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# **CRITICAL ANALYSIS AND COMPARISON OF POSSIBLE ENTRY OF COMPANY AMICUS SK INTO THE FOREIGN EU AND NON EU MARKET**

ANALÝZA A POROVNÁNÍ MOŽNOSTI VSTUPU FIRMY AMICUS SKNA ZAHRANIČNÍ TRH V RÁMCI EU A  
MIMO EU

## **MASTER'S THESIS**

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## **ABSTRAKT**

Diplomová práca analyzuje potenciálne možnosti vstupu už existujúcej slovenskej firmy na zahraničný trh. Cieľom je porovnanie možnosti expanzie firmy do členského štátu Európskej únie so štátom mimo Európskej únie a výber najvhodnejšej z nich. Poznatky z odbornej literatúry uvedené v teoretickej časti práce, predstavujú nevyhnutný základ pre výber vhodných nástrojov a analýz k vypracovaniu analytickej časti. Posledná časť práce je venovaná konkrétnym návrhom riešení, ktoré vedú k dosiahnutiu stanovených cieľov.

## **ABSTRACT**

Diploma thesis deals with analyses possible options of entry of Slovak company into the foreign market. The aim of this thesis is comparison the most effective options of company expansion to the member state of EU with the non EU state and finding one of the most suitable alternative. Findings from literature attached in theoretical part of this diploma thesis represent essential base for selection of appropriate methods and analyses to design an analytical part. Final part of thesis is dedicated to specific suggestions and proposals of feasible solutions, which lead to the achievement of defined objectives.

## **KĽÚČOVÉ SLOVÁ**

Expanzia, globalizácia, formy vstupu, bezdrôtový, hlavné faktory úspechu

## **KEY WORDS**

Expansion, globalisation, modes of entry, wireless, key success factors

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## **DECLARATION**

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Brno, 17 July 2016

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Signature

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## INTRODUCTION

The Amicus SK is a company 16 years operating in Slovak market, providing services and products of cooling, electromechanical and heating systems, and audio-visual signalization principally for corporate usage. The company is operating and trying to compete with competitors in the field of saving energy and energy efficiency, environment friendly products and automation. The Amicus SK is providing these services especially in Slovak market, but besides this, the company has insignificant number of agreement with Czech companies. The owner of the company decided that it is right time to expand company's business to a new market. The aimed sight of the expansion is principally to the neighbourhood country inside of European Union, but another possibility is to the neighbourhood country outside of European Union. The company provides a variable product portfolio through domestic manufacturing to the export from other countries, but expansion will concern only products which have been developed and assembled by company itself in Slovakia.

The company Amicus SK has residency in western part of Slovakia, from this point of view the nearest and the most appropriate option of business expansion would be to the Czech Republic, but due to the fact that one of the shareholder of Amicus SK is Czech company Ampira a.s., shareholders decide to analyse and compare other adequate options, namely neighbourhood countries Poland and Ukraine.

The expansion of the company's business may be an exciting challenge from many perspectives. Larger market and related expected growth can bring many advantages such as higher profit, brand recognition, larger geographical market, creating economies of scale and others. However, before benefiting from the advantages of expansion there are many challenges needed to be handled properly at the first place. One of the crucial aspects before expansion itself is to analyse possible alternatives, which can occur and compare advantages and disadvantages of each market.

Therefore, the general aim of this master's thesis is to critically analyse and compare the possible modes of the Amicus SK expansion to the Polish and Ukrainian market with the product portfolio of Wireless Heating Regulation System (WHRS).

In order to achieve the main aim, in the theoretical part of the thesis will the author critically analyse the theories of export expansion for micro firm, to the EU and NON-EU market. First chapter in analytical part will be compounded from PESTLE macro analysis of the Polish market, with focus on the factors relevant to specific industry – WHRS. Further, author will continue with Wireless Heating Regulation industry in Poland and its analysis by Porter's Five Forces analytical tool. In this second chapter will be analysed in the same way the Ukrainian market such as Polish market. Final chapter of analytical part of the thesis will contain the Marketing mix and SWOT analysis of the company Amicus SK. In addition, part of this dissection will be also the Key Success Factors of company Amicus SK in WHRS industry, which shows us what are the principal key factors of the company, which could be helpful in order to make successful entrance to the market.

In the proposal part, author of this thesis will compare pros and cons of both markets from the view of eligibleness of the country in WHRS industry. The proposals recommended at the end of the thesis are elaborated from analyses in the analytical part. This part will include the Key Success Factors, the main options, recommendations and acceptable scenarios. The purpose of these proposals is to help company Amicus SK during the expansion into the new market and also help in decision-making process.

## **OBJECTIVES, METHODS AND PROCEDURES**

Analysed company Amicus SK deals with the idea of moving business know-how and products to another country. The author of this thesis intends to appoint the critical factors and describe those, which company should avoid. To contribute in selection of the right market entry mode that could possibly bring successful penetration. And evaluate advisability of this expansion of Amicus SK to Poland and Ukraine

**The main objective** of this diploma thesis is to compare feasible foreign markets and suggest the right one, which is more suitable for expansion of Slovak company.

To achieve the principal aim, the author allocates following partial methods and objectives:

- ✓ To critically analyse target markets and highlight advantages and disadvantages when attempting to do business in these countries
- ✓ To evaluate the current situation of the company along with comparison with possible competitors in the new market
- ✓ To evaluate the Key Success Factors in specific industry and the development of this industry in each country
- ✓ To present all potentialities the company has, in the terms of identification of entry modes in certain market

### **Methods employed in the diploma thesis**

To analyse external environment are used basic strategies such as PESTLE analysis, Porter's five forces model and analysis of industry environment.

PESTLE analysis is a concept which is used for tracking of the company's environment in which is operating or are planning launch a new service, product or project. Porter's five forces model involves bargaining power of the suppliers and buyers, rivalry among competitors, threats of the new entrants and substitute products.

SWOT analysis identifies strengths and weaknesses of presented company, and its possible external and internal opportunities or threats.

# **1 THEORETICAL BACKGROUND**

## **1.1 Technology improvement**

The building automation and controlling with wireless local network, for example by Wi-Fi technology, Bluetooth or Other Wireless Protocols has had increasing tendency over past decade in consumer and commercial usage. The global revenues from wireless technology usage for building controlling, according forecast of the Navigant Research (2015) will grow the way vertically up from 84.8 million USD in 2013 to 434 million in 2023.

Improvements in logistical systems or in telecommunications have considerably increased the capacity to manage operations in global world and also allowed adoption of global strategies. The spreading of satellite and internet linkages or improvements in transportation systems have enabled enormous cost savings, time reduction, quicker moving by shrinking of distances of goods across major distances. This development facilitates the globalisation of operations (S.P. Douglas, Y. Wind, 1987).

## **1.2 Important motivation factors for expansion and globalisation**

In the last decades the cross-border interactions have amplified dramatically, from information and financial transfers between countries, mass production systems up to movements of the people, whether as tourists, workers or refugees. Unusual range and depth of these trans-national interactions lead some authors to termed a new phenomenon – globalisation (Santos, 2002).

The globalisation is defined as increasing interconnections of the nations by massive intumescence of trade and cultural exchange between countries. It is a level where distance is shrinking due to advanced technologies of communication and transportation, economies of scale and national economies are merging into global integrated economic systems without borders (Investopedia, 2016).

In the first view, it is necessary to understand what exactly the driving forces are for entrepreneurs which motivate companies to expand abroad. Wall et al. (2010) declare that companies are forced to look after new market places, firstly at domestic area, secondly in foreign areas, and accelerate development of product cycle, what results in rapid growth in international world trade and formation of enormous global competition.

Principal economical purpose of almost every company is to increase revenues. From this point of view every company is searching for certain instrument or exact ways how to make it possible. There could be a significant number of opportunities for evolving of a company's business budget. The globalisation is one of them, because it is the way how businesses move beyond domestic markets, and expand their businesses to other markets around the world.

Significant numbers of companies have become disillusioned with the idea of selling goods and providing services outside their home market, find out certain path to international marketplace and become global. Well-managed companies have moved from emphasis on customizing products to offering internationally standardized commodities that are functional, reliable, advanced and low priced. Multinational companies achieve long term success by preferring concentration on everyone needs, rather than giving satisfaction and worrying about details of what every customer preference (Levitt, 1968).

Decreasing number of trade burdens and barriers between states, by contrast of ascendant number of economic unions (EU) and free trade areas (NAFTA), allowed free movement of people, goods, services and capital, speed up processes of economic internationalization and globalization in the past few decades. According Wright and Etemad (2001), the consistent integration of the national markets into larger global market has encouraged a significant number of entrepreneurs, to catch up new opportunities, explore new markets and spread their business to the multinational levels.

Authors Hill (2014) or Wright and Etemad (2001) claim, that the tendency of soaring globalization is supported by two main macro factors. First factor is free flow of products and services inflicted by declining number of barriers. Second factor is

significant development in the newest technologies, principally in the flow of the information, advancement in communication and transportation.

Another theory (Czinkota, 2009) refers that companies have tendency to extend the portion of the pie by inherence in all of the major markets of the world, rather than only increasing of their domestic market share. Therefore, companies are trying to internationalise not only company's business and products, but also parts of a value chain such as final units, which are becoming more worldwide oriented.

Motivation and explanation reasons for entering new markets and acquire a company abroad or merge with already operating company could be according Evans et al. (2003), "enhancing corporate reputation" or "gaining control over valuable brand names". The substantial priority of each corporation, which strives for achieving success or conquering of an area in this global environment, is to obtain competitive advantage over competitors and add value to its business.

Evans et al. (2011) more over assure that the final decisions of corporations about the favoured country, which is the most suitable choice to enter, should be based on number of crucial factors, which are analysed in PESTLE analysis.

According author Yip (1995), it is insufficient to expand only company's physical participation in foreign market, there is an additional necessity to integrate strategy, which will be adapted in international scale, if leaders of the company would like to be effective and successful in the global competitive world. The expansion strategy of the international company has to follow complex analysis of the globalization drivers, which are: government drivers, market drivers, competitive drivers and cost drivers.

Faulkner and Campbell (2003) stated that the business diversification should have been fixed only with activities of the company with synergic effect. This is a concept that the performance and value of two or more combined companies, entities, agents or factors will be greater than the sum of separate individual parts (Investopedia, 2016). Another author who supports this argument of synergy effect was Evans, who said that competitive advantage in business was dependent on the effectual cooperation of the company's business activities in international terms.

In addition, Michael Porter (2008) claims, that there exist specified economic elements, which are auxiliary and which could be very important in particular searching for

benefits and skills that are essential in profitable and effective entrance to the foreign country. Unfortunately, these specified economic elements are often misplaced in legitimate process, principally because of administrative, organisational, legal or human factors (Investopedia, 2016).

The author Michael Porter (2008) found that success of countries, which are part of global competition, is determined by attributes which separately and interactively predict possible competitive advantages. These attributes appear such as demand or factor conditions, related supporting environment or industries in which companies compete.

### **1.3 Opposing attitudes to globalisation**

From the other hand, there are certain authors who are against the concept of globalization itself. For example, author Rugman (2001) advises to entrepreneurs who would like to expand their businesses to another country, to “think local, act regional and forget global”.

The globalization of the economy has not only created cross-sectional separations, it also has divided industries themselves. The largest corporations have tendency to become more multinational and international while micro size and medium size companies are more aimed at retaining their domestic market. On markets where companies operate with globally integrated production network, distribution network and trade barriers will intervene and the openness presumably will be principally preferred on local and also on global market. From the other side, the markets where companies will operate through company's subsidiary, for example multi-domestic businesses, trade barriers could be smaller threat than an additional source of profits. In addition, while domestic companies and industries are becoming more international, the integration with external global corporations is becoming increasingly important in aspect of competition at domestic scene. Globalization causes unemployment in industrialized countries because firms move their factories to places where they can get cheaper workers (Study more, 2012).

## **1.4 Difference between globalisation and internationalisation**

Structural terms as “internationalisation” and “globalisation” are used for describing of united entities of economical, cultural and political character, which operate around the world. But in the meaning of these words there are certain key differences which separate them from each other.

The globalisation as it was mentioned above is the process where various world economies become more and more connected to other. It is intense process of interaction and higher integration of different nations, governments, corporations and people. It is the effective way of decreasing national boundaries for economic purposes.

The internationalisation has increased tendency of importance of international relations, alliances, treaties and international trade. It is the process of identifying economic relations between nations, entering foreign markets and keeping sovereignty over territory. The process of generalizing product without need of re-design, various languages or cultural conventions. It refers more often to specific and economic activity or business product of specific company or state, which international interests (Mowatt, 2016; Saunders, 2013).

## **1.5 Internationalisation of small and medium sized enterprises**

Internationalisation among small and medium sized enterprises (SMEs) has remained topic in economic development of the EU and world. In 2009 the OECD presented report which was focused on general findings on the major barriers and additional motivation to SME internationalisation.

## **1.6 Internationalisation barriers**

Studies made by cooperative organisations of OECD (2009) suggest the following findings of top ranked barriers to the internationalisation of the SMEs:

- ✓ Limited information to analyse and locate foreign markets

Limited knowledge about overseas markets, lack of information required for analysis of their political and economic situation.

- ✓ Shortage of working capital to finance export

The principal leading barriers of internationalisation are limitations in finance and related physical resources. Other barriers reported by recent investigations are lack of required capital and other financial resources of companies or limited access to the key infrastructure.

- ✓ Inability of contacting potential overseas customer

Difficulties arising from obtaining or locating of adequate representative in targeted foreign markets, which is according SMEs studies the key burden of internationalisation.

- ✓ Lack of knowledge, managerial skill and time

Lack of knowledge about foreign markets was one of the reasons for not engaging international trade.

These barriers are only the most common and essential one from certain number of surveys about the problems of internationalisation. In addition, OECD has found other secondary barriers such as technical difficulties, administrative difficulties and related documentation, exchange rate, payment problems or potential foreign competition. However, difficulties during this process has tendency to decrease as company develop further experiential knowledge in international markets.

## **1.7 Internationalisation drivers**

The key motivating factors to the internalisation of SMEs are:

- ✓ Network and social ties and supply chain links

A number of recent studies have highlighted the importance of these social ties, as a first step in internationalisation process.

✓ Growth motives

The key driver of the international trade was identified as growth opportunities, which have related increasing in profit, in market size, in size of company, stronger market position and reduction in dependency on single market or on smaller number of markets.

✓ Knowledge related motives

The findings in studies show that there is a significant importance in the triggering effect of knowledge aspects of internationalisation, which include innovation capabilities, R&D investments, unique technologies or products, language skills.

## **1.8 Uppsala model of internationalisation**

The Uppsala model is one of the most cited models of internationalisation. This model views the internationalisation as an incremental process that is depending on company's experiential knowledge of foreign markets. This model supposes that the companies firstly develop their activities in domestic market and after that they initiate the process of internationalisation by low commitment strategy. This process is stepped, principally depending on the level of knowledge that company collects during different opportunities on the market. There are two types of knowledge – experiential and objective (Ricardo et al., 2014)

The experiential (tacit) knowledge is highly dependent on recognition and memory, which is not relying on foolproof indicators and complex calculations. It comes from experience and it is viewed as the driving force in the process of internationalisation (Storkerson, 2009).

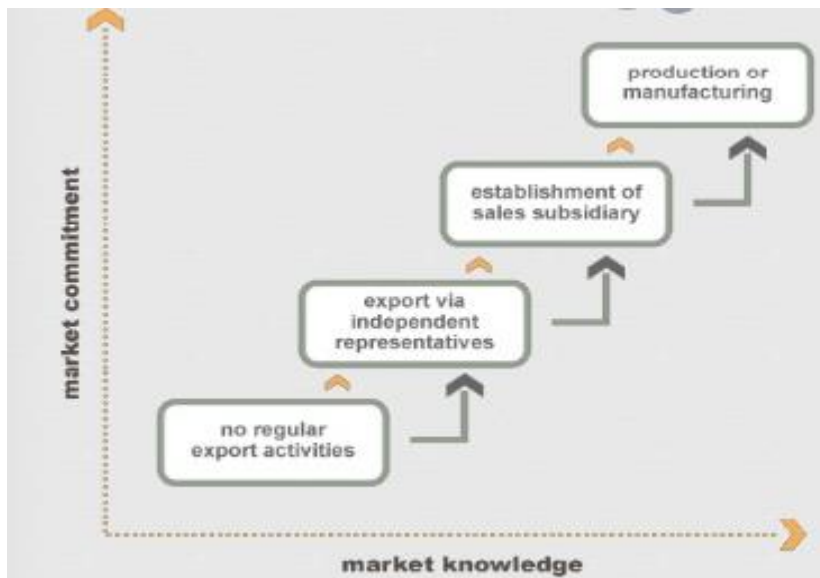
The objective knowledge is obtained from standardised methods of transmitting and collecting information. The objective knowledge allows access to market opportunities

and it has minor importance in the internationalisation process of the company (Errikson at al., 2009).

The Uppsala model distinguishes four different steps, for entering a foreign market. Those markets can not be viewed separately of situation of the company, market and knowledge of market.

Steps:

- ✓ No regular export activities (sporadic export)
- ✓ Export via independent representatives (export mode)
- ✓ Establishment of foreign sales subsidiary
- ✓ Foreign manufacturing/production and sales subsidiary (Hollensen, 2004)



**Picture 1: Internationalisation of the company by Uppsala**  
(Source Forsgren, 2002)

The model states that experiential (tacit) knowledge is the key figure for successful penetration and operation on the foreign market. This could be acquired through company's engaging in international environment or by operating on foreign market. The management learning process on which is based reasoning called "learning by doing" means, more knowledge is generated through own company operations, the lower is known market risk and the higher is level of investments (Forsgren, 2002).

## **1.9 Modes of entry**

An important stage in company's foreign business strategy formation is the choice of entry mode to the market. Multinational enterprises and domestic companies can choose between various entry modes before entering foreign market with a new product or service. This choice has major consequences for other stages in the process of foreign strategy formation and it should be considered by each company very carefully and according possibilities of the company. According author Terpstra (1987), the selection of appropriate entry mode is one of the most important and critical decisions, which is made by firm in the international area.

Before choosing the right path of entry, company has to reconsider level of eventual risk management is willing to assume and the level of control management which would like to provide. Namely, the consideration about what influence the risk will have on investments strategies, how perceived levels of risk will presume levels of control or what are the potential risks and also rewards for entering the foreign market (Anderson and Gatignon 1986; Brouthers, 1995).

There are many modes of entry which are feasible for the expansion of company to another country. Depending on whether the company would like to set up its own subsidiary with full control or certain form of partnering company based on collaboration between them (Pehrsson, 2008). In the process of consideration among possible entry modes there has to be taken into account, for example the variants of industry, specific factors of the firm, size of the firm, specific industry concentration on a new market or its growth (Douglas and Craig, 1995).

The availability of capital, manufacturing and technology capabilities all in different locations will affect the decisions about possible type of joint ventures, licensing, manufacturing or other types of decisions such as reciprocity, long term relations or countertrade (S.P. Douglas, Y. Wind, 1987).

### **1.9.1 Indirect and direct export**

The export and import is the exchange of goods and services through the countries around the world, it is also known as international trade. The author Rugman (2001) defines the export and import as goods and services produced by a company in one country and then being distributed and sold in another country.

There are two types of export:

#### **✓ Indirect export**

The indirect export participates in international business through indirect distribution channels. It means through intermediaries is performed export function such as finding buyers in foreign market, to deliver goods with proper documentation and right packaging, to ship product and receive payment. This type of export allows each company to start without relatively higher financial investments or decreases related risk. As a disadvantage could be a lower profit because of higher costs for example for transport.

#### **✓ Direct export**

The direct export in international business is through direct channels, it means that goods are exported directly to the customer. In this type of export, a direct contact between seller and customer is established, as well as direct participation in international trade and greater control over foreign expansion.

### **1.9.2 Strategic alliances**

The strategic alliances (SA) is another type of business, where two companies make arrangement between them and decide to share resources, profits, costs, information and undertake certain type of a project. The alliance is commonly defined as optional cooperative agreement between companies. This agreement is based on sharing, exchanging or co-development and it also includes capital contributions, sharing of technology or information, and sharing company's specific assets. There is not involved

any sharing of equity that have hierarchical controls built into them (Gulati and Singh, 1998).

Normally, these companies create separate business entities, where are more coordinated costs. These costs arise from independence and related complexity of certain project or activities which could be completed separately or jointly (Investopedia, 2016).

### **1.9.3 Joint venture**

The joint venture (JV) is the agreement of two or more businesses that agree on pooling of the resources and profits. In this agreement are specified responsibilities of each participant and their proportion of costs, losses or profits associated with this specified task. Advantages of the joint ventures are for example access to technologies, management skills or core competences and also access to Research and Development, manufacturing or distribution channels (Investopedia, 2016).

### **1.9.4 Subsidiary**

The subsidiaries are defined according author Hill (2011) like a business entity, which are owned by another company called parent company or holding company. The subsidiary is owned by another company by fifty or more percent. If the subsidiary, which is 100% controlled by parent company it is called wholly owned subsidiary. If these companies operate in foreign countries, they must comply with law and jurisdiction of that country and financial results are only included into parent company's financial reports. This entry mode, according Rugman (1981) gives the highest chance to maximize the potential return of the valuable assets and use company specific know-how or advantage just by establishing duplicate of the parent company in foreign country.

### **1.9.5 Licensing**

The licensing includes also franchising, which is only specialized form of licensing. It is case of business organization structure where one party (the franchisee) allows access to

the privately owned knowledge, processes and trademarks of established business. In other words, it is a business arrangement where one company sells the license what means giving to another company the permission to use intellectual property, to manufacture the product, to use technologies or patents under exact defined conditions (Staff, 2015). For this knowledge and services are charged fees to the franchisor, for using technologies, expertise or for using brand name of the company. Franchising is based on organization structure which has the right to control management of company (franchisor) (Investopedia, 2016; Marketing teacher, 2016).

#### **1.9.6 Acquisition or merge**

The merge is a form of business, where two or more business units are formed to one operating economic unit. In this case, before transferring combining entities into one unit, companies are negotiating in friendly way and it can lead into a merge.

On the other side, the acquisition as well as a merge, is the transaction which forms two or more previous entities into one business unit, however this is an example of hostile (unfriendly) takeover of one entity by another. It is a transfer of the ownership of stocks, liabilities or assets from the target company to acquiring corporation. Often the stronger company swallows the targeted company with the whole control over it and risk related (De Pamphilis, 2011).

#### **1.10 Summary of the theoretical part**

Since the concerned company is partly developer, partly manufacturer and partly seller of goods which would like to expand abroad and provide to other customers, the principal part of the theoretical background is about the globalisation. It is the process by which the countries all around the world are becoming increasingly interconnected as a result of growing exchange and expanding of cultural trade. Where enormous corporations are not national companies but they operate everywhere and they have subsidiaries in many countries around the world.

Another developed topic is about drivers, which enhance entrepreneurs to expand their businesses to other countries. What are the principal reasons and motivators, advantages or disadvantages of this foreign strategy. Further the principal difference between globalisation and internationalisation. With this topic are connected also the barriers and drivers of internationalisation of the Small and Medium Enterprises (SME). The Uppsala's model refers the importance of knowledge in the process of internationalisation, highlights four steps which are necessary in expansion process.

Last part of literature review is about various legal forms of companies which could be suitable options for entry on foreign market.

## **2 ANALYTICAL PART**

### **2.1 Introduction of the company**

|                               |   |
|-------------------------------|---|
| <b>Name of the company:</b>   | Amicus SK, s.r.o.   |
| <b>Registered place:</b>      | Koreszkova 9<br><br>909 01 Skalica<br><br>Slovak republic |
| <b>Legal status:</b>          | Limited Liability Company                                 |
| <b>Date of establishment:</b> | 19. 01. 2000  |

#### **2.1.1 Business activities**

The Amicus SK is a small size company settled in western part of Slovakia near the borders with the Czech Republic, in the town Skalica. The company is owner of commercial premises with two assemble plants and one administration building. Together there are 21 employees of whom 16 people are working in assemble plants and rest of staffs (5 people) are working in administration.

Amicus SK's main business activity is manufacturing, selling and distribution of the heating and cooling regulation products, air conditioning and cooling products, and electromechanical components. One part of these products is imported from the foreign manufacturers principally from Germany and China on exclusive distribution agreement, with Amicus SK on the Slovak market. Second part of portfolio product scale especially heating and cooling products is produced by the company itself or assembled in assembling plant in Skalica.

One special product from the product assortment of Amicus SK is Wireless Heating Regulation Systems (WHRS). These WHRS products have been developed by company Amicus SK itself. The development of WHRS products has been partly financed by

European Union, within the programme framework - Competitiveness and Innovation (programming period 2007-2013). The company sees potential opportunity in the next development of WHRS products on Slovak market and also in other foreign markets. The Amicus SK would like to invest certain amount of financial resources from retained earnings to the next expansion on the new unexplored markets.

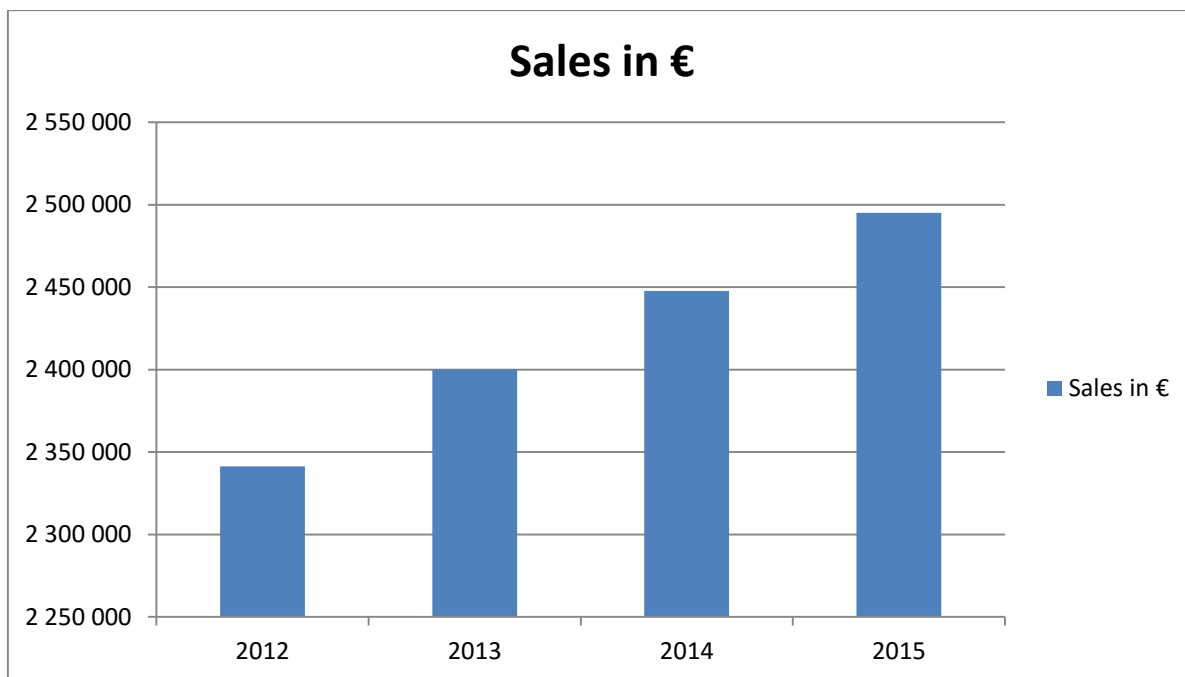
### **2.1.2 Information about company**

Amicus SK is the company, which operates principally on the Slovak market and it was founded as a Slovak subsidiary of the Czech company Ampira a.s., but now Ampira a.s. is just one of shareholders in the company.

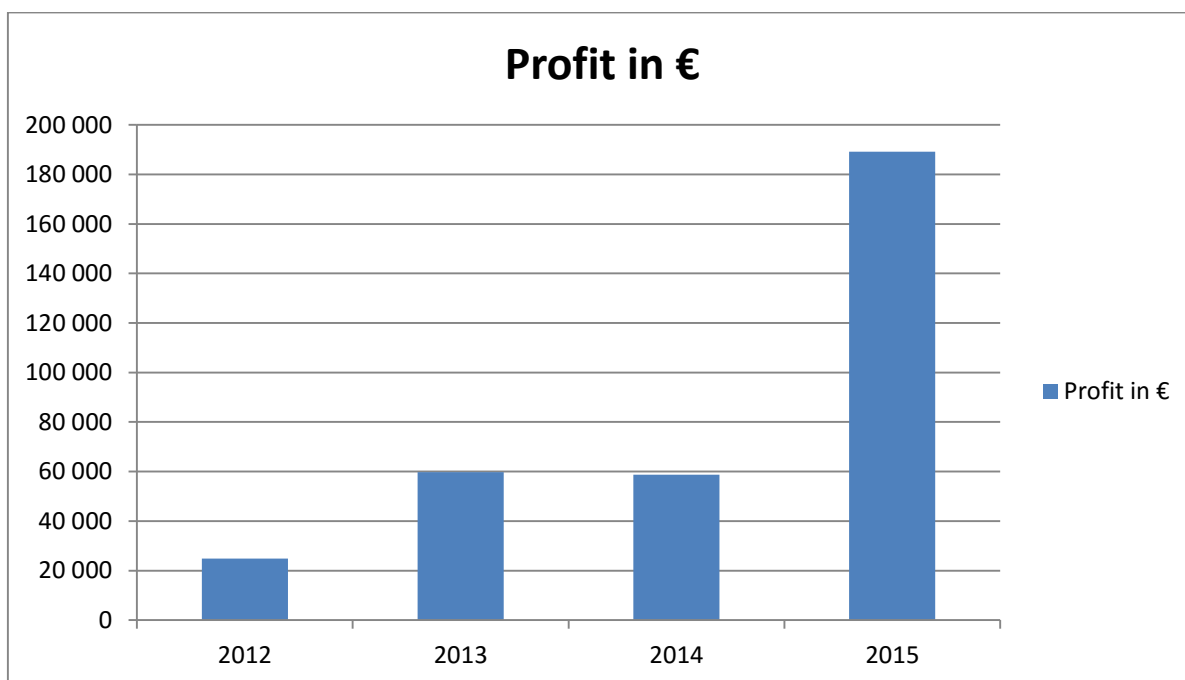
From the year 2003 the company Amicus SK has developed certificated system of management quality, according standard ISO 9001:2008. The organization structure which results from map of processes was also developed. The aim is to consistently develop profile of the company in green and environmental approach.

### **2.1.3 Sales of the company**

The company turnover in last 4 years was over 2.3 million euros (see the graph 1 below). Amicus SK is investing significant number to the cutting edge technologies, which are also the largest part of company expenditures.



**Graph 1: Sales of Amicus SK**  
 (Source: Own work based on data from finstat.sk)



**Graph 2: Profit of Amicus SK**  
 (Source: Own work based on data from finstat.sk)

#### **2.1.4 National and international cooperation**

Amicus SK cooperates with many companies and organisations on national and international level. One of these partnerships is with University of Žilina. The long term collaboration with external partners such as University of Žilina secures research and development of partial tasks, which are necessary to achieve and realise strategic aims of the certain project or future vision of the company. University possesses technical infrastructure, know-how and authority required for addressed issues of Amicus SK.

Another foreign collaboration is with Swedish company Wosab. Cooperation is based on testing and developing of technologies used for regulation of electric heaters.

Subsequently the company has successfully cooperated with companies such as:

- ✓ Fondwell s.r.o. (Czech company)
- ✓ First Heating s.r.o. (Czech company)
- ✓ Dalkia a.s. (Slovak company)
- ✓ Elka Kremnica a.s. (Slovak company)

The aim of cooperation between companies was sharing information and technology improvement in variety of wireless heating products, electromechanical components and regulation products.

Amicus SK is also a member of national organisations for development in specific industry.

- ✓ Slovak association of cooling and air conditioning technology (SZCHKT)

The association is interacting Slovak and foreign companies or institutions in the production, import, sales, training and services in the sphere of cooling and air conditioning technology.

- ✓ Slovak society for environmental technology

It is a voluntary association, which is connecting scientist and technical workers in sphere of technical development and environmental protection.

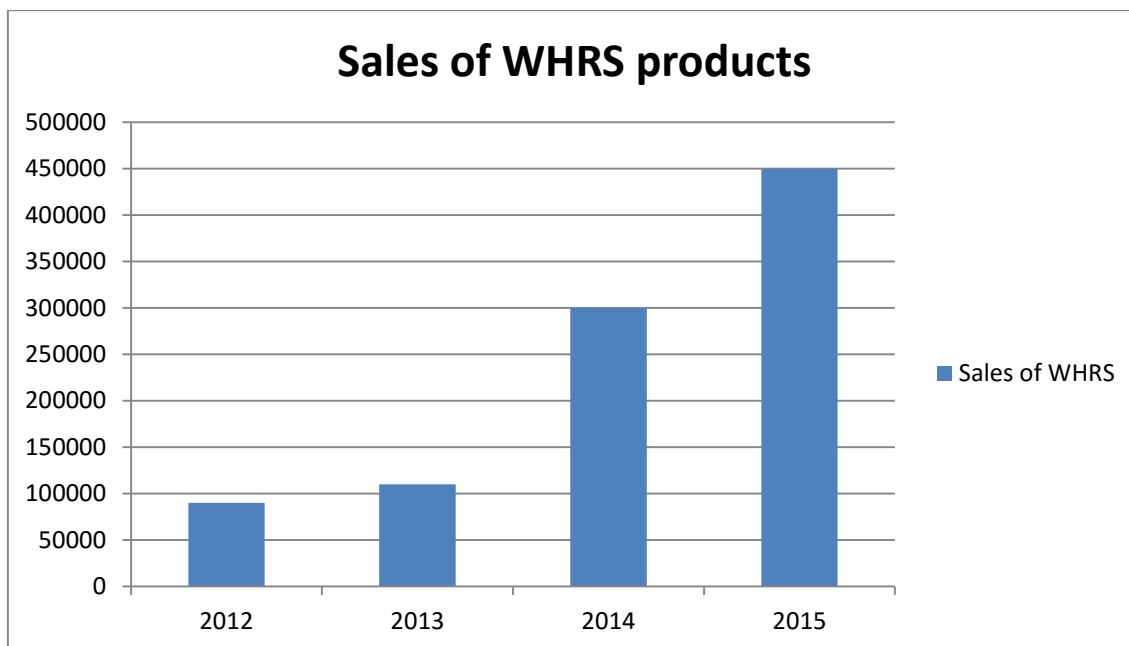
## **2.2 WHRS products specification**

In today's global economy, important factors, which can have a huge beneficial influence on success of a company, are environmental friendly products equipped with saving energy properties. Amicus SK is trying to optimize energy consumption for heating and directly contributes to the fight against global warming. This system has a great potential to save tens percent of the buildings for heating. Convenient impact on the environment with lower CO<sub>2</sub> production occurs in conserving of non-renewable natural resources.

The system of Amicus SK's wireless heating technology optimizes energy efficiency, which is needed for heating in buildings, and contributes directly to cost savings. Energy efficiency is a key issue for most WHRS applications and that is why WHRS products were developed. According to company's testing procedures, after installation of this WHRS products in testing buildings, average savings in energy were at level of 23%. Another ecological benefit from using WHRS from Amicus SK is the lower production of CO<sub>2</sub>, which increases prosperity on environmental conservation. This system is working on the basis of the centralised heating system, with distant regulation control over entities (IQRC, 2015).

### **2.2.1 Wireless Heating Regulation Systems in Amicus SK**

According the current situation of the WHRS in domestic market, the company has sales on the level of approximately 20% of all sales division of Amicus SK.



**Graph 3: Sales of WHRS products of company Amicus SK**  
(Source Own work based on data from finstat.sk)

The company after finalization of the development of the WHRS, sales of the WHRS were at the level of 100-thousand per year, with growing tendency. In 2015 sales of the company Amicus SK, were at the level (see graph 1) of approximately 2 500-thousand EUR, 20% of these sales were constitute from the WHRS products – 500-thousand (see graph 3). The company supposes continual growing tendency in sales of these products in domestic market.

The margin of profit and revenues are under the confidentiality of the company Amicus SK. But according approximate information the added margin of WHRS products should be on the level of 40-70%, for each product.

It is necessary to take into account significant expenses, which were invested by the company Amicus SK (partially by EU) to the development of these Wireless Heating Regulation System products, namely related technological processes, human capital, time and additional financial resource.

## **2.3 Industry overview**

Heating supply systems can be classified as centralised and decentralised heating system.

### **Centralised district heating system**

District heating system is defined as supply of heat to the consumers through the common direct heat network. Customers in this case are principally high buildings, wide spread buildings, buildings in the residential or public sector (schools, universities, institutions such as health care, sport or trade institutions, military divisions, nursery schools, etc.) and industrial facilities (such as hotels, enterprises, residencies).

Centralised heating system is primary used in larger cities, but it is dependent on level of development and structure of the city. Heating of building is bringing to effect through district heating companies. In these cities the heat supply systems are characterized by a few large energy sources (large heat boiler plants) or long heating networks.

### **Decentralised heating system**

Decentralised heating system is organized as individual heating system or private heating system, which is used essentially for apartments or houses. This system of heating is using primary gas equipment and it is used normally in rural areas.

Nowadays, there are still used systems of decentralized heating in buildings, which negatively affect using of centralized heating systems, additional energy supply and require substantial costs necessary for construction.

### **Comparison of centralised and decentralised heating systems**

The energy efficiency of heating systems is characterised on the basis of transportation effects, production effects and environmental effects. The systems of centralised heating systems have the highest effectiveness at the production stage. Unfortunately, there are substantial losses of temperature during heat transportation to a large number of

consumers. This means that the centralized heating system is mostly appropriate when it is installed in larger residential districts.

On the other side, decentralised heating systems provide minimum transportation losses of temperature, but they require additional costs related to installation boilers in every flat or building. The usage of this system is convenient for cottage areas or individual houses, for the reason that it increases gas emissions and consequently increases pollution of environment.

Advantages of decentralised heating system are for example that customers can regulate temperature in their flats or apartments, and do not suffer from overheating during spring time or insufficient temperatures in winter. And customers do not pay for heat or hot water and pay only for cold water and gas. However, there is a necessity to install boilers in every flat where is not enough space for this device (Tsarenko, 2007).

## **2.4 The analysis of the Polish market by PESTLE analysis with partial focusing on the factors relevant to the specific industry (WHRS)**

### **2.4.1 Political influences**

Republic of Poland is parliamentary country with democratic government system, consists of two houses of parliament, lower house and upper house containing together about 560 members. The political environment in Poland has a stable character, such as economy without any higher fluctuation.

The sanctions of European Union imposed against Russia, linked with recent armed invasion of the Crimea, have changed character of bilateral trade and international investments relationship between Russia and EU. In the view of these sanctions and restrictions, Poland has suffered certain financial losses from Russia's food import ban. In spite of that the government reinstates export subsidies to polish milk and pork producers, to decrease the losses from these sanctions (Heritage, 2016).

According Business Insider (2014), Poland has additionally benefited from these provocative actions of Russia, by becoming more attractive for investors because of safer and less volatile place for financial investments (Holmes, 2014).

#### **2.4.2 Economic influences**

Republic of Poland is 70-th largest country in the world and 6-th largest country in EU, which makes it promising market for expansion. Economy in Poland has grown rapidly over last two decades, GDP of the country almost doubled after Poland has been introduced into EU in 2004. Today is Poland the eight largest economy in EU in the terms of GDP, with ascending tendency of private sector. The GDP is driven principally by fixed investments and household consumption. There is also growing tendency of influence in international trade and high competitive status of international export (World Bank, 2016; OECD, 2012; BMI research, 2016).

In 2013 the World Bank presented program for calendar period 2014-2017 – **Country Partnership Strategy for Poland**, which goals are:

- ✓ Sustainable income growth for the bottom 40% of population
- ✓ Supporting Poland's emerging role as a global development partner

This program was settled to decrease the level of poverty which has marginal level at 7% in 2014 and also to increase the role of the country in international trade (World Bank, 2016).

The independent central bank continues to boost investor confidence and economic stability. Polish manufacturing factories are becoming part of the German supply chain, for the reason cheap working power and high productivity. Another positive prediction is that the Poland according many economists has properties to become one of the top 20 economies in the world (Holmes, 2014).

Official currency of Poland is Zloty (1 EUR = 4,44 PLN, dated 5.7.2016)



**Graph 4: Poland GDP Growth rate**  
(Source: Trading economics, 2016)

The sectors of Poland's economy, which participate in the largest amount, are wholesale and retail trade services, accommodation, industry, public administration and education.

Another advantage of Polish market is that part of Schengen area, European Union, NATO, OECD, International Monetary Fund, World trade Organisation (WTO) and other international bodies such as Visegrad four (Gov.uk, 2015).

### 2.4.3 Socio-demographic influences

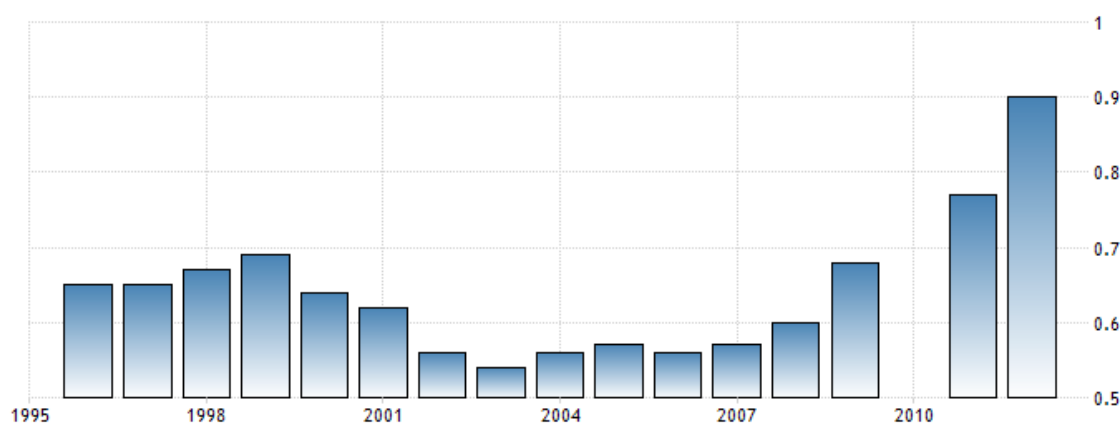
In Poland live 38,6 million of inhabitants (Country meters, 2016).

Poland is trying to build supportive infrastructure for domestic companies based on an innovative and dynamic business environment. With programs of investing to well-educated and skilled people, which with right integration process, it will help to secure growth while the population ages.

Unemployment rate of Poland (April 2016 – 9,5%) is little bit higher than average of EU (April 2016 - 8,7%) that is why country is trying to make the Polish market more attractive for workers. Another reflected problem is with finding qualified staffs (Herotage, 2016).

#### 2.4.4 Technological influences

The Polish government's strategy is based on country's development and consolidates investments in productive capital and research and development. Every state member of EU should spend 3% of GDP on research and development by 2020. The Polish economy outperformed other countries of EU during the last global financial crisis, but the expenditures on R&D are on the lower level in comparison with more advanced economies. On the graph below there are shown the expenditures (% of GDP) on R&D in Poland. The expenditures have growing tendency (value of 0,9% of GDP in 2010), but with comparison of other developed countries it is not sufficient. For the future local businesses is necessary to ramp up investments to R&D (OECD, 2012; Cienski, 2014).



**Graph 5: Expenditures of Poland to the R&D**

(Source: Trading economics, 2016)

#### 2.4.5 Legal influences

Businesses founded under Poland legislation have to pay corporate tax at flat rate of 19 percent. The personal income tax is progressive, according tax scale:

**Table 1: Income TAX in Poland**

(Source: Invest in Poland, 2015)

| Annual income    | TAX rate |
|------------------|----------|
| 0 - 85 528 (PLN) | 18%      |
| 85528 <          | 32%      |

The basic VAT rate is on value of 23%, applied to majority of goods and service. Another rate of VAT in on value 8%, which is applied to certain services and goods, and 5% VAT rate is applied on supply basic food products (Gov.uk, 2015).

Polish law offers many legal forms for launching business entity, the most appropriate solutions which serve as business vehicle for foreign investors are:

- ✓ Joint-Stock Company
- ✓ Limited Liability Company
- ✓ Limited Liability Partnership
- ✓ Limited Joint-Stock Partnership
- ✓ Registered Partnership

Additionally, foreign companies can run the business in the form of representative office or branch office (Cafelco Consulting Poland, 2016).

According to analysis of Trading Economics (2015), the Ease of Doing Business index ranks countries against each other on the basis of how regulatory business environment contributes to the starting and running of a local company. On the chart below it is possible to see still developing and improving polish business environment.



**Graph 5: Ease of doing business in Poland**  
(Source: Trading Economics, 2015)

According the Transparency International (2015) Polish Corruption Perception Index (CPI) in 2015 was ranked in 30th place with score of 62 from 100 possible. What ranks Poland among better performed half among 168 countries sample. On the graph it is possible to see considerable improvement and decreasing tendency of corruption in Poland (Business anti-corruption, 2016; Transparency International, 2016).



**Graph 6: Polish Corruption Perception Index**  
(Source: Trading Economics, 2015)

### Poland start-up considerations and challenges

The principal roads on Polish markets are:

- ✓ Importer
- ✓ Distributor
- ✓ Partnership
- ✓ Direct sale
- ✓ Agents
- ✓ Commission agent
- ✓ Partnership

The Polish market entry can be difficult mainly through route of direct sale, it is more efficient to launch business on this market through local partners, which have capability to provide and distribute technical support. Further options of business entry modes, which are becoming increasingly popular in Poland, are licensing and franchising (Gov.uk, 2015).

Challenges posted by Polish market:

- ✓ bureaucracy
- ✓ slow judicial system
- ✓ corruption
- ✓ lack of transparency and clarity in tax administration
- ✓ competitive market
- ✓ tax burdens

Possible opportunities posted by Polish market:

- ✓ **regulatory capacity buildings**
- ✓ research and development transfers
- ✓ consultancy and project management
- ✓ access control solutions
- ✓ planning and development of technical standards and regulation
- ✓ operational maintenance
- ✓ project or commercial management
- ✓ CCTV monitoring systems for cities, transport systems and **intelligent buildings**
- ✓ cutting edge solutions for homeland security services, including surveillance, security and communications equipment
- ✓ Information Technology security solutions
- ✓ planned tender for 30 plus combat helicopters (Raven programme)
- ✓ R&D and technology transfer
- ✓ logistics equipment
- ✓ supply chain for aircrafts, helicopters
- ✓ modern individual soldier equipment such as uniforms (Gov.uk, 2015).

#### **2.4.6 Environmental influences**

Poland's economy belongs to the least carbon efficient in EU. According the World Bank (2007) Poland had 1,3 metric tons of CO<sub>2</sub> emissions, while average of EU countries were less than 0,5 metric tons of CO<sub>2</sub> emissions (World bank, 2015).

The principal environmental problem in Poland is high levels of air pollution, which is related to the dependency on outdated and inefficient heating infrastructure of households. Further problem is a huge dependency on car transport and low quality of coal used. For the Polish environment it is necessary to increase investments principally to the low emission infrastructure and skills. This would help to sustain improvements in environmental quality, living standards and well-being.

The centralised system of heating is highly developed almost in the whole country, among all developed areas. It is used mainly in storey buildings, larger houses and companies (OECD, 2016).

### **2.5 Analysis of the WHRS industry in Poland by PORTER analytical tool**

#### **2.5.1 Rivalry among existing competitors**

Rivalry among existing competitors in Polish market is **relatively low – medium**. The company Amicus SK is one of the leading companies among manufacturers of Wireless Heating Regulation Systems (WHRs). Principal focus of the company is on corporate usage of the system (schools, hotels, administrative buildings, hospitals, industrial fabrics), where client and user can have control over up to 2000 terminal stations. Competitors of controlling heating industry on this market are more oriented on domestic usage or smaller buildings and premises (Amicus SK, 2015). Due to this fact, there is not any bigger direct competitor focused on corporate usage of the system on the Polish market (BBC, 2013).

### 2.5.2 Bargaining power of suppliers

Suppliers of Amicus SK of WHRS in Poland possess **relatively low** bargaining power, for the reason that the company almost everything produces itself, except of smaller components used during production of heating systems. These mainly plastic components do not have significant influence on price setting and it is imported from China custom-made. Another reason is that the company will produce whole range of products on the Slovak market (Amicus SK, 2015).

### 2.5.3 Bargaining power of buyers

For analysed company Amicus SK, targeted customers group are initially wide spread buildings, owned by corporations or companies, where the final consumer (client) can choose where should be WHRS implemented and what are the essential features of WHRS. In this case, bargaining power of customers is highly dependent on difficulty, quantity and size of the project purchase order. The price of WHRS is also dependent on these mentioned factors. Therefore, the bargaining power of buyers is on a **higher level**.

### 2.5.4 Threat of substitute products

The company certificates every WHRS product of their own production, to avoid duplication of company's product from competitors. It is necessary to keep continuously monitor the market to prevent reproducing of their products.

Substitute products for wireless heating industry are especially highly used older heating systems without wireless central controlling system and alternative variants of heating systems such as buildings with renewable energy supply or low-energy buildings which are based on other types of heating. According Polish legislation patents which are registered by Amicus SK are applicable in whole EU, and it is easier to claim the patent rights against duplicators. From the followed is threat of substitute product on **low – medium level**.

### **2.5.5 Threat of new entrants into industry**

Global corporations could be the significant threat, for the reason that they might make sufficient economies of scale to decrease of prices (for example China). Further, due the fact that Poland is a member of EU and generic market, it is simple for companies in EU to penetrate the Polish market. For that reason the threat of new entrants to the industry in which is Amicus SK operating is on **medium - higher level**. New entrants can be limited by higher start-up costs, which are principally in WHRS industry investments to the technology, human capital and facilities.

## **2.6 The analysis of Ukrainian market by PESTLE analysis with partial focusing on the factors relevant to the specific industry (WHRS)**

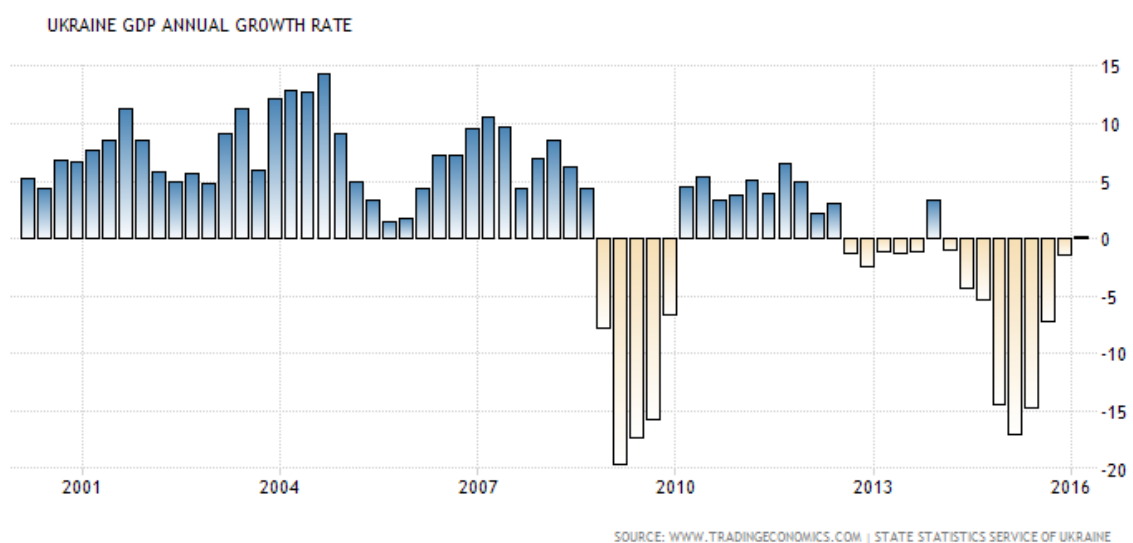
### **2.6.1 Political influences**

Ukraine is a semi-presidential representative republic, based on multi-party system. The executive power has The President of Ukraine (elected for 5 years terms) and The Government. The legislative power owns Ukrainian Parliament, which is only legislative body in the country. Parliament is elected by citizens for five years terms and it is consist from 450 members (Ukraine-arabia, 2014).

The political situation in Ukraine is under constant stress, for the reasons of recent armed conflicts and invasion of Russian army to Crimea or previous protest against president Yanukovych, who rejected expected deal for greater economic integration with EU. The high degree of the corruption at all levels of government and public institutions is one of the largest problems in Ukrainian market. According Yemelianova (2010) Ukraine's corruption level makes the crucial influence on the economic, political and social sphere of public life (Fisher, 2014; Farnalskiy, 2013).

### 2.6.2 Economic influences

Economic situation in Ukraine according Focus Economics (2016) is returning to the growth after recent incidents mentioned above. Decreasing number of military participation in Ukrainian area or more stable price pressure has had positive impact on the political environment, which is starting to stabilise. Moreover, the IMF program for economic growth should help to pick up pace through the year. Forecast for economic growth this year is expected on 1,1%, but the economy still remains in fragile state and process of recovery is expected to be very slow.



**Graph 7: Ukraine GDP Growth rate**  
(Source: Trading economics, 2016)

According the graph the worst recent crisis should be overcome and Ukrainian economy should have steady growing tendency.

Ukraine has slightly developed international organisation participation and it is a member of organisations such as World Trade Organisation, International Monetary Fund, European Bank of Reconstruction and Development, and many others. In the frame of former Soviet Union, Ukraine is a member of the Commonwealth of Independent States or Georgia-Ukraine-Azerbaijan-Moldova. In the view of that,

disadvantage could be that Ukraine, which is in the eastern part of Europe, is not part of international alignments such as European Union or OECD.

In 2009 the OECD launched the project Sector Competitiveness Strategy for Ukraine, which has been composed from three phases with following priorities:

- ✓ Renewables and energy efficiency, competitiveness, manufacturing and transport
- ✓ Specific policy barriers, with focus on short-term results
- ✓ Mechanism for sustainable reform process and support the Government of Ukraine for its implementation (OECD, 2015)

Official currency of Ukraine is Hryvnia (1 EUR = 27,77 UAH, dated 5.7.2016)

### **2.6.3 Socio-demographic influences**

Population in Ukraine is a bit above 42,4 million of inhabitants. There is very significant decline in population from the time of declaring its independency.

Unemployment rate of Ukraine is at level of 10,3% (April 2016) and according of Business Reference Services (2015) and OECD, it has great economic potential and relatively cheap labour force. However, the whole potential of highly educated workforce is not fulfilled in all potency, because of institutional and structural barriers. There is a requirement to make suitable reforms in the labour and employment market (OECD, 2015)

### **2.6.4 Technological influences**

The Ukrainian government ambitious goal is to keep emissions 50% below levels which were reached in 1990 and achieve zero emission growth by 2050. Cooperation with financing these goals should reduce risks and overall costs of investments to energy efficiency, renewable energy, district heating, Smart Grid components or zero emission power from the gas network. From the other side there is increasing tendency of internet

usage, information technologies and development of telecommunication during the last decade (CIF, 2015).



**Graph 8: Expenditures of Ukraine to the R&D**

(Source: Trading economics, 2016)

The last measure of World Bank shows the graph with percentage of GDP invested to research and development in 2011, which was at level of 0,7% of GDP.

### 2.6.5 Legal influences

Taxes in Ukraine:

Personal income tax rate on employed income is 18%

Corporate income tax rate 18%

**Table 2: TAX rates in Ukraine**

(Source: Deloitte, 2016)

| Products                             | Percentage of VAT rate |
|--------------------------------------|------------------------|
| domestic supplies, imported goods    | VAT rate 20%           |
| pharmaceuticals, healthcare products | VAT rate 7%            |
| exported goods, auxiliary services   | VAT rate 0%            |

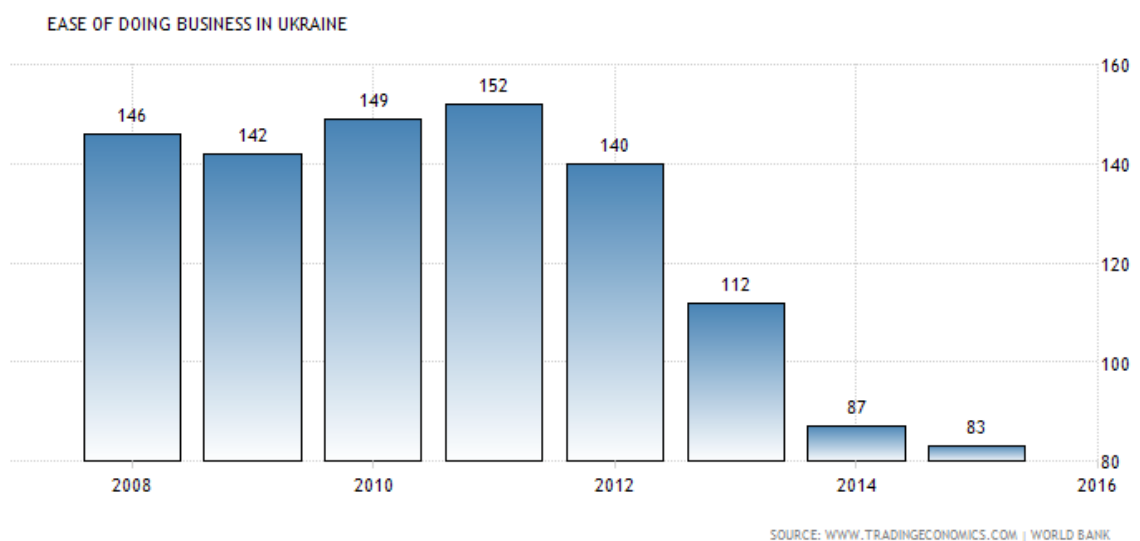
The principal forms of doing businesses in Ukraine are:

- ✓ Private of public joint stock company
- ✓ Limited liability company
- ✓ Joint venture
- ✓ Representative office
- ✓ Branch

Permanent establishment of a foreign corporation

For foreign investors without establishing residency or without presence in Ukrainian market:

- ✓ Joint production agreement with Ukrainian partners
- ✓ One-time Contract with Ukrainian partners (Deloitte, 2016)



**Graph 9: Graph 5: Ease of doing business in Ukraine**  
(Source: Trading Economics, 2015)

According the Transparency International (2015) Ukrainian Corruption Perception Index (CPI) in 2015 was ranked in 130th place with score of 27 from 100 possible.

The corruption is highly anchored in this country, besides with market volatility and political instability, this market represents the huge business risk for foreign investors. Among Ukrainian public official officers are widespread facilitation payments and bribery, which complicate launching businesses or trade procedures for foreign companies. There are official burdensome requirements or regulations, which are related with the lack of transparency, monopolistic practices or unfair competition (Business anti-corruption portal, 2015).



**Graph 10: Ukrainian Corruption Perception Index**  
(Source: Trading Economics, 2015)

EU business travellers or new entrants into Ukrainian market Visa is not required for a stay up to 90 days within a 180 day period. Another barrier is that English language is not widely spoken, although knowledge of the language in this area is slowly expanding, especially in the larger and central cities (Export.gov, 2015).

#### 2.6.6 Environmental influences

The principal problem of major part of Ukraine is the problem with drinking water. There are more than thousand uninhabited areas, for the reason of deficit supplying drinking water. Another issue is related to contamination resulting from the Chernobyl nuclear power plant accident in the last century (1986) (Farnalskiy, 2013).

The largest challenge in implementation ecological programs in Ukraine is the lack of financial resources. It is necessary to revise the government priorities and start with implementing of approved ecological programs, and financing them with a new mechanism involvement (Trading economics, 2016).

The central heating industry is more likely developed in large cities in high buildings, schools or hotels spread by district heating companies and industrial heat sources. Smaller cities and rural areas have primarily individual decentralised heating systems (Tsarenko, 2009).

Members of European Union are trying to help with these and others environmental problems of Ukraine. Till year 2015 through the National Environmental Action Plan, the EU has contributed by significant resources to the stabilisation of current situation. Further, EU has pledged 35 million to the support mechanism for launching new environmental policy in Ukraine, implementing the National Environmental Strategy. The key priorities of this strategy are:

- ✓ territorial development policies,
- ✓ support the integration of environmental policy,
- ✓ bring the Ukrainian environmental standards and legislation closer to EU norms,
- ✓ simplification, modernisation, public participation in environmental systems,
- ✓ stabilising of air pollutions,
- ✓ improving of the quality of surface water,
- ✓ increase nature protected areas,
- ✓ increase percentage of recycled municipal waste (EU Co-operation News, 2013)

## **2.7 Analysis of the WHRS industry in Ukraine by PORTER analytical tool**

### **2.7.1 Rivalry among existing competitors**

In Ukraine is difficult to enter the industry or to gain competitive advantage, the company has to be well prepared with suitable entry strategy, technological and

financial capabilities. If Amicus SK would like to be prosperous in WHRS industry, they have to be focused on long-term development and long-term perspective.

According the PESTLE analysis technology investments made by government are limited by available financial resources that means it is not easy to get certain type of support from government. The government involvement in regulatory policy has crucial impact on fair competition on the Ukrainian market. The rivalry among competitors is on **medium level**.

### **2.7.2 Bargaining power of suppliers**

Bargaining power of Amicus SK's suppliers of WHRS in Ukraine possess **relatively low**, for the reason that the company almost everything produces itself in Slovakia, excepting of smaller components used during production of heating systems. These mainly plastic components do not have significant influence on price setting and it is imported from China custom-made (Amicus SK, 2015).

### **2.7.3 Bargaining power of buyers**

As it was mentioned in Porter's analysis of Poland, Amicus SK's targeted customers group are initially wide spread buildings, owned by corporations or companies, where the final consumer (client) can choose where should be WHRS implemented and what are the essential features of WHRS. In this case, bargaining power of customers is highly dependent on difficulty, quantity and size of the project purchase order. The price of WHRS is also dependent on these mentioned factors.

The bargaining power of buyers is on the **high level**, also for the reason that the government programs are very limited. And additionally governmental tenders are highly bureaucratic and with highly corrupted approach which restrain to compete in state tenders.

#### **2.7.4 Threat of substitute products**

The threat of substitute product is on a **very high** level. Alternative products for WHRS industry in Ukrainian market are especially other types of centralized heating systems, such as older heating systems without wireless central controlling system and alternative variants of heating systems. Nowadays, there is a tendency to protect the environment and there is an increasing tendency of buildings development with renewable energy supply or buildings with low-energy supply which are based on other types of heating. There is still expanded ongoing obsolete trend of using heating systems without centralised type of heating, which has higher cost and inefficiency in energy supply.

For the reason of that development, there are a growing numbers of substitute products in WHRS. The Amicus SK certificates almost every developed product to avoid duplication from competitors.

#### **2.7.5 Threat of new entrants into industry**

As author mentioned in PESTEL analysis before, the corruption could be the principal burden in the entry to this market. The bribery necessity could terminate the access on market. To be able to sell the WHRS product on the market, the Amicus SK has to go through time consuming certification procedures related with documentation of certificate of origin, certificate of conformity, movement certificate (EUR.1) or commercial invoice with the value of goods, which are required by custom office.

Other barriers for entering Ukrainian market with WHRS business segment are brand identity, advanced technology, costly capital investments or product distribution. The WHRS are largely dependent on implementation and development of new advanced technologies and environmental regulations and trends, this aspect could play essential role in market entrance barrier. From mentioned above the threat of new entrants into industry is **very high**.

## **2.8 Marketing mix of the company Amicus SK**

In this section the company Amicus SK is analysed with basic principles of Marketing mix 4P's (Product, Price, Place, Promotion), which is focused on characteristics of specific product and services provided by the company.

### **Product**

In the case of the company with business strategy based on development, manufacturing and distribution of articles, the product of marketing mix is represented by articles itself and added value of those articles.

The product portfolio, what should be principal part of expansion on foreign market is the Wireless Heating Regulation Systems. The achievement of WHRS product, which is developed and offered by the company Amicus SK, is dependent on proposed reliability, operational function, conformity and simplicity of these articles. Amicus SK believes in differentiation and innovative attitude, which should be essential competitive advantage above other competitors.

Innovative attitude is based on wireless technology, on which the whole system of WHRS works. The building equipped with this WHRS from Amicus SK, is possible to control and manage through computers – regulate temperatures in every office (room, class) in the building, turn off the heating systems to save energy or manage preheating of the room before start of the meeting.

The product portfolio of WHRS is composed from various articles such as heating radiators, thermostatic valves, temperature sensors, circuit boiler closers, regulators, thermostatic caps and also products of wireless technologies. In addition, the company offers also project design consultant services related with optimal heating solutions in energy efficiency and advanced peer to peer networking of business premises.

### **Price**

Amicus SK's business strategy is based on B2B (business to business) market. The typical final customers of WHRS of the company are building developers or

construction companies. For the reason that the company is focused principally on equipping of whole buildings, such as hotels, schools, office buildings, larger residencies or shopping centres, the final price of the product is determined from complexity factors or the area of building. That is why the final price of the WHRS product is adjusted individually according each project and customer.

However, sometimes there are similarly required the individual prices from basic customers for family houses and smaller premises, for these clients the Amicus SK has following informative product price list of WHRS.

**Table 3: Price list of WHRS of Amicus SK**

(Source: Own work based on data from Amicus SK)

| Unit                   | Price without VAT |
|------------------------|-------------------|
| Control device         | 440 EUR           |
| Regulation device      | 79 EUR            |
| Thermostatic valve     | 17 EUR            |
| Circuit boiler closers | 87 EUR            |
| Temperature sensors    | 44 EUR            |
| Thermostatic caps      | 60 EUR            |
| Router interior        | 79 EUR            |
| Router exterior        | 150 EUR           |

## Place

The office and factory location is in smaller, unknown town without show room for presentation of products to potential final costumers and without direct connection on larger business establishments, which are partly the principal target of the company. Business meeting are taking place usually at capital city Bratislava.

The WHRS products and other products are distributed by forwarding agents or clients have to pick up the product from the factory.

## **Promotion**

Selling process of the WHRS products of the company is principally through employees who work in this department and who have knowledge in this industry. Essential portion of the sales of WHRS products in company is through direct sale by competent business representative, who is directly contacting possible costumers.

Amicus SK's marketing process is partially through the website, which has only informal character. The website informs potential clients about products, services, actual projects and working systems. The company operates also with another website related only to WHRS, its function, development, advantages and professional business solutions.

The marketing expenditures connected with internet promotion, have not eminent value, for the reason that the company is concerning more on B2B market and trying to address potential client other way. During the last years the company has paid advertisement, which operates on searching of key words related with WHRS on Google AdWords. These expenditures have increased the visit rate of the websites and awareness about existence of the company and its products.

The promotion of the company is principally through national or international trade fairs, which compose the most significant investment of the company to promotion. Examples of attended trade fairs:

- ✓ EloSys (SK - Trenčín)
- ✓ International Engineering Fair (SK - Nitra)
- ✓ International Engineering Fair (CZ - Brno)
- ✓ TCS – System Heating Trade Fair (PL – Poznan)
- ✓ International Fair for Renewable Energy (PL – Poznan)
- ✓ Coneco (SK - Bratislava)

Expenditures related to trade fair are dependent on each event are different on each event. Average calculations of expenditures on one trade fair are following:

Expenditures paid to administrator of trade fairs:

- ✓ Registration fee **160 - 200 EUR**
- ✓ Rent of exposition area **1500 - 2500 EUR**
- ✓ Additional costs (energy consumption, WiFi, cleaning services) **250 – 350 EUR**

Expenditures paid to the company, which assembles the display-stands:

- ✓ Rent of the display-stand and its assembling **1000 – 1500 EUR**
- ✓ Arrangements of the display-stand (lights, furniture, etc.) **300 EUR**
- ✓ Printing of decoration wall and other decorations **200 EUR**

The calculations are made on the display-stand with size of approximately 25 m<sup>2</sup>, standardly used by the company Amicus SK. The total expenses on one trade fair are approximately 3410 – 5050 EUR. Additional costs (transport of employees, hotels, salaries) are not involved.

## **2.9 Key Success Factors of Amicus SK in WHRS industry**

Each company has certain Key Success Factors, with which has the opportunity to be successful in particular industry. These key factors should be followed when company tries to build successful organisation in a defined industry. The KSF could be useful also when company decides to expand the business behind borders of domestic territory. Starting a business in the foreign country is always risky, because foreign companies have to deal with unexplored territories, undefined legislation, changed environment, unclear bureaucracy or possible corruption behaviour.

Basic Key Success Factors of WHRS industry of the company Amicus SK on the foreign market:

- ✓ Companies such as Amicus SK, which are starting business in foreign territory, can improve their opportunities for successful expansion by learning from already operating companies in heating industry. These model companies could provide valuable knowledge or information about energy efficiency of buildings or type of material used in building industry (Fey, C. F. 1995).

- ✓ According to Grant (2005), for successful entry strategy, the company needs to understand how to connect this strategy with effective usage of adequate resources. To provide future benefits, the human capital and company's assets have to be utilised together.
- ✓ Another KSF in WHRS industry is marketing. It is necessary to invest particular portion of financial resources to advertisement of those heating products. The placement and type of the advertisement should be appropriate to each foreign market culture.
- ✓ The investments to development of the WHRS, which have been supported by EU, could be helpful in building the reputation and goodwill of the company.
- ✓ Nowadays problems with growing pollution and emissions have crucial effect on saving natural resources, healthy behaviours of citizens or on using alternative energy sources. This is a huge opportunity for Amicus SK to attract attention number of new partners and customers

**The Key success factors of WHRS products of Amicus SK:**

- ✓ Wireless technology
- ✓ Energy saving
- ✓ Support of EU
- ✓ Price efficiency
- ✓ Central controlling
- ✓ Automation
- ✓ Environment friendly
- ✓ Operating life
- ✓ Trustworthy of EU
- ✓ Expenses and costs optimisation (Amicus SK, 2015)

## **2.10 SWOT analysis of the company Amicus SK**

### **Strength**

#### **✓ High qualified personnel and workforce**

In Amicus SK are working high-qualified skilled personnel with long-standing knowledge of processes and practice at the department of innovations and technological development of the company. Predominant part of this technological team has technical academic degree and few years of practical specialization which is necessary for right improvement and operational development of the products and company itself.

#### **✓ Financial stability**

Company Amicus SK has formed and still growing output in the production of goods and balanced cash flow. According the CEOs of the Amicus SK, the company possesses prospective and very positive forecast for future development, with enhancement of sales or with continuing uplifting of marketing advertisement. During last four years the company has not allocated any loss in profit or decreasing tendency in sales (see company's overview).

#### **✓ References**

During the process of prototypes development and its process of production the company cooperates with a certain number of prestigious corporations in heating industry to provide product which will satisfy customer's needs, such as Protherm, Wosab or Vailant group.

#### **✓ Practice in international business projects**

The company has cooperated before with a significant number of foreign companies aimed on heating regulations, cooling systems or optical and acoustical signalisation. It collaborated on sufficient number of international projects or expositions. For example cooperation with a German company, Swedish company as well as Czech companies.

#### **✓ Supported by Slovak republic and EU**

Project development of heating regulations systems was partly financed by European Union, which increased trustworthy and goodwill of the company, in international business environment. Certain international trade fairs were sponsored by Slovak government - Department of agriculture, the project for support of Slovak products.

✓ **Targeting on perspective spheres**

The long standing strategy of Amicus SK is to be aimed and preferred on research and development in range of “Long life goal of state, science and technology policy until year 2016”, classification specified in range of “Energy and Power engineering” and “Knowledge technologies with support of information and communication technologies”.

✓ **Years of experiences within the industry**

The company has almost 16 years of experiences within the heating and cooling system industry in the Slovak market.

✓ **Dedicated base of costumers**

Thanks to long term fruitful relationships with few customers, which are operating also in international sphere, the reputation of these companies could bring possibility of acquiring new clients not only on domestic market.

✓ **Certificate ISO 9001:2000**

The company possesses the certificate ISO 9001:2000 from reputable Austrian company OQS. Mentioned certificate specifies requirements for a coordination of quality management systems, namely:

- The ability to provide consistently qualitative product that meets specified standards, needs of customers and applicable regulatory requirements.

- Targets, for improvement of customer's satisfaction through effective application of the system, including the assurance of conformity to customer and processes of constant enhancement.

(Amicus SK, 2015)

### **Weaknesses**

One of the possible weaknesses of Amicus SK is that company with just above 20 employees belongs to the **category of micro businesses** better known principally in the domestic area like at the foreign markets. There is **just one business residency** without any other branches or forms of direct or indirect distribution channels. The company operates only through direct sales business representative. Another weakness is that there is not, till that time, **any qualified business representative** for upcoming expansion project and for that reason of small quantity of employees, there is not space for sending one of the CEO of the company abroad.

The **available assets and limited financial resources** of the company are not sufficient enough for larger investments from side of company or side of financial institutions. Limited budget for start up with new branch in the new region.

Another weakness for the company could be that there will be the **necessity to hire a professional external company** specialized on managing projects linked with expansion to foreign market. This will require more resources in starting period of the project.

**Higher requirements for marketing** are necessary future expenditures connected with raising status of the company.

### **Opportunities**

On the other side, for the reason that the company Amicus SK belongs to category of micro companies, it can have a **greater emphasis on each customer**, his requirements or needs, which could be the key factor for improving position on the market, customers share or expansion strategy.

Next possible opportunity for the company could be **chance to get well-known partner**, which has any experiences in expansion or just certain experience in heating regulation systems, it should be beneficial for future business cooperation, **development of great reputation** or reference. Gaining benefits with new partners (bank entities, assembling companies, developing companies) could be advantageous for firm **to gain, build up and maintain new knowledge, technologies, or software** for development of new systems and heating products.

Foreign capital investments, such as **EU funds** for upcoming development of new products, could bring important publicity, new possible clients or business partners.

### **Threats**

Principal threats, which could have irrefragable consequences on future business development, might be **unsuccessful business cooperation** with larger **ineffective financial investments or payments of commissions, penalties, etc.** Next threats for the company might be certain **unredeemed larger invoices** or payments from partners or customers, ineffective project result, **strong competition** or **unpredictable economic situation**, which could also have negative effect on the future of the company.

### **3 COMPARISON AND PROPOSAL PART**

#### **3.1 Evaluation of the company Amicus SK**

According the analysis of the current situation, the company Amicus SK has a great potential in expanding the business activities into other markets. The Wireless Heating Regulation System, which has been developed by company, has attributes of innovative product with large potential. The major problem could be existing competition and eventual substitutes in the industry, which could have a large effect on successful penetration on this market.

Nowadays in this fast developing age, every new product is designed or redesigned to be useful with the wireless technology. Keeping up to date with technological development especially in corporate usage, home usage and environment friendly is essential for Amicus SK to be competitive on home and foreign markets.

However, the company Amicus SK is not perceptible as international brand and does not have reputation on the global scale. Therefore, if the company expands business on the other market, there is a necessity to build a new strategy, new image and new traditions, based on the culture, traditions and shopping habits of the targeted country. Another negative point could be that the allocable money budget for company's expansion is not so high and there could be a problem with preliminary phase of company's expansion. There have to be specific available budget calculations about possible costs of the expansion (costs related with starting of business, licensing of products, marketing costs, transport costs, etc.).

According to the author of this thesis, one of the huge advantages for the company Amicus SK is the membership in European Union. For the company it is the way which opens larger market opportunities or support (financial or non-financial) from the side of EU. The EU already has financed the Amicus SK company's WHRS products development. This support has increased the company's brand name in the EU market and has opened other possibilities.

For the expansion of the company's business abroad, it is necessary to possess applicable range of required capital (human, financial). This capital is irremissible for successful expansion to the foreign country. Growing tendency of financial resources of the company represents possibility for future expanding and successful future business progression. According author's analysis the company Amicus SK possess the product of great potential, but on the other side the financial status of the company is still developing and the company should try to more expand the business in the domestic market.

### **3.2 Evaluation of the possible markets**

The second part of this thesis is comparison of the chosen closest markets and suitability for foreign expansion this micro firm. The chosen markets were Poland (part of EU, WTO) and Ukrainian market (non EU market, part of WTO). According the author's point of view, the remarkable advantage of members of the European Union is that this Union allows free movement of people, goods and services without any import duties. The Polish market against Ukrainian market, for the reason of existence this one generic single market has huge benefit. Also the legislation subordinates of Poland are based on the similar principles such as legislative principles of the Slovak republic. The principal burden for the Amicus SK could be different currencies of Poland (Polish Zloty) and Ukraine (Hryvnia). This would mean relatively high risk of fluctuation against euro or additional exchange costs. The company's production is issued in euros, this is why Amicus SK has to carefully consider payment conditions, whether WHRS products will be paid in euro or in foreign currency.

On the following table is shown the comparison of PESTLE analysis of both counties.

**Table 4: Comparison of the PESTLE analysis of Ukraine and Poland**  
(Source: Own work)

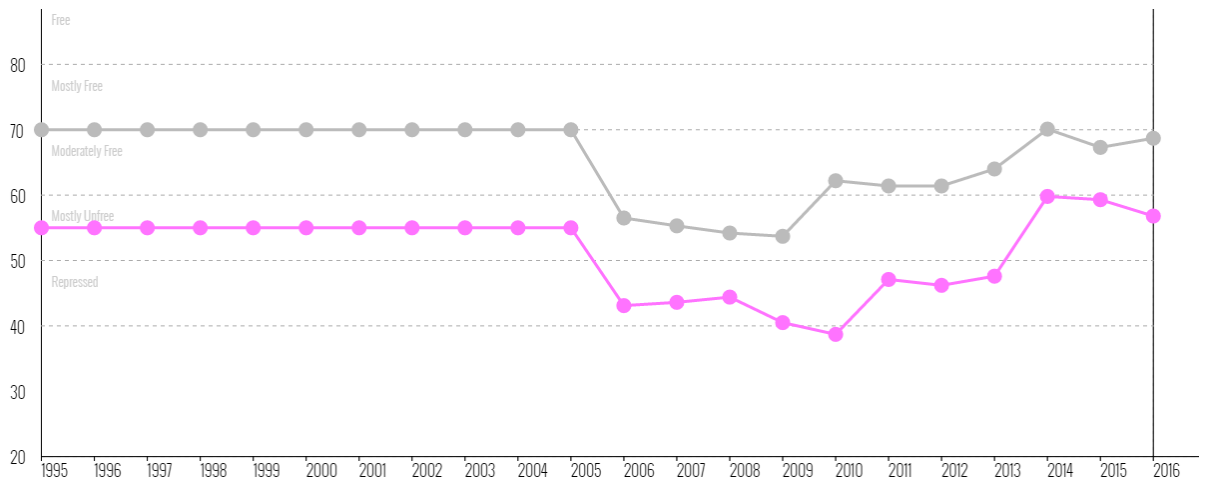
|  | <b>Poland</b>    | <b>Ukraine</b>    |
|--|------------------|-------------------|
| <b>Population (2016)</b>                               | 38,6 million     | 42,4 million      |
| <b>Currency (2016)</b>                                 | 1 EUR = 4,44 PLN | 1 EUR = 27,77 UAH |
| <b>GDP annual growth rate (2016)</b>                   | 3%               | 0,1%              |
| <b>Ease of doing business (2015)</b>                   | 25               | 83                |
| <b>Expenditures on research and development (2010)</b> | 0,9% of GDP      | 0,7% of GDP       |
| <b>Corruption Index (2015)</b>                         | 30-th            | 130-th            |
| <b>Corporation tax (2016)</b>                          | 19%              | 18%               |

According the author on the base of analysis (PESTLE) and analytical tool (Porter's five forces) of these proposed markets, more suitable market for expansion, would be Polish market. This country has greater potential in comparison with Ukraine. The table shows that Poland in comparison with Ukraine has more advantageous business environment, with lower rate of corruption. Polish market has better developed economy, technologies, higher living standard or for example the Ease of doing business index, which measures how it is complicated to set up business in the country, is appreciably lower in comparison with Ukraine. Also the Polish currency is stronger in comparison to Ukrainian Hryvnia. Only benefit of Ukraine against Poland is lower percentage of corporation taxation, but in business efficiency comparison of two these countries this attribute is irrelevant.

Shortly after collapse of the Soviet Union, Poland and Ukraine had similar size of economy output, but nowadays the Polish economy is twice as large as Ukrainian economy. The Ukraine's economy is even smaller than it was in 1992 after achieving independence. Highly expanded corruption among high-ranking politicians, lagging development or Russian involvement in the country, are the principal reasons of Ukrainian slow economic growth (KLGates, 2016).

In Poland are organised many industrial events and conferences with promotion over the whole country. This type of events could be beneficial for Amicus SK to represent its own products and to increase market awareness about the company.

### Business freedom

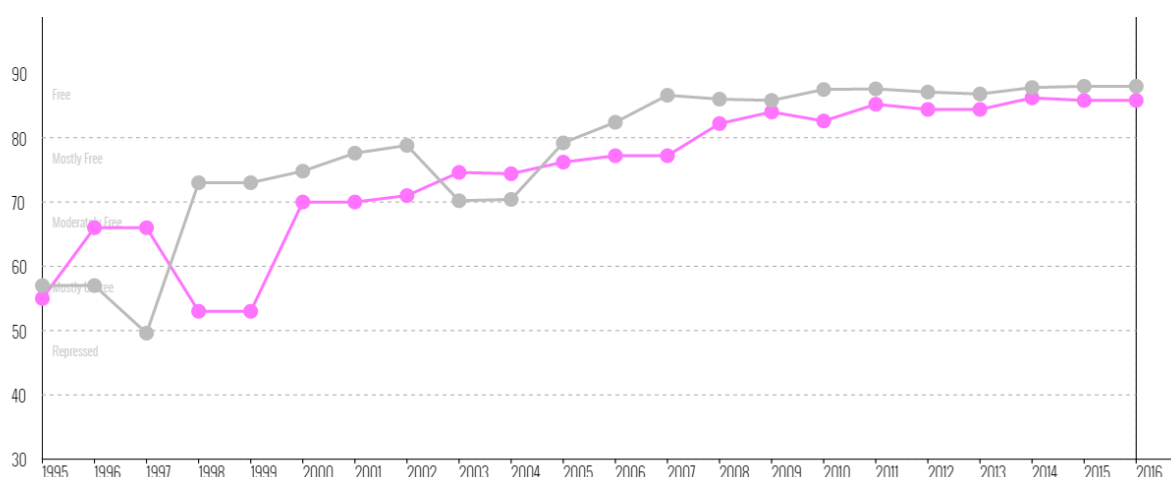


(grey = Poland, pink = Ukraine)

**Graph 11: Comparison of Business freedom in Ukraine and Poland**  
(Source: Heritage, 2016)

The graph above indicates the rate of business freedom, which measures efficiency of government regulation of business. In these figures there are involved measurements of difficulties during launching, operating and closing a business, on the range between 0-100, where 100 means the freest business environment. The graph shows that Poland has more developed business freedom in the country against Ukraine.

## Trade freedom



(grey = Poland, pink = Ukraine)

### Graph 12: Comparison of Trade freedom in Ukraine and Poland

(Source: Heritage, 2016)

Trade freedom indicates measurements of tariff and non-tariff barriers absence, which affect export and import of the services and goods. Here are also shown the beneficial properties for the expansion to the Polish market.

## 3.3 Analysis of the possible ways of expansion to Poland

According to the analysis the author picked up three the most suitable forms for entry to the Polish market. The most suitable options for foreign expansion would be setting up the subsidiary, the foreign representative office or trying to find the appropriate partner company at the foreign market in related industry.

### Scenario 1

One of the feasible alternatives for expansion according to the author of this thesis, is to find a partner company, which would sell the products of WHRS in Poland. This company should be already operating, with all necessary certifications, licences and requirements obligatory for doing business in Polish market and particular industry. Disadvantages of this scenario could be a smaller profit from sold goods, necessity to teach and train competent people how to work with these systems, trust and dependency

on unknown people or companies. Advantage could be smaller start-up costs, increasing market share, increasing brand recognition, higher sales or profit without larger participation.

## **Scenario 2**

Another suitable option would be setting up a representative office. The representative office is working as communication channel between the customer or supplier in Poland and the parent company (Amicus SK). This office would be responsible for demonstrations of these WHRS products in the name of the company Amicus SK, finding customers and other functions related with cooperation with the Slovak headquarters. This type of legal entity would not have legal personality and would have only limited access of doing business in this market. In Poland this type of entity is not considered as an independent business unit, advertising and promotional activity is the principal element of the foreign business company. Disadvantage could be necessity to have at least one person on this foreign market which has to know Polish language or has higher more personal participation in the selling process. Advantages could be higher profit after launching period (CGO Legal Counselling, 2015).

## **Scenario 3**

The establishing of a foreign subsidiary or merge with the subsidiary in the Polish market. There are two options: branch or subsidiary. The subsidiary in Poland is independent unit separate from the mother company abroad. The subsidiary in accordance with Polish legislation has to comply with all obligatory regulations, processes and operations.

This option would be very expensive in starting (launching) period, huge demand of human and financial capital resources will be captured, with long-term fixation and time consumption. Establishing of the completely new business unit will require deep and particular knowledge about environment. Further, it will require sending competent person/persons with knowledge of the WHRS product foreign market, language and managing skills to this market.

### 3.4 Cash budget

The author calculates return of the investment with margin of 40%. In the case of partner company, the author calculates smaller profit on the level of 20%, for the reason that the company would not sell the product to the final customer.

#### 3.4.1 Subsidiary (Limited Liability Company)

**Table 5: The approximate cash budget for launching period of subsidiary (first year) in Poland**

(Source: Own work)

|   | 1. year                         | 2. year            | 3. year            |
|---|---------------------------------|--------------------|--------------------|
| <b>Costs to establish a LLC</b>         |                                 |                    |                    |
| Registration fee                        | 500 PLN                         | 0                  | 0                  |
| Publishing fee                          | 100 PLN                         | 0                  | 0                  |
| Notary fee (minimum)                    | 160 PLN                         | 0                  | 0                  |
| VAT registration                        | 170 PLN                         | 0                  | 0                  |
| Founding capital (minimum)              | 5 000 PLN                       | 0                  | 0                  |
| Services linked with establishment      | 3 000 PLN                       | 0                  | 0                  |
| <b>Total</b>                            | <b>2 020 EUR</b><br>(16.7.2016) | <b>0</b>           | <b>0</b>           |
| <b>Rental in Warsaw</b>                 |                                 |                    |                    |
| Office rent (up to 100 m <sup>2</sup> ) | 28 800 EUR                      | 28 800 EUR         | 28 800 EUR         |
| Warehouse rent (500 m <sup>2</sup> )    | 70 000 EUR                      | 70 000 EUR         | 70 000 EUR         |
| Additional services + energy usage      | 2 400 EUR                       | 2 400 EUR          | 2 400 EUR          |
| <b>Total</b>                            | <b>101 200 EUR</b>              | <b>101 200 EUR</b> | <b>101 200 EUR</b> |
| <b>Marketing</b>                        |                                 |                    |                    |
| Advertisement in newspapers             | 8 000 EUR                       | 8 000 EUR          | 8 000 EUR          |
| Billboard advertisement                 | 3 600 EUR                       | 3 600 EUR          | 3 600 EUR          |
| Catalogues of WHRS product              | 1 500 EUR                       | 1 500 EUR          | 1 500 EUR          |
| Trade fairs                             | 9 000 EUR (2x4 500 EUR)         | 4 500 EUR          | 4 500 EUR          |

|                                 |                     |                     |                     |
|---------------------------------|---------------------|---------------------|---------------------|
| <b>Total</b>                    | <b>22 100 EUR</b>   | <b>17 600 EUR</b>   | <b>17 600 EUR</b>   |
| <b>Other costs</b>              |                     |                     |                     |
| Website                         | 3 000 EUR           | 0                   | 0                   |
| Transport costs                 | 15 000 EUR          | 30 500 EUR          | 40 000 EUR          |
| Salaries                        | 67 200 EUR          | 67 200 EUR          | 67 200 EUR          |
| <b>Total</b>                    | <b>85 200 EUR</b>   | <b>97 700 EUR</b>   | <b>107 200 EUR</b>  |
| <b>Total costs per year</b>     | <b>210 520 EUR</b>  | <b>216 500 EUR</b>  | <b>226 000 EUR</b>  |
| <b>Sales of WHRS</b>            | 80 000 EUR          | 170 000 EUR         | 280 000 EUR         |
| <b>Revenues (margin of 40%)</b> | 32 000 EUR          | 68 000 EUR          | 112 000 EUR         |
| <b>Gross profit</b>             | <b>-178 520 EUR</b> | <b>-327 020 EUR</b> | <b>-441 020 EUR</b> |

The prices in Table 5, are counted for the first year (12 months) of the launching period in Poland. Author takes into account prices according to current prices of offices per m<sup>2</sup> and average prices for marketing in Warsaw. Salaries for employees are approximately calculated for 5 employees (2 in warehouse, 3 in office) on the basis of average prices in Poland, salaries for managing officers from Amicus SK are not involved. Transport costs are compounded from distribution costs (warehouse – final customer) and supply chain (Slovakia – Warsaw), production of goods would be settled in home country.

### 3.4.2 Partner company

**Table 6: The approximate cash budget for launching period of cooperation with partner company (first year) in Poland**

(Source: Own work)

|                                 | 1. year                 | 2. year            | 3. year            |
|---------------------------------|-------------------------|--------------------|--------------------|
| <b>Marketing costs</b>          |                         |                    |                    |
| Advertisement in newspapers     | 8 000 EUR               | 8 000 EUR          | 8 000 EUR          |
| Billboard advertisement         | 3 600 EUR               | 3 600 EUR          | 3 600 EUR          |
| Catalogues of WHRS product      | 1 500 EUR               | 1 500 EUR          | 1 500 EUR          |
| Website                         | 3 000 EUR               | 0                  | 0                  |
| Trade fairs                     | 9 000 EUR (2x4 500 EUR) | 4 500 EUR          | 4 500 EUR          |
| <b>Total</b>                    | <b>25 100 EUR</b>       | <b>17 600 EUR</b>  | <b>17 600 EUR</b>  |
| <b>Transport costs</b>          | 10 000 EUR              | 20 500 EUR         | 26 000 EUR         |
| <b>Total costs per year</b>     | <b>35 100 EUR</b>       | <b>38 100 EUR</b>  | <b>43 600 EUR</b>  |
| <b>Sales of WHRS</b>            | 50 000 EUR              | 90 000 EUR         | 135 000 EUR        |
| <b>Revenues (margin of 20%)</b> | 10 000 EUR              | 18 000 EUR         | 27 000 EUR         |
| <b>Gross profit</b>             | <b>-25 100 EUR</b>      | <b>-45 200 EUR</b> | <b>-61 800 EUR</b> |

If Amicus SK chooses cooperation with already operating Polish company (registered partnership), the launching costs related to establishing company, salaries, office rent, warehouse rent and many other costs would be zero. Also additional costs such as transport costs, marketing costs, representative and required document costs, and for example fees linked with website would be appropriately divided between partner company and Amicus SK company, or proportionally allocated according agreement between them. In this case author considered that Amicus SK will finance marketing costs, transport and distribution costs in full amount. The sales of WHRS products

would be on lower level because of weak participation of head quarter office in the Slovak republic.

### 3.4.3 Representative office

**Table 7: The approximate cash budget for launching period of representative office (first year) in Poland**  
(Source: Own work)

|   | 1. year                    | 2. year           | 3. year           |
|---|----------------------------|-------------------|-------------------|
| <b>Costs to establish a representative office</b> |                            |                   |                   |
| Registration fee                                  | 500 PLN                    | 0                 | 0                 |
| Publishing fee                                    | 100 PLN                    | 0                 | 0                 |
| Notary fee (minimum)                              | 160 PLN                    | 0                 | 0                 |
| Services linked with establishment                | 3 000 PLN                  | 0                 | 0                 |
| <b>Total</b>                                      | <b>850 EUR (16.7.2016)</b> | <b>0</b>          | <b>0</b>          |
| <b>Rental in Warsaw</b>                           |                            |                   |                   |
| Office rent (up to 100 m <sup>2</sup> )           | 28 800 EUR                 | 28 800 EUR        | 28 800 EUR        |
| Additional services + energy usage                | 2 400 EUR                  | 2 400 EUR         | 2 400 EUR         |
| <b>Total</b>                                      | <b>31 200 EUR</b>          | <b>31 200 EUR</b> | <b>31 200 EUR</b> |
| <b>Marketing costs</b>                            |                            |                   |                   |
| Advertisement in newspapers                       | 8 000 EUR                  | 8 000 EUR         | 8 000 EUR         |
| Billboard advertisement                           | 3 600 EUR                  | 3 600 EUR         | 3 600 EUR         |
| Catalogues of WHRS product                        | 1 500 EUR                  | 1 500 EUR         | 1 500 EUR         |
| Website   | 3 000 EUR                  | 0                 | 0                 |
| Trade fairs (2)                                   | 9 000 EUR (2x4 500 EUR)    | 4 500 EUR         | 4 500 EUR         |
| <b>Total</b>                                      | <b>25 100 EUR</b>          | <b>17 600 EUR</b> | <b>17 600 EUR</b> |

|                                 |                    |                   |                   |
|---------------------------------|--------------------|-------------------|-------------------|
| <b>Total costs per year</b>     | <b>57 150 EUR</b>  | <b>48 800 EUR</b> | <b>48 800 EUR</b> |
| <b>Sales of WHRS</b>            | 80 000 EUR         | 170 000 EUR       | 280 000 EUR       |
| <b>Revenues (margin of 40%)</b> | 32 000 EUR         | 68 000 EUR        | 112 000 EUR       |
| <b>Gross profit</b>             | <b>-25 150 EUR</b> | <b>-5 950 EUR</b> | <b>57 250 EUR</b> |

If the company chooses option of establishment of representative office (or branch office) in Poland, the fees related to establishment of the company would be lower and only future required financial cost should be related to promotion of the company name in the Slovak company, and rental services of the representative office in Poland. Selling of WHRS products and following invoicing would be operated through the Slovak head office. The transport costs and warehouse costs are not involved, for the reason that WHRS products would be sold through Slovak headquarters.

### **Return of the investment**

Resources sorted for Poland expansion should be principally from retained earnings of the WHRS and partially loaned (60% to 40%). Because of it, in case of failure in international market, the company's current operation in domestic market should not be in danger.

From these calculations is obvious that Amicus SK, in case of the establishment of the subsidiary in Poland, there would be a necessity to invest the highest amount of company's financial resources. In this case it is necessary for the company to increase the sales for the reason of the high operating costs.

In second case of cooperation with the partner company, everything would be dependent on an agreement between companies. According to the calculation, for the efficient budgetary control it is important to decrease marketing costs (divided it

between partner company and company Amicus SK) and increase sales of WHRS products.

Representative office on the basis of budgetary calculations is the most efficient option for starting business in Poland. Due to higher margin, stable operating costs and growing tendency of sales, the company would have their investment back in less than three years after entering the market.

Payback period = 2,5 years

### **Recommendations**

All these possible scenarios bear a certain type of risk. The company should consider carefully potential threats, which could menace existence of the company, plan consistently every step of the investment or decision about this project and nominate for this job responsible person/persons who have relevant motivation.

Author also recommends to build up the representative office in a larger town such as Warsaw or Krakow, where the population is higher as well as the business concentration with huge buildings which are principal target of the company. The WHRS products should be represented as products financed and developed by European Union, not as products from the Slovak republic, because the Polish customers are more sensible on brand recognition and on imported goods from other countries.

For the reason of higher start up and operation costs of the subsidiary on the Polish market, which are not in the continual proportion with range of offered product portfolio, the company should take into account consideration of expanding subsequent products of cooling, heating or signalisation systems, which are in the product portfolio. The Wireless Heating Regulation System products should be only one part from the multiple offered products of Amicus SK. This would increase the sales and profit of the company.

## CONCLUSION

This master's thesis elaborates the topic of analysis and comparison of countries, which are suitable for entrance (Poland, Ukraine) of the company Amicus SK, with Wireless Heating Regulation System and choosing the most adequate option.

Theoretical background based on the literature review related to the globalisation, variable opinions on expanding strategy, entrance options, principal barriers and its reasons which motivate companies to expand their products portfolio to the foreign markets. Analytical part uses these theoretical facts for the analysis of the company Amicus SK with SWOT analysis and the analysis of the Polish and Ukrainian market with the PESTLE analysis and Porter's five forces analytical tool. Result of which is in the analytical part suggested market (Poland), which would be appropriate for the expansion of the WHRS products. Additionally, there are evaluated and compared forms of entry on the Polish market, with economical evaluation necessary for this expansion and the most suitable payback option from these forms.

Newcomers, who are entering new foreign market, will probably have to face a various barriers connected with distribution and selling of their products. Other barriers presumably will be time consuming processes with launching of these products, higher launching costs, and smaller profits in this period, risk of duplication or competition, and many others.

The Polish market has made important steps which have eminent influence on the development of the country in the global sphere over last few decades. Poland has stable democracy and by financial markets it is recognized as a stable economy. The GDP growth rate is one of the highest in Europe, according the UNCTAD is the fourteenth most attractive destination for foreign direct investments (FDI).

The author of this thesis suggests expanding business to the Polish market, on the basic of analyses mentioned earlier. The success of this Polish market entrance of the company Amicus SK according to Hill (2011) is depending on benefits of establishing business in a country, principally in its demographical market size, current wealth and eventual future wealth of consumers, largely dependent on economic growth rate. Hill

also mentioned that risks connected with doing business are considerably lower in politically and economically stable democratic countries.

The success of the company on the foreign market is dependent on satisfaction of the final customers, client's loyalty, functions and reliability of the WHRS products, and on additional services provided by company to customers (Ellis, 2000).

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