38
Picture 7: Organizational Structure of SLUTO with the Austrian Subsidiary	60
Picture 8: Gantt Chart of Before Starting Preparations	69

APPENDICES

Appendix 1

Austria: Real GDP Growth Forecast



Picture 1: **Real GDP Growth** (Seasonally and Working-Day Adjusted) (adopted from Oesterreichische Nationalbank (2014))

Austria: Harmonised Index of Consumer Prices (HICP) Forecast



Picture 2: **Harmonised Index of Consumer Prices (HICP)** (adopted from Oesterreichische Nationalbank (2014))

Austria: Unemployment Rate Forecast



Picture 3: **Unemployment Rate** (adopted from Oesterreichische Nationalbank (2014))

Austria: OeNB June 2014 Economic Outlook for Austria – Key Results

	2013	2014	2015	2016
<i>Annual change in % (real)</i>				
Economic activity				
Gross domestic product	+0,3	+1,6	+1,9	+2,1
Private consumption	+0,1	+0,7	+1,0	+1,4
Government consumption	+1,4	+0,8	+1,2	+1,1
Gross fixed capital formation	-0,9	+0,8	+2,6	+2,9
Exports of goods and services	+2,5	+5,4	+5,4	+5,7
Imports of goods and services	+0,5	+3,9	+5,4	+5,8
<i>% of nominal GDP</i>				
Current account balance	+2,7	+3,1	+3,4	+3,6
<i>Annual change in %</i>				
Prices				
Harmonised Index of Consumer Prices (HICP)	+2,1	+1,8	+1,7	+1,9
Income and savings				
Real disposable household income	-1,1	+0,7	+1,8	+2,3
<i>% of nominal disposable household income</i>				
Saving ratio	6,6	6,4	7,1	7,8
<i>Annual change in %</i>				
Labor market				
Payroll employment	+0,8	+1,1	+0,9	+1,0
<i>% of labor supply</i>				
Unemployment rate (Eurostat definition)	4,9	5,0	5,0	4,9
<i>% of nominal GDP</i>				
Budget balance				
Budget balance (Maastricht definition)	-1,5	-2,5	-1,2	-0,7
Government debt	74,5	79,2	77,5	75,3

Picture 4: **Economic Outlook for Austria** (adopted from Oesterreichische Nationalbank (2014))

Appendix 2

Balance Sheets of SLUTO s.r.o. as at 31/12/2011-13 (NAV; th CZK)

Part 1

	2011	2012	2013
TOTAL ASSETS	8 649	9 799	10 427
Receivables From Subscriptions			
Fixed Assets	723	858	515
<i>Intangible Fixed Assets</i>	<i>15</i>	<i>404</i>	<i>340</i>
Incorporation expenses			
Research and development			
Software	15	404	340
Valuable rights			
Goodwill (+/-)			
Other intangible fixed assets			
Intangible fixed assets under construction			
Advance payments for intangible fixed assets			
<i>Tangible Fixed Assets</i>	<i>708</i>	<i>454</i>	<i>175</i>
Lands			
Constructions			
Equipment	665	426	161
Perennial corps			
Breeding and draught animals			
Other tangible fixed assets			
Tangible fixed assets under construction			
Advance payments for tangible fixed assets			
Adjustment to acquired assets	43	28	14
<i>Long-Term Financial Assets</i>	<i>0</i>	<i>0</i>	<i>0</i>
Shares - controlled organizations			
Shares in accounting units with substantial influence			
Other securities and shares			
Loans to controlled and controlling organizations and to accounting unit with substantial influence			
Other financial investments			
Financial investments acquired			
Advance payments for long-term financial assets			

Balance Sheets of SLUTO s.r.o. as at 31/12/2011-13 (NAV; th CZK)

Part 2

	2011	2012	2013
Current Assets	7 524	8 550	9 257
<i>Inventory</i>	<i>0</i>	<i>0</i>	<i>0</i>
Materials			
Work in progress and semi-products			
Finished products			
Animals			
Merchandise			
Advance payments for inventory			
<i>Long-Term Receivables</i>	<i>4 965</i>	<i>5 006</i>	<i>5 036</i>
Trade receivables			
Receivables from controlled and controlling organizations			
Receivables from accounting units with substantial influence			
Receivables from partners, cooperative members and association members			
Long-term deposits given			
Estimated receivable			
Other receivables	4 965	5 006	5 036
Deffered tax receivable			
<i>Short-Term Receivables</i>	<i>2 379</i>	<i>3 087</i>	<i>3 717</i>
Trade receivables	2 378	2 977	3 555
Receivables from controlled and controlling organizations			
Receivables from accounting units with substantial influence			
Receivables from partners, cooperative members and association members			
Receivables from social security and health insurance			
Due from state - tax receivable			142
Short-term deposits given		90	
Estimated receivable			
Other receivables	1	20	20
<i>Short-Term Financial Assets</i>	<i>180</i>	<i>457</i>	<i>504</i>
Cash	34	412	126
Bank accounts	146	45	378
Short-term securities and ownership interests			
Short-term financial assets acquired			
Accruals	402	391	655
Deferred expenses	402	391	655
Complex deferred costs			
Deferred income			

Balance Sheets of SLUTO s.r.o. as at 31/12/2011-13 (NAV; th CZK)

Part 3

	2011	2012	2013
TOTAL LIABILITIES	8 649	9 799	10 427
Equity	4 366	4 236	4 758
<i>Registered Capital</i>	<i>200</i>	<i>200</i>	<i>200</i>
Registered capital Company's own shares and ownership interests Changes of registered capital	200	200	200
<i>Capital Funds</i>	<i>0</i>	<i>0</i>	<i>0</i>
Share premium Other capital funds Differences from revaluation of assets and liabilities Differences from revaluation in tranformation of companies Differences from tranformation of companies Differences from valuation in tranformation of companies			
<i>Reserve Funds, Statutory Reserve Account for Cooperatives, and Other Retained Earnings</i>	<i>20</i>	<i>20</i>	<i>20</i>
Legal reserve fund / indivisible fund Statutory and other funds	20	20	20
<i>Profit / Loss - previous years (+/-)</i>	<i>3 720</i>	<i>1 984</i>	<i>3 113</i>
Retained earnings from previous years Accumulated losses from previous years Other profit / loss - previous years	3 720	1 984	3 113
<i>Profit / Loss - current year (+/-)</i>	<i>426</i>	<i>2 032</i>	<i>1 425</i>

Balance Sheets of SLUTO s.r.o. as at 31/12/2011-13 (NAV; th CZK)

Part 4

	2011	2012	2013
Other Sources	4 219	5 482	5 617
<i>Reserves</i>	<i>0</i>	<i>0</i>	<i>0</i>
Reserves under special statutory regulations			
Reserves for pension and similar payables			
Income tax reserves			
Other reserves			
<i>Long-Term Payables</i>	<i>0</i>	<i>0</i>	<i>0</i>
Trade payables			
Payables to controlled and controlling organizations			
Payables to accounting units with substantial influence			
Payables from partners, cooperative members and association members			
Long-term advances received			
Issues bonds			
Long-term notes payables			
Estimated payables			
Other payables			
Deffered tax liability			
<i>Short-Term Payables</i>	<i>647</i>	<i>2 346</i>	<i>2 387</i>
Trade payables	179	1 238	1 068
Payables to controlled and controlling organizations			
Payables to accounting units with substantial influence			
Payables from partners, cooperative members and association members	26	8	42
Payroll	205	258	324
Payables to social securities and health insurance	99	138	181
Due from state - tax liabilities and subsidies	124	599	756
Short-term deposits received			
Issues bonds			
Estimated payables	14	105	16
Other payables			
<i>Bank Loans and Financial Accomodations</i>	<i>3 572</i>	<i>3 136</i>	<i>3 230</i>
Long-term bank loans	3 572	2 742	2 829
Short-term bank loans		394	401
Short-term accomodations			
Accruals	64	81	52
Accrued expenses	64	81	52
Deffered revenues			

Profit / Loss Account of SLUTO s.r.o. as at 31/12/2011-13 (th CZK)

Part 1

	2011	2012	2013
Revenues from sold goods			
Expenses on sold goods			
Sale Margin	0	0	0
<i>Production</i>	<i>11 475</i>	<i>14 161</i>	<i>16 034</i>
Revenues from own products and services	11 475	14 161	16 034
Change in inventory of own products			
Capitalisation			
<i>Production Consumption</i>	<i>5 392</i>	<i>5 032</i>	<i>6 192</i>
Consumption of material and energy	1 042	1 071	953
Services	4 350	3 961	5 239
Added Value	6 083	9 129	9 842
<i>Personnel Expenses</i>	<i>3 639</i>	<i>4 773</i>	<i>6 395</i>
Wages and salaries	2 726	3 494	4 665
Remuneration of board members			
Social security expenses and health insurance	770	1 049	1 461
Other social expenses	143	230	269
<i>Taxes and fees</i>	<i>45</i>	<i>20</i>	<i>39</i>
Depreciations of intangible and tangible assets	808	590	403
Revenues From Disposals of Fixed Assets and Materials	0	0	0
Revenues from disposals of fixed assets			
Revenues from disposals of materials			
Net Book Value of Diposed Fixed Assets and Materials	0	0	0
Net book value of sold fixed assets			
Net book value of sold material			
Change in operating reserves and adjustments and complex deferred costs	50	134	14
Other operating revenues	191	66	567
Other operating expenses	811	795	1 335
Transfer of operating revenues			
Transfer of operating expenses			
Operating Profit / Loss (+/-)	921	2 883	2 223

Profit / Loss Account of SLUTO s.r.o. as at 31/12/2011-13 (th CZK)

Part 2

	2011	2012	2013
Revenues from sales of securities and ownership interests			
Sold securities and ownership interests			
<i>Revenues From Long-Term Financial Assets</i>	<i>0</i>	<i>0</i>	<i>0</i>
Revenues from shares in controlled organizations and in accounting units with substantial influence			
Revenues from others securities and ownership interests			
Revenues from other long-term financial assets			
Revenues from short-term financial assets			
Expenses associated with financial assets			
Revenues from revaluation of securities and derivatives			
Cost of revaluation of securities and derivatives			
Change in financial reserves and adjustments			
Interest revenues			
Interest expenses	204	241	250
Other financial revenues	10	10	22
Other financial expenses	125	122	175
Transfer of financial revenues			
Transfer of financial expenses			
Profit / Loss From Financial Operations (+/-)	-319	-353	-403
<i>Income Tax on Ordinary Income</i>	<i>176</i>	<i>498</i>	<i>395</i>
Due tax	176	498	395
Tax deferred			
Operating Profit / Loss Ordinary Activity (+/-)	426	2 032	1 425
Extraordinary revenues			
Extraordinary expenses			
Income tax on extraordinary income	0	0	0
Due tax			
Tax deferred			
Operating Profit / Loss Extraordinary Activity (+/-)	0	0	0
Trasfer profit (loss) to partners			
Profit / Loss of Current Accounting Period (+/-)	426	2 032	1 425
Profit / Loss Before Tax (+/-)	602	2 530	1 820

Cash Flow Statement of SLUTO s.r.o. as at 31/12/2011-13 (th CZK)

Part 1

		2011	2012	2013
P	Balance of Cash on Hand and Financial Equivalents as at the Beginning of Reporting Period	2710	180	457
Z	Accounting Profit / Loss From Running Activities Before Taxation	602	2530	1820
A.1	Adjustments by non-cash operations	1012	831	653
A.1.1	Depreciation of fixed assets and amortization of adjustments to acquired assets	808	590	403
A.1.2	Change in balance of adjustments, reserves			
A.1.3	Profit from sales of fixed assets			
A.1.4	Revenue from dividends and shares in profit			
A.1.5	Accounted for interest expense, exclusive of interest capitalization and accounted for credit interest	204	241	250
A.1.6	Possible adjustments by other non-cash operations			
A*	Net Cash Flow From Running Activities Before Taxation, Changes in Working Capital and Unusual / Extraordinary Items	1614	3361	2473
A.2	Change in non-cash items of working capital	-4487	-1620	-1721
A.2.1	Change in balance of receivables from running activities, temporary assets accounts	-3544	-738	-924
A.2.2	Change in balance of short-term payables from running activities, temporary liability accounts	-943	-882	-797
A.2.3	Change in balance of inventory			
A.2.4	Change in balance of current liquid assets not included in cash or equivalents			
A**	Net Cash Flow From Running Activities Before Taxation and Unusual / Extraordinary Items	-2873	1741	752
A.3	Interests paid exclusive of interest capitalization	-204	-241	-250
A.4	Interests received			
A.5	Income tax for running activities and additional tax assessments for previous periods	-176	-498	-395
A.6	Income and expense on unusual and/or extraordinary items, including income tax			
A***	Net Cash Flow From Running Activities	-3253	1002	107
B.1	Expense on fixed assets acquisition	723	-725	-60
B.2	Income from fixed assets sales			
B.3	Loans to related parties			

Cash Flow Statement of SLUTO s.r.o. as at 31/12/2011-13 (th CZK)

Part 2

		2011	2012	2013
B***	Net Cash Flow from Investing Activities	723	-725	-60
C.1	Change in balance of long-term or short-term payables			
C.2	Impact of changes in equity on cash on hand and financial equivalents			
C.2.1	Increase in cash on hand as a result of increased registered capital, share premium etc.			
C.2.2	Payment of share in equity to partners			
C.2.3	Other contributions of cash by partners and shareholders			
C.2.4	Loss coverage by partners			
C.2.5	Direct debit fund payments			
C.2.6	Dividends paid or shares in profit, including taxes paid			
C***	Net Cash Flow from Financing Activities	0	0	0
F.	Net Increase / Decrease in Cash on Hand	-2530	277	47
R.	Balance of Cash on Hand and Financial Equivalents as at the End of Reporting Period	180	457	504