



VYSOKÉ UČENÍ TECHNICKÉ V BRNĚ
BRNO UNIVERSITY OF TECHNOLOGY



FAKULTA PODNIKATELSKÁ
ÚSTAV EKONOMIKY

FACULTY OF BUSINESS AND MANAGEMENT
INSTITUTE OF ECONOMICS

DEVELOPMENT OF COMPETITIVENESS OF COMPANY - DEVELOPMENT OF MARKETING ACTIVITIES

BUDOVÁNÍ KONKURENCESCHOPNOSTI FIRMY – ROZVOJ MARKETINGOVÝCH AKTIVIT

DIPLOMOVÁ PRÁCE
MASTER'S THESIS

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BRNO 2010

Diploma Thesis Assignment

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European Business and Finance (6208T150)

Pursuant to Act. No. 111/1998 Coll., on Higher Education Institutions, and in accordance with the Rules for Studies and Examinations of the Brno University of Technology and Dean's Directive on Realization of Bachelor and Master Degree Programs, the director of the Institute of Economics is submitting you a diploma thesis of the following title:

**Development of Competitiveness of Company
- Development of Marketing Activities**

In the Czech language:

Budování konkurenceschopnosti firmy - rozvoj marketingových aktivit

Instructions:

Introduction
Definition of problem, objective of thesis
Theoretical starting points
Analysis of problem and contemporary situation
Proposal of solution, contributions of solutions
Conclusion
Literature
Appendix

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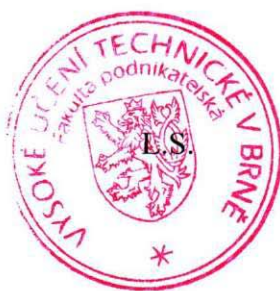
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The deadline for submission for the diploma thesis is given by the Schedule of the Academic year 2009/10.



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Brno, 31.3.2010

Anotace:

Diplomová práce analyzuje vnější a vnitřní prostředí vybrané společnosti a současný stav marketingových aktivit ve vybrané společnosti. Obsahuje návrh marketingových aktivit, které povedou ke zvýšení konkurenceschopnosti dané firmy.

Annotation:

This master's thesis analyses external and internal environment of the chosen company as well as current situation of its marketing activities. It includes the proposal of marketing activities which should increase competitiveness of the company.

Klíčová slova:

Konkurenceschopnost, konkurence, konkurenční výhoda, strategie, marketing, ERP.

Keywords:

Competitiveness, Competition, Competitive Advantage, Strategy, Marketing, ERP.

Bibliographic quotation

HANÁK, T. *Budování konkurenceschopnosti firmy – rozvoj marketingových aktivit*.
Brno: Vysoké učení technické v Brně, Fakulta podnikatelská, 2010. 84 s. Vedoucí
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Poděkování

Na tomto místě bych rád poděkoval Ing. Robertu Zichovi, Ph.D. za odborné vedení a cenné rady a připomínky, kterými přispěla k vypracování této diplomové práce. Dále bych rád poděkoval Ing. Josefu Brzobohatému a všem zaměstnancům společnosti Minerva Česká republika, a.s. za poskytnuté informace a možnost zpracovat tuto diplomovou práci.

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INTRODUCTION

Every organization exists to meet different needs in society. These needs may be altruistic, as those of nonprofit organizations; civic, such as of government agencies, or they may be primarily economic, such as organizing resources to meet needs of society in ways that yield a surplus for owners, called profit. Whether the company was founded in order to generate profit for its owners or not it must formulate strategy in order to achieve its goals, superior performance and remain competitive among its rivals.

In order to develop a successful strategy a firms must analyze and understand the environment, competitors, and also themselves. This thesis is focused on marketing strategy of Minerva Czech Republic.

The thesis consists of analysis of the particular industry in which Minerva Czech Republic operates. The broader environment referenced to as a macro-environment will be also analyzed since it is important for every organization to monitor the relevant changes that are taking place in its environment and formulate strategies to adapt to these changes. The marketing activities of the company are also being analyzed in this thesis. Finally the analysis of the company's internal capabilities and resources (strengths and weaknesses) and its external situation (opportunities and threats) is part of this thesis.

After conducting these analyses the recommendations to the company will be given allowing the company to acquire opportunity to develop its marketing activities within the marketing strategy that will strengthen its position and weaken position of those who threaten it thus increase its competitiveness.

1 PURPOSE AND METHODOLOGY

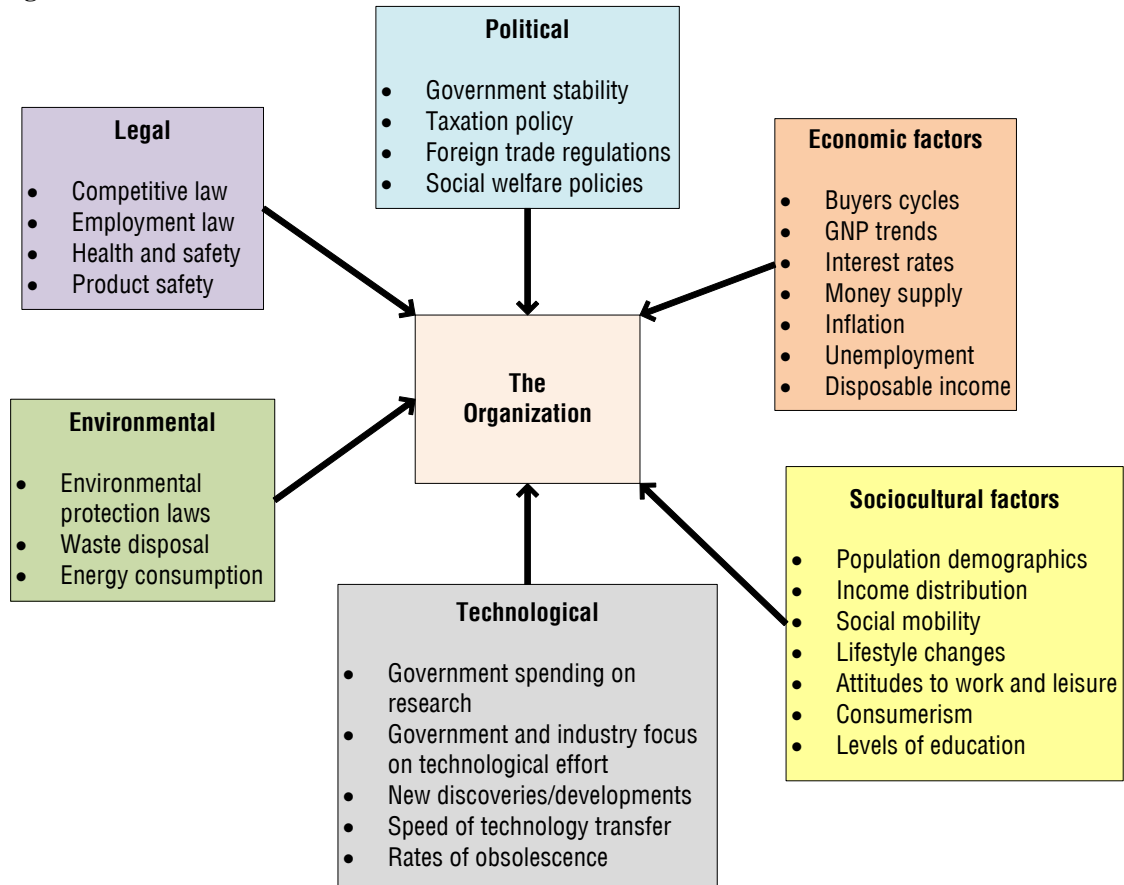
The goal of this thesis is to analyze internal and external environment of the company, analysis of its competitors, the overall ERP market and marketing activities of the company including marketing mix. The findings of these analyses are fundamental for the formulation of recommendations regarding marketing strategy of Minerva Czech Republic that will lead to increase of competitiveness of the company.

The analysis of the external environment is based on PESTEL framework. Other commonly used method for analysis of the environment as well as the company's capabilities and limitations is SWOT analysis. Both of these analyses are described further in the text of this chapter and serve as a starting point for the recommendations.

1.1 PESTEL Analysis

An organization is part of its broader environment referenced as a macro-environment. Its survival and all of its perspectives, resources, problems, and opportunities are generated and conditioned by this environment. Therefore it is important for every organization to monitor the relevant changes that are taking place in its environment and formulate strategies to adapt to these changes. To achieve this companies have to develop and implement a systematic approach to environmental scanning. The PESTEL framework may serve this purpose. According to [6] the acronym PESTEL stands for political, legal, economic, socio-cultural, environmental, and technological environment. This method is used for analyzing general categories within the macro-environment. [6] [10]

Figure 1 PESTEL framework



Source: JOHNSON, SCHOLLES, WHITTINGTON [6], p. 68

Political/Legal environment is related to government and public attitudes toward various industries, the regulatory climate, lobbying efforts, and platforms of political parties. The legal component consists of laws, legal constraints, public policies, and regulations. Developments in the political and legal environment strongly affect and influence all organizations and individuals.

Economic environment indicates the distribution and use of resources within an entire society. Development in economic environment affects general health and well-being of individuals and companies. The most important factors of economic environment are the growth rate of the economy, interest rates, currency exchange rates, and inflation rates. These factors influence level of disposable income of people and therefore opportunities for companies.

Ecological environment encompasses both the physical and biological environment within which companies operate. Aspects of the ecological environment such as global

climate, sustainable development, recycling, pollution, and biotechnological advances are analyzed.

Socio-cultural environment include demographics, cultural attitudes, literacy rate, education levels, customs, beliefs, values, lifestyles, age distribution, geographic distribution, and population mobility.

Technological environment is often considered as one of the most dramatic forces that shape lives of people. Technological changes affect height of barriers to entry and therefore change the structure of industries. Technological change is both an opportunity and a threat. It is very important for companies to identify and monitor technological changes as it affect their competitive strategies. [6]

1.2 SWOT Analysis

SWOT is an acronym for an organization's internal Strengths and Weaknesses and the environmental Opportunities and Threats facing that organization. It is a framework for strategy formulation based on the premise that final strategy adopted by a company will fit between a company's internal capabilities and resources (strengths and weaknesses) and its external situation (opportunities and threats). An effective strategy maximizes a company's strengths and opportunities and minimizes its weaknesses and threats. [10]

Opportunities are major favorable situation in a company's environment such as technological changes, improved buyers or suppliers relationships, identification of a previously overlooked market segment, changes in competitive or regulatory circumstances.

Threats refer to major unfavorable situation in a company's environment such as entrance of new competitors, increased bargaining power of key suppliers and buyers, slow market growth, technological changes, and new regulations.

Strengths are resources or capabilities controlled by or available to a company, giving it an advantage relative to its competitors.

Weaknesses are limitations or deficiencies in one or more company's resources or capabilities creating a disadvantage relative to its competitors. [15]

2 LITERATURE REVIEW

2.1 Competitiveness

Aim of every business is achieving strong market position and protecting this position from attacks by other firms. Firms in a free market economy try to outperform their competitors. Competitive rivals are organizations with similar products and services aimed at the same customer group. In other words firms are concerned with gaining and sustaining a *competitive advantage* over rivals. A superior performance of a company is the key to achieving a competitive advantage relative to the competition. Superior performance is determined by a company's profitability and requires doing things differently than the competitors. According to PORTER [13] a company can outperform its rivals only if it can establish a difference that it can preserve. A company must deliver greater value to customers or to create a comparable value at lower costs. A firm is said to have a competitive advantage over its rivals when its profitability is greater than the average profitability of all firms in the same industry. The profitability of a company can be measured by the return it makes on the capital invested in the company (ROIC). The profit over the capital invested in the firm defines the return on invested capital that a company earns. The greater the extent of a company's profitability that exceeds the average profitability for its industry, the greater competitive advantage a company has. A company is considered to have a *sustained competitive advantage* when it is able to maintain above-average profitability for number of following years. [5] [15]

2.1.1 Porter's Five Forces

PORTER [12] argues that there are five main competitive forces in an industry in which particular company operates. These forces determine the intensity of competition and thus the profitability and attractiveness of an industry. The success of a company is

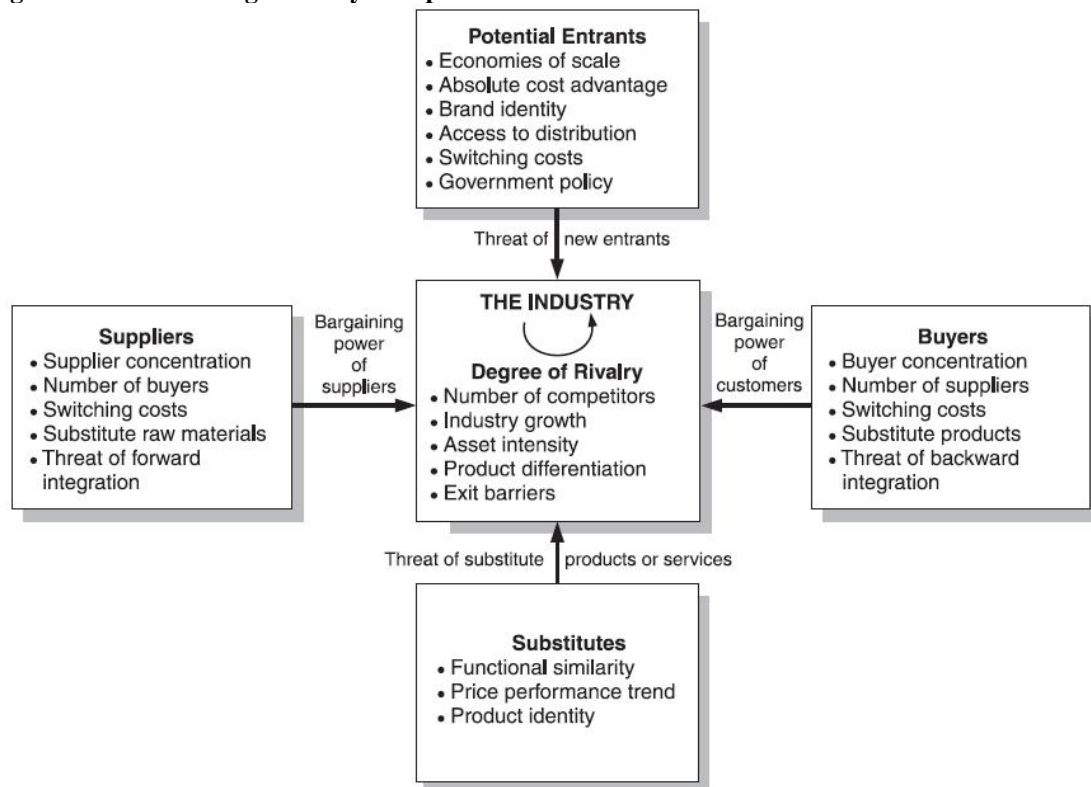
determined by way in which it responds to these forces. These five forces are rivalry among existing firms, threat of new entrants, bargaining power of suppliers, bargaining power of buyers, threat of substitute products or services. By analyzing these forces company acquires opportunities for positioning its products or services and activities which should be performed to strengthen its position and weaken position of those who threaten it. There are three main components of the operating environment: customers, suppliers, and competitors. [2]

Customers are those who buy or could buy the company's goods and services. They may or not be final consumers of particular products or services. Customer components comprises of retailers, wholesalers, distributors, and end consumers.

The supplier component refers to external sources of the company. Firms purchase and transform resources during production of goods and services.

The competitor component consists of rivals, present and prospective, that a company has to overcome to reach its objectives and goals. Analysis of competitors is crucial for development of an effective strategy. [3]

Figure 2 Forces Driving Industry Competition



Source: SUBHASH [13], p. 93

Rivalry among existing firms

Rivalry among existing firms is a function of the number of competitors, industry growth, asset intensity, product differentiation, and exit barriers. Among these variables, the number of competitors and industry growth are the most influential. Further, industries with high fixed costs tend to be more competitive because competing firms are forced to cut price to enable them to operate at capacity. Differentiation, both real and perceived, among competing offerings, however, lessens rivalry. Finally, difficulty of exit from an industry intensifies competition. [10] [12]

Threat of potential entrants

Threat of entry into the industry by new firms enhances competition. However several barriers make it difficult to enter an industry. Two cost-related entry barriers are economies of scale and absolute cost advantage. Economies of scale require potential entrants either to establish high levels of production or to accept a cost disadvantage. Absolute cost advantage is enjoyed by firms with proprietary technology or favorable access to raw materials and by firms with production experience. In addition, high capital requirements, high switching costs i.e. the cost to a buyer of changing suppliers, product differentiation, limited access to distribution channels, and government policy can act as barriers of entry. [10] [12]

Threat of substitute products

A substitute product that serves essentially the same function as an industry product is another source of competition. Since a substitute places a ceiling on the price that firms can charge, it affects industry potential. The threat posed by a substitute also depends on its long-term price/performance trend relative to the industry's product. [10] [12]

Bargaining power of buyers

Bargaining power of buyers refers to the ability of the industry's customers to force the industry to reduce prices or increase features, thus bidding away profits. Buyers gain power when they have choices - when their needs can be met by a substitute product or

by the same product offered by another supplier. In addition, high buyer concentration, the threat of backward integration, and low switching costs add to buyer power. [10] [12]

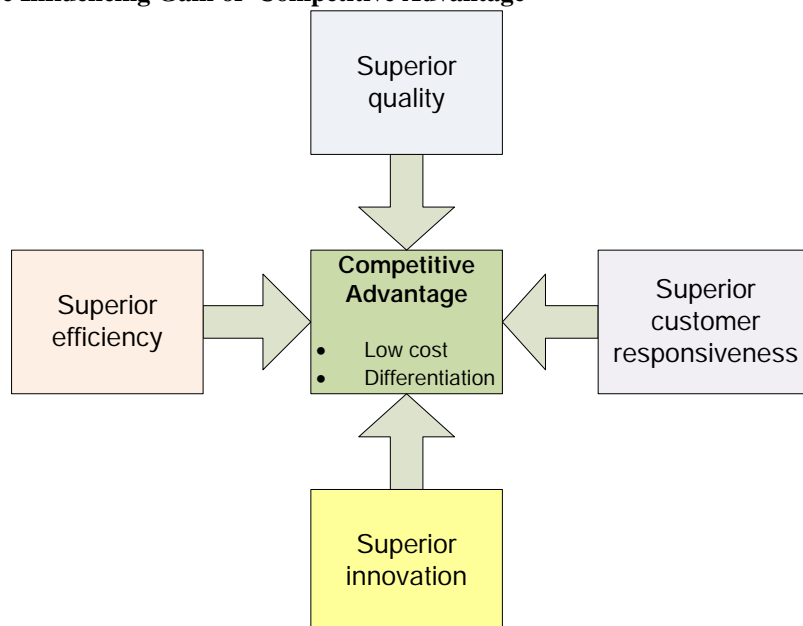
Bargaining power of suppliers

Bargaining power of suppliers is the degree to which suppliers of the industry's raw materials have the ability to force the industry to accept higher prices or reduced service, thus affecting profits. The factors influencing supplier power are the same as those influencing buyer powers. In this case industry members act as buyers. [10] [12]

2.1.2 Building a competitive advantage

The ability of a company to build and sustain competitive advantage is influenced by four factors: superior efficiency, quality, innovation, and customer responsiveness. These factors allow a company to differentiate its products and hence increase perceived customer value, and lower its cost structure. [5]

Figure 3 Force Influencing Gain of Competitive Advantage



Source: HILL & JONES [5], p. 87

Efficiency – the more efficient a company is, the fewer inputs it needs to produce a given output. The simplest measure of efficiency is the quantity of inputs that it takes to produce given output. Inputs are basic factors of production such as labor, land, capital, management, and know-how. Outputs are the goods and the services that a company produces.

Quality – a product is considered to have a superior quality when customers perceive there to be greater value in the attributes of specific product, compared to the same attributes in rival products. Quality of a product is defined by its reliability. A product is said to be reliable when it does the job it was designed for, does it well, and rarely, if ever, breaks down. There are to impacts of a product quality on a company's competitive advantage. First, high quality products increase the value of those products perceived by customers. The enhanced perceived value gives the company the option to charge a higher price for its products. Second, high quality products enhance competitive advantage by greater efficiency and lower unit costs associated with a reliable product. When products are reliable, employees spend less time on fixing mistakes, thus the employee productivity is higher and unit costs are lower.

Innovation – the act of creating new products or processes. Product innovation creates value by creating new product or updating existing products, that customer perceives as more desirable, thus increasing the company's pricing options. Process innovation is the development of new processes for producing products and delivering them to customers. Process innovation often allows companies to lower production costs, thus creating more value.

Customer responsiveness – a company must perform better than its competitors in identifying and satisfying its customers' needs. An aspect of responsiveness to customers is customer response time. It is the time it takes for goods to be delivered or a service to be performed. Slow customer response time tends to be major source of customer dissatisfaction. Other sources of enhanced responsiveness to customers are superior design, superior service, and superior after-sales service and support. Superior customer responsiveness enhances brand loyalty and enables a company to charge a premium price for its products. [5]

2.2 Strategy

Every organization exists to accomplish something. In general there are three types of organizations: nonprofit, governmental, and for-profit. Each type of organization exists to meet different needs in society. Those needs may be altruistic, as those of nonprofit organizations; civic, such as of government agencies, or they may be primarily economic, such as organizing resources to meet needs of society in ways that yield a surplus for owners, called profit. Whether the company was founded in order to generate profit for its owners or not it must formulate strategy in order to achieve its goals, superior performance and remain competitive among its rivals. Competition includes all the actual and potential rivals offering similar products or substitutes that buyers might consider. Those organizations founded by virtue of profit generating must pay special attention to strategy formulating as the contemporary business environment is considered as being hypercompetitive. According to JOHNSON, SCHOLLES, and WHITTINGTON [6, p. 9]: “Strategy is the direction and scope of an organization over the long term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations.” [6]

2.2.1 Levels of Strategy

Strategy in each organization exists at a various number of levels. The main levels of strategy are:

- ***Corporate-level strategy*** – refers to the overall purpose and scope of an organization and how value will be added to the different parts of the organization. In general corporate strategy include issues of geographical coverage, diversity of products/services, and allocation of resources within the corporation as a whole. It answers primary questions like: What business to be in to maximize profitability? How to gain a competitive advantage in these businesses? Answering these questions is in the interest of an organization’s owners and provides basis for other strategic decisions.

- ***Business-level strategy*** – concerns about how to compete successfully in particular markets. It encompasses business's way it positions itself in the marketplace to gain a competitive advantage, as well as different positioning strategies, such as cost leadership, differentiation, or focusing, that can be used in different industry settings.
- ***Functional-level strategy*** – deals with how the component parts of an organization deliver effectively the corporate- and business-level strategies in terms of resources, processes and people. Functional-level strategy is addressing how to improve the effectiveness of operations within a company, including marketing, manufacturing, customer service, product development, and materials management.[6]
- ***Horizontal strategy*** – is being employed in order to manage strategic operations and relationships, such as shared or mutual activities, operations, and product/service supplies, between business units within a company.[7]

2.3 Strategic Planning

WALKER [14] argues that developing an effective plan through strategic planning moves the particular business closer to choosing the right set of objectives for improving its performance, detect the business's current market position and the constraints of competitors. According to WALKER [14] the strategic plan should have the following elements:

- A mission statement that defines scope of the business and its strategic intent.
- An analysis of the business's industry and market position relative to competitors and a statement or assumptions regarding the competitive environment.
- The business's financial and operating goals.
- The strategic initiatives necessary to achieve these goals.

- The specific programs necessary to achieve each strategic initiative. [14]

The strategic planning process should also:

- Act as a tool for management decision making.
- Communicate business's strategy without jargon and in a conceptually coherent format.
- Generate commitment from employees and motivate their actions.
- Motivate the organization's systems of financial and operating control.
- Be reviewed regularly and in response to unexpected significant market changes. [14]

According to HILL and JONES [5] the process of developing a strategy, which is often referred as strategic planning, has five main steps:

1. Corporate mission statement and major corporate objectives selection.
2. Organization's external environment analysis, identification of opportunities and threats.
3. Organization's internal environment analysis, identification of organization's strengths and weaknesses.
4. Strategy selection.
5. Strategy implementation. [5]

2.3.1 Corporate Vision, Mission, Goals and Objectives

The company's purpose or vision is usually clear since its foundation. It is a broad term that refers to the total perspectives or purpose of a business. According to DRUCKER (cited in [8]) there are several questions that should every company address in order to define its vision: "What is our business? Who is the customer? What is of

value to the customer? What will our business be? What should our business be?” Although these questions may sound simple at first sight, they are one of the most difficult a company will ever have to answer. Once the company answered these questions it can proceed to formulation of the organization’s mission statement. A mission statement is a statement of the overriding direction and purpose of an organization. It can be thought of as a description or declaration of why a company is in operation. Typically a mission statement consists of three main components: a statement of why the organization exists which is usually referred to as a company’s vision, a statement of the key values that guides employees toward realizing the organization’s goals, and a statement of major objectives and goals. WERTHER and CHANDLER [16] define the vision, mission, strategy and tactics as: “The Vision answers why the organization exists. It identifies the needs the firm aspires to solve for others. The mission states what the organization is going to do to achieve its vision. It addresses the types of activities performed for others. The strategy determines how the organization is going to undertake its mission. It sets forth the ways it will negotiate its competitive environment. The tactics determine when and where the strategy will be implemented and by whom. They are the actions necessary for success.”

An important step in the mission statement formulation is establishing of major goals and objectives. An objective is a long-range purpose that is not quantified or limited to a time period. It is typically concerned with areas such as profitability, return on investment, competitive position, technological leadership, productivity, employee relations, social responsibility, and employee development. On the other hand a goal is a measurable objective of the business, judged by management to be attainable at some specific period of time (typically one year or less) through planned operational and functional actions such as marketing activity, raw material usage, employee turnover, and sales objectives. Well-created goals should poses following four main characteristics:

- ***Precise and measurable*** – measurable goals allow managers to evaluate the performance of the goals.
- ***Address crucial issues*** – in order to maintain focus limited number of major goals should be selected to assess the performance of the company. Only important and crucial goals should be selected.

- ***Challenging but realistic*** – goals give incentive to employees for improving the operations of an organization. Unrealistic and unattainable goals may fail to motivate employees and managers of an organization.
- ***Specify a time period*** - setting deadlines for the achievement of the goals increase motivation. Deadlines create the necessary urgency and prompts action. If a deadline is not set, the motivation and urgency required to execute the tasks is reduced. [5]

2.3.2 Strategic Analysis

The importance of strategy was already explained above in this paper. Every company needs a strategy. In order to develop a successful strategy a firm must analyze and understand the environment, competitors, and also themselves. There are several techniques and frameworks that can be used to serve the purpose of analysis of the company's environment, opportunities and threats, industry and competitors, and the company's strengths and weaknesses. Some of these techniques, namely: PESTEL analysis, Porter's Five Forces analysis, and SWOT analysis, were used in this paper.

2.4 Porters' Generic Strategies

PORTER [12] proposed three generic strategies that a company may pursue these are: overall cost leadership, differentiation, and focus.

Overall cost leadership

The business works hard to achieve the lowest production and distribution costs so that it can price lower than its competitors and win a large market share. Firms pursuing this strategy must be good at engineering, purchasing, manufacturing, and physical distribution. They need less skill in marketing. The problem with this strategy is that

other firms will usually compete with still lower costs and hurt the firm that rested its whole future on cost. [12]

Differentiation

The business concentrates on achieving superior performance in an important customer benefit area valued by a large part of the market. The firm cultivates those strengths that will contribute to the intended differentiation. Thus the firm seeking quality leadership, for example, must make products with the best components, put them together expertly, inspect them carefully, and effectively communicate their quality. [12]

Focus

The business focuses on concentrating on a particular group of customers, geographic market, channel of distribution, or distinct segment of the product line. The firm gets to know these segments intimately and pursues either cost leadership or differentiation within the target segment. [12]

2.5 Marketing

When looking for definition of term marketing in recent literature one can find many different definitions. In general there are two basic ways in which marketing can be seen, these are the social and the managerial approach. The social definition of marketing shows the role marketing plays in society. One of the most used and cited social definitions of marketing is the one presented by KOTLER and KELLER [8] “Marketing is a societal process by which individuals and groups obtain what they need and want through creating, offering, and freely exchanging products and services of value with others.” [8, p. 5].

From a managerial point of view marketing is seen as a tool for achieving company’s goals. It was described by KOTLER and KELLER [8, p. 6] as “the art of selling products”. Another very often cited managerial definition of marketing is the one

offered by The American Marketing Association (cited in [8, p. 6]): “Marketing is an organizational function and a set of processes for creating, communicating, and delivering value to customer and for managing customer relationship in ways that benefit the organization and its stake holders.”

2.6 Marketing Concepts

Nowadays there are five competing concepts under which companies conduct their marketing activities, these are: the production concept, product concept, selling concept, marketing concept, and holistic marketing concept. [8]

2.6.1 The Production Concept

The production concept is one of the oldest marketing concepts and is based on assumption that customers prefer products that are widely available and inexpensive. Companies using this concept are concentrated on high production efficiency, low costs and mass distribution. [8]

2.6.2 The Product Concept

The product concept assumes that customers incline to products that offer the most quality, innovative features, or performance. Focus on making high quality products and improving them over time is essential for companies following this concept. [8]

2.6.3 The Selling Concept

The selling concept is the most aggressive amongst all marketing concepts. It supposes that customers would ordinarily not buy enough of organization’s products. Therefore companies must adopt aggressive selling and promotion endeavor. The aim of companies pursuing the selling concept is to sell what they make rather than make what market wants. [8]

2.6.4 The Marketing Concept

The marketing concept emerged in 1950s and it changed philosophy of marketing from product-centered to customer-centered. It assumes that companies following this concept can reach their goals by finding right product for their products rather than finding right customers for their products. [8]

2.6.5 The Holistic Marketing Concept

The holistic marketing concept has emerged in the last decade with introduction of new technologies, such as the Internet, available to companies. New technologies provide companies with new capabilities that can transform the way companies are doing marketing. The holistic marketing concept is based on integrated perspective to developing, designing and implementing of marketing activities, identifying their comprehension and interdependencies among them. The holistic marketing concept consists of four components: relationship marketing, integrated marketing, internal marketing, and social responsibility marketing. [8]

Figure 4 Dimensions of Holistic Marketing Concept



Source: KOTLER & KELLER [8], p. 18

Relationship marketing – its goal is to develop mutually satisfying long-term relationship with parties that could directly or indirectly influence the success of the company’s marketing activities. Relationship marketing involves customer relationship marketing (CRM) as well as partner relationship management (PRM). Four key parties of marketing are customers, employees, marketing partners (suppliers, distributors, channels, dealers, agencies), and members of the financial community (shareholders, investors, analysts). The outcome of relationship marketing is a marketing network that consists of the company and its supporting stakeholders with whom it has built mutually profitable business relationships.

Integrated marketing – the key motive of integrated marketing is that many different marketing activities are utilized to assemble marketing program to create, communicate, and deliver value for customers. All marketing activities are coordinated to maximize their effects. Traditional form of marketing activities is called marketing mix. The term marketing mix will be discussed in particular section further in this paper.

Internal marketing – the objective of internal marketing is to ensure that all employees within the organization embrace proper marketing principles. Internal marketing comprises hiring, training, and motivating capable employees who are eager to serve customer well.

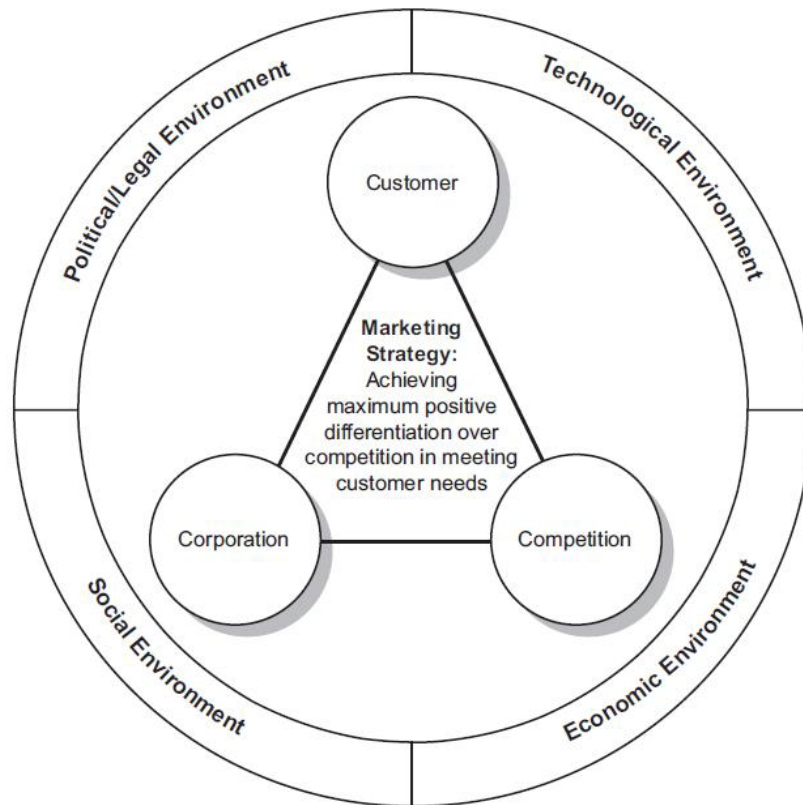
Social responsibility marketing – encompass understanding of ethical, legal, environmental, and social consequences of firm's marketing activities. Marketing activities of a company extend beyond its customers and affect society as a whole and therefore companies should consider the role they are playing in terms of social welfare. [8]

2.7 Marketing Strategy

Marketing strategy is a functional level strategy within the company's strategy hierarchy and it is an integral part of the company's overall strategic plan. Marketing strategy involves various activities that lead to achieving the company's overall mission and objectives stated in the strategic plan. Marketing strategy of every company within a given environment deals with three essential forces: the customer, the competition, and the company itself. The role of marketing strategy is to find a match between the company and its environment. Marketing strategy focuses on ways in which the firm can differentiate itself from its competitors, profiting on its distinctive strengths to deliver better value to its customers. A good marketing strategy should be characterized by:

- clear market definition,
- good match between corporate strengths and the needs of the market,
- superior performance relative to the competition. [14]

Figure 5 Elements of Marketing Strategy Formulation



Source: SUBHASH [14], p. 25

The goal of a marketing strategy is to create a unique match between needs and objectives of customer and company resulting in delivering a value for customers and build strong and profitable customer relationship. In the center of the marketing strategy stand customers. The company decides which customers it will serve and how it will serve them. This process involves market segmentation, market targeting, market differentiation, and market positioning. [9]

2.7.1 Market Segmentation

Marketing segmentation refers to identifying distinct groups of customers within the market. The goal is to determine segments that offer the best opportunities. Customers can be grouped and served in a segments in various ways based on certain characteristics they have in common, for example being within a certain age range, income range or occupational profile (higher managers, professionals, middle managers, skilled manual workers, etc.). The characteristics by which customers are grouped in

segments fall in four groups of factors, these are geographic factors, demographic factors (sex, age, income, education level, etc.), behavioral factors (social class, values, lifestyle, religion, choices, etc.), and psychographic factors (personality of a customer). Different customer segments have different needs, characteristics, and purchasing behavior. A marketing segment consists of customers who respond in similar way to a given set of marketing efforts. Companies focus their marketing effort on serving and satisfying the most promising segment. To do so, companies use set of marketing activities such as product design, pricing, promotion, distribution, advertising blended in the marketing mix. The objective is to optimize the fit between the purchasing behavior of customers in given segment and the marketing mix, whereby maximizing sales to that segment. [9]

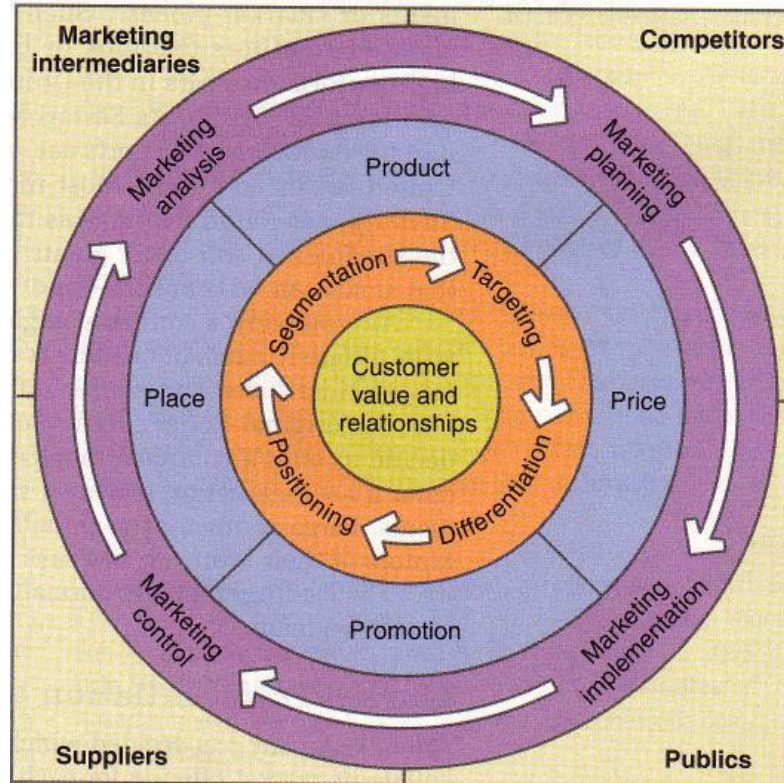
2.7.2 Market Targeting

When a company has defined market segments it must decide which segment or segments it wants to serve. The process of evaluating attractiveness of marketing segments and selecting one or more segments to enter is called market targeting. The goal of market targeting is to select a target segment in which a company can profitably generate the greatest customer value and sustain it over time. [9]

2.7.3 Market Differentiation and Market Positioning

Once a company has decided which market segments it wants to enter, it must determine how it will differentiate its offering that it gives consumers more value. The place the product occupies in consumers' minds relative to competitors is the product's position. Positioning is concerned with arranging for a product to occupy a clear, distinctive, and desirable place relative to products of competitors in the minds of target consumers. [9]

Figure 6 Marketing Strategy and Marketing Mix



Source: KOTLER & ARMSTRONG [8], p. 47

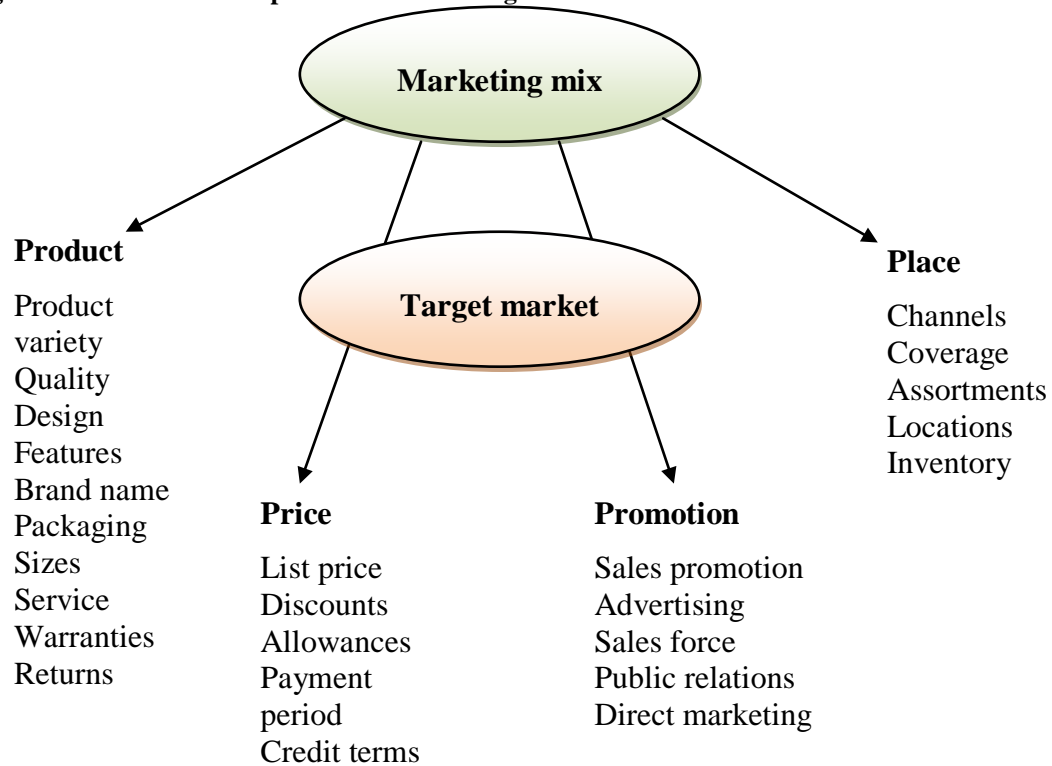
2.8 Marketing Mix

After the company decides its overall marketing strategy it is ready to begin planning the details of the marketing mix. Marketing mix is the set of controllable, tactical marketing tools that the company uses to pursue its marketing objectives. Marketing mix involves everything the company can do to influence the demand for its product. The marketing tools forming marketing mix were classified in four broad groups by McCarthy. These four groups called the four Ps of marketing comprise of: product, price, place, and promotion. The four Ps framework represents sellers' point of view, when marketing tools are used to influence buyers. To understand buyers' point of view, when marketing tools are used to deliver benefit for customer, the concept of four Cs was introduced by LAUTERBORN (cited in [8]) who suggests that the sellers' four Ps correspond to the buyers' four Cs.

Four Ps
 Product
 Price
 Place
 Promotion

Four Cs
 Customer solution
 Customer cost
 Convenience
 Communication

Figure 7 The Four Ps Components of Marketing Mix



Source: KOTLER & KELLER [8], p. 19

2.8.1 Product

The product is the heart of the marketing mix. Product is anything that is capable of satisfying customer needs. It can be anything that is offered on the market to draw attention, to obtaining, using or for consumption i.e. everything that has ability to satisfy customer wishes or needs. Products can be tangible physical goods as well as intangible such as service, knowledge, information or ideas.

Product is everything that the consumer or purchaser receives when making the purchase or using the product. More formal definition by ALBAUM and DUERR [1] defines product as “the sum of all physical and psychological satisfactions that the buyer or user perceives as being part of the product”. Since a product includes

everything that buyers or user perceive as being part of the product it can be considered as comprising of three levels: core product, actual product, and augmented product.

Core product – is the carrier of benefit for customer.

Actual product – consists of several attributes such as level of quality, distribution, design, design, brand, and packaging.

Augmented product – comprises of intangible attributes such as warranty, after sales service, customer support service. [1] [5] [8]

2.8.2 Price

Price is considered as a key element of the marketing mix as it remains the only element that produces revenue. Price is also the easiest element of the marketing mix to adjust. Therefore setting the right price is crucial for success of the marketing mix as whole. In process of setting the price the company must consider many different factors:

Selecting the pricing objective – there are five major objectives that can be pursued through pricing: survival, maximum current profit, maximum market share, maximum market skimming, or product-quality leadership.

Determining demand – each price leads to different level of demand and therefore has a different impact on a firm's marketing objectives.

Estimating costs – every company wants to charge a price that covers at least its costs of producing, distributing, and selling the product.

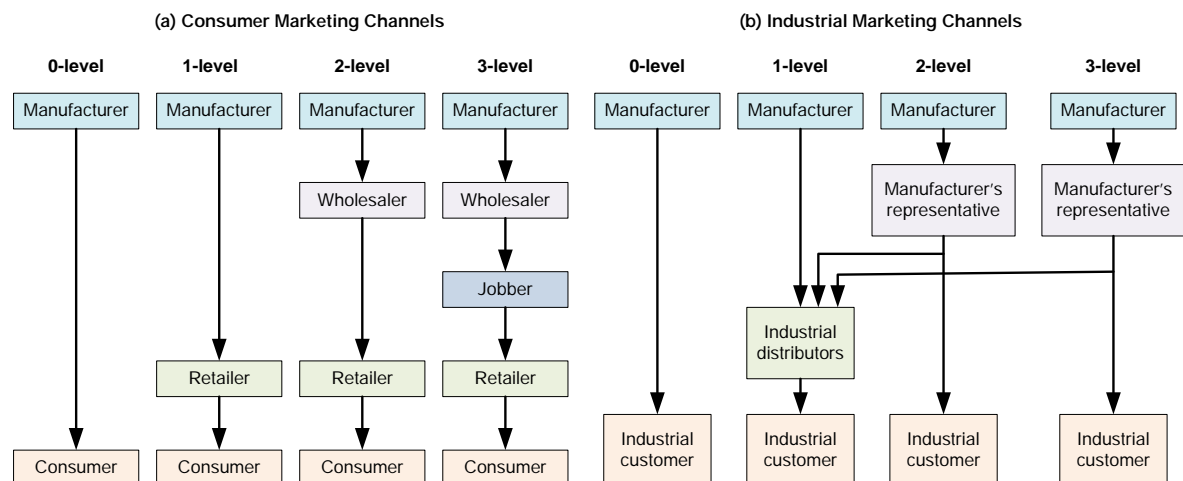
Analyzing competitors' costs, prices and offers – in the process of selecting the price every company must take its competitors' prices into account. The company can decide whether it can charge for its product or service more, the same, or less than the competitors.

Selecting the final price – there are three main approaches in price setting: costs set the price floor, prices of competitors' and substitutes provide an orientation point, and customers' assessment of unique features establishes the price ceiling. [8]

2.8.3 Place

Place or distribution is concerned with channels a company may employ to make its products and/or services available to customers. A channel can be described as a bridge that bypasses gap of time and space between the producer and the customer. Each channel may involve different number of intermediaries but the producer and the customer are part of every channel. The number of intermediaries that are involved in moving goods from manufacturers to customers determines length of a channel. The channel-structure strategy refers to the length of a channel. A company that is selling its products directly to the final customer without involving any intermediaries uses the zero-channel strategy (direct-marketing channel, direct distribution strategy). An indirect marketing strategy is used when goods pass through one or more intermediaries. [8]

Figure 8 Consumer and Industrial Marketing Channels



Source: KOTLER & KELLER [8], p. 474

Every company must decide how many intermediaries to use on each channel level. This process is called distribution-scope strategy, and there are three possible alternatives: exclusive distribution, selective distribution, and intensive distribution.

Exclusive distribution – when the number of intermediaries is limited. This distribution-scope strategy is used when the producer wants to maintain control over the service level and outputs offered by the reseller. Producers may gain several advantages

by using exclusive distribution such as dedicated and knowledgeable selling, dealer loyalty, greater sales support, control over the retail market, better forecasting. However there are also several disadvantages to exclusive distribution such as possible sales volume loss, relying on one dealer in certain geographic area.

Selective distribution – when more than a few but not all intermediaries who are willing to carry out a particular product in a given area are involved in the marketing channel. When using selective distribution it is extremely important for a manufacturer to choose a dealer that most closely matches the marketing goals and image of the product.

Intensive distribution – when the manufacturer places its products or services in as many outlets as possible. The product is being carried at a wide variety of different and also competitive retail institutions in a given area. Intensive distribution is associated with two main disadvantages: intensively distributed goods are low-priced and low-margin products that require a fast turnover, and it is difficult to provide any degree of control over a large number of retailers. In the short term this strategy may help, but in the long term it might be devastating. The product's availability is increased but it may result in retailers competing aggressively causing price and profitability to decline. Finally retailers' interest in supporting the product may weaken. [8]

2.8.4 Promotion

Promotion or also marketing communications is the way in which companies seek how to inform, persuade, and remind consumers about products and brands they sell. By marketing communications firms communicate directly or indirectly with present and potential stakeholders, and general public. Marketing communications is a tool that companies use to establish dialogue and build relationships with customers. It is used to enhance brand equity of a company and to build a brand image by establishing in the memory of people.

Developing effective marketing communications involves eight steps:

Identifying the target audience – any gap existing between current public perception and image sought needs to be closed.

Determine the communications objective – may comprise of category need, brand awareness, brand attitude.

Design the communications – requires answer to three questions: what to say, how to say it, and who should say it.

Select the communications channels – there are two types of communications channels: personal (advocate, expert, and social channels), or nonpersonal (media, atmospheres, and events).

Establish the total communications budget - the total budget of marketing communications must be defined.

Decide on the communications mix – the right communication tools must be chosen considering advantages and costs of each as well as the type of product market and readiness of customers.

Measure the communications results – requires asking members of the target audience whether they recognize the communication, how they felt about the communication, and their previous and current attitudes towards the company and the product.

Manage the integrated marketing communications process – the entire communications process with its comprehensiveness must be managed. [8]

2.9 Marketing Communications Mix

The marketing mix consists of six main practice of communication: advertising, sales promotion, events and experiences, public relations, direct marketing, and personal selling. Each tool has its own unique characteristics. [8]

Figure 9 Common Communication Platforms

Advertising	Sales Promotion	Events/Experiences	Public Relations	Personal Selling	Direct Marketing
Print and broadcast ads Packaging-outer Packaging inserts Motion pictures Brochures and booklets Posters and leaflets Directories Reprints of ads Billboards Display signs Point-of-purchase signs Audiovisual material Symbols and logos	Contests, games, sweepstakes, lotteries Premiums and gifts Sampling Fairs and trade shows Exhibits Demonstrations Coupons Rebates Low-interest financing Entertainment Trade-in allowances Continuity programs Tie-ins	Sports Entertainment Festivals Arts Causes Factory tours Company museums Street activities	Press kits Speeches Seminars Annual reports Charitable donations Publications Community relations Lobbying Identity media Company magazines	Sales presentations Sales meetings Incentive programs Samples Fairs and trade shows	Catalogs Mailings Telemarketing Electronic shopping TV shopping Fax mail E-mail Voice mail

Source: KOTLER & KELLER [8], p. 537

2.9.1 Advertising

Any paid form of nonpersonal presentation and promotion of ideas, goods, or services by an identified sponsor. Advertising is the most common and widespread form of marketing communication. It uses different type of media such as television, radio, newspaper, magazines, the Internet, outdoors to reach geographically dispersed buyers. When developing advertisement program managers must answer five essential questions known as “the five Ms” [8, p. 568]:

- **Mission** – What are the objectives of the advertising?
- **Money** – How much can be spent on the advertising?
- **Message** – What message should be sent through the advertisement?
- **Media** – What type of media should be used for advertising?
- **Measurement** – How should the result be evaluated?

There are four main goals of advertising:

Informative advertising- aims to create brand awareness and knowledge of new products or new features of existing products.

Persuasive advertising - aims to create liking, preference, conviction, and purchase of a product or service.

Reminder advertising - aims to stimulate repeat purchase of products and services.

Reinforcement advertising - aims to convince current purchasers that they made the right choice. [8]

Figure 10 Profiles of Major Media Types

Medium	Advantages	Limitation
Newspaper	Flexibility; timeliness; good local market coverage; broad acceptance; high believability	Short life; poor reproduction quality; small "pass-along" audience
Television	Combines sight, sound, and motion; appealing to the senses; high attention; high reach	High absolute cost; high clutter; fleeting exposure; less audience selectivity
Direct mail	Audience selectivity; flexibility; no as competition within the same medium; personalization	Relatively high cost; "junk mail" image
Radio	Mass use; high geographic and demographic selectivity; low cost	Audio presentation only; lower attention than television; nonstandardized rate structures; fleeting exposure
Magazines	High geographic and demographic selectivity; credibility and prestige; high quality reproduction; good pass-along readership	Long ad purchase lead time; some waste circulation; no guarantee of position
Outdoor	Flexibility; high repeat exposure; low cost; low competition	Limited audience selectivity; creative limitations
Yellow pages	Excellent local coverage; high believability; wide reach; low cost	High competition; long ad purchase ad time; creative limitations
Newsletters	Very high selectivity; full control; interactive opportunities; relative low costs	Cost could run away
Brochures	Flexibility; full control; can dramatize messages	Overproduction could lead to runaway costs
Telephone	Many users; opportunity to give a personal touch	Relative high cost unless volunteers are used
Internet	High selectivity; interactive possibilities; relatively low cost	Relatively new media with low number of users in some countries

Source: KOTLER & KELLER [8], p. 575

2.9.2 Sales Promotion

Is short-term tool of marketing communication used to encourage purchase of a product, or a service. Sales promotion provides consumers an incentive to buy. Incentives aimed on specific group have specific forms: **consumer promotion** (samples, coupons, cash refund offers, prices off, premiums, prizes, patronage rewards, free trials, warranties, tie-in promotions, cross-promotions, point-of-purchase displays, and demonstrations); **trade promotion** (prices off, advertising and display allowances, and free goods); and **business** and **sales-force promotion** (trade shows and conventions, contests for sales reps, and specialty advertising). [8]

2.9.3 Events and Experiences

Company-sponsored activities and programs designed to create daily or special brand-related interactions. These interactions affect customers' perception of a brand and a company. There are several reasons for sponsoring events:

- To identify with a particular target market or life style.
- To increase awareness of company or product name.
- To create or reinforce consumer perceptions of key brand image associations.
- To enhance corporate image dimensions.
- To create experiences and evoke feelings.
- To express commitment to the community or on social issues.
- To entertain key clients or reward key employees.
- To permit merchandising or promotional opportunities. [8]

2.9.4 Public Relations

Employs variety of tools to maintain and develop prosperous relationships with customers and interested public. Public relations involve several tools designed to promote company's image or product:

- ***Publications*** - annual reports, brochures, articles, company newsletters and magazines, and audiovisual materials.
- ***Events*** - arranging special events like news conferences, seminars, outings, trade shows, exhibits, contests and competitions, and anniversaries that will reach the target publics.
- ***Sponsorships*** - promoting brands and corporate name by sponsoring sports and cultural events and highly regarded causes.

- *News* – creating favorable news about the company, its products, and its people, and get the media to accept press releases and attend press conferences.
- *Speeches* - company executives must field questions from the media or give talks at trade associations or sales meetings to build the company's image.
- *Public-Service Activities* - firms can build goodwill by contributing money and time to good causes.
- *Identity Media* - companies need a visual identity that the public immediately recognizes. The visual identity is carried by company logos, stationery, brochures, signs, business forms, business cards, buildings, uniforms, and dress codes. [8]

2.9.5 Direct Marketing

Companies performing direct marketing use different channels to communicate directly with customers in order to deliver goods or services. The main forms of direct marketing are: direct mail, catalogs, telemarketing, interactive TV, kiosks, Web sites, and mobile devices mail. Thanks to advances in technology such as the Internet cost of communication decreased rapidly and encouraged more companies to focus on direct marketing therefore the role of direct marketing is increasing and new form of direct marketing such as interactive marketing emerged. The newest channels for direct marketing are electronic and bring high potential for companies in terms of direct marketing. The Internet enabled companies and customers with opportunities for greater interaction and individualization. As the role of the Internet in direct marketing is increasing firms must also put lot of effort on designing their Web sites. RAYPORT and JAWORSKI (cited in [8]) have proposed seven design elements called 7Cs that an effective Web site should poses:

- *Context* - layout and design.
- *Content* - text, pictures, sound, and video the site contains.
- *Community* - how the site enables user-to-user communication.

- **Customization.** – Web site's ability to tailor itself to different users or to allow users to personalize the site.
- **Communication** - how the site enables site-to-user, user-to-site, or two-way communication.
- **Connection** - degree that the site is linked to other sites.
- **Commerce** – Web site's capabilities to enable commercial transactions. [8]

2.9.6 Personal Selling

Personal selling is one of the oldest techniques used in order to make a sale. It involves face-to-face communication with a prospective customer for the purpose of making presentations, answering questions, and retrieving orders. Personal selling enables companies to build long-term relationships with their customers. By maintaining these relationships companies yield chance of potential repetitive future orders and therefore companies put lot of effort and money in training sales people in order of managing their key customers. There are three main advantages of personal selling:

- **Personal interaction** - an immediate and interactive relationship between two or more persons. Each party is able to observe the other's reactions.
- **Cultivation** - permits all kinds of relationships to spring up, ranging from a matter-of-fact selling relationship to a deep personal friendship.
- **Response** - makes the buyer feel under some obligation for having listened to the sales talk. [8]

3 ANALYSIS OF CURRENT SITUATION

3.1 Introduction of the Company

The company Minerva Czech Republic was founded in 1992 and since that time it operates on the Czech market of enterprise resource planning information systems. The headquarters of Minerva Czech Republic are in České Budějovice, and additional branches are located in Prague, Brno, Tábor, Kopřivnice, Most and Rousínov.

The customers of Minerva Czech republic are mainly manufacturing and distribution companies. Minerva CR focuses on manufacturing companies more precisely on selected set of six vertical markets within manufacturing industry: automotive, consumer products, food and beverage, mechanical engineering, industrial products and life sciences. Minerva CR helps these companies increase efficiency, productivity, and improve control. The main instrument used in achieving these goals is the implementation of the QAD Enterprise Applications information system produced by QAD Inc. The company is able to offer its customers complete services from software installation and consulting to systems integration and e-business solutions of world-class.

Minerva CR is a business partner of many worldwide and Czech companies in the area of computer science and engineering. The most important strategic partner and the author of the software product (QAD Enterprise Applications) is QAD Inc., an American company based in Carpinteria in California, USA. The ERP information system QAS Enterprise Applications is installed in approximately 5400 locations worldwide, in more than 80 countries, and translated in 26 languages. For instance in automotive industry QAD's solutions are used by 7 of the 10 largest suppliers of manufacturers of cars and their suppliers. Company Minerva Czech Republic is the exclusive distributor QAD Enterprise Applications of QAD Inc. in the Czech Republic. In collaboration with trading partners, the company serves customers in Slovenia, Lithuania, Russia, Ukraine, Hungary, Romania, and Bulgaria. Other important strategic partner not only of Minerva, but also of QAD Inc. is Progress Software Corporation - supplier of development and operating environment. Partner in the field of database applications is Oracle, and partner in the hardware is a Hewlett Packard. Most

customers of Minerva CR are running the system QAD Enterprise Applications on platforms from HP.

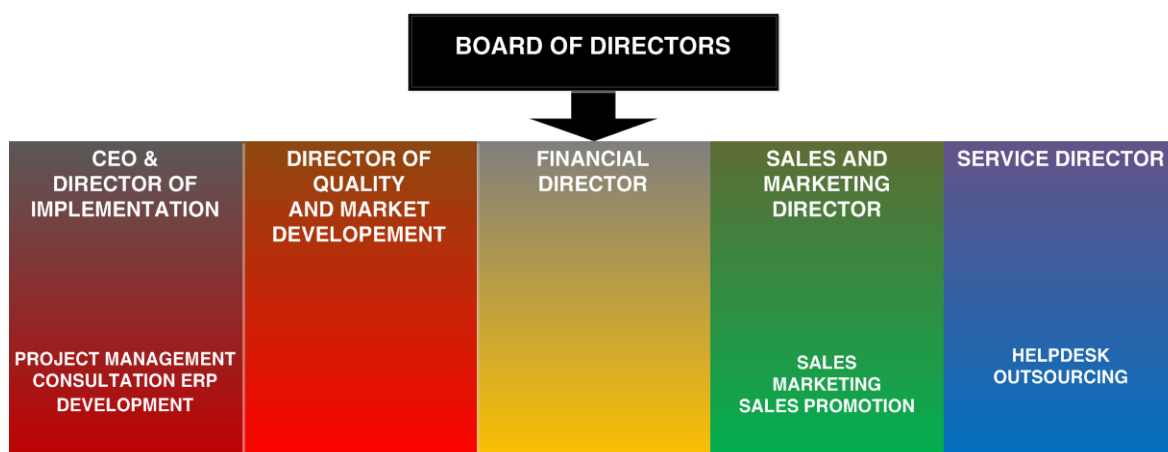
The Company Overview According to Czech Company Register:

Company Overview	
Company Name	Minerva Česká republika, a.s.
Identification Number	466 82 937
Company Address	České Budějovice, Dukelská 456/21
Legal Form	Incorporated Company
Capital Stock	37 500 000,- CZK (100% paid-up stock)
Company Shares	750 piece of common stock in nominal value of 50 00,- CZK
Chairman of the Board of Directors	Petr Koptík
Chairman of the Supervisory Board	Ing. Kateřina Špolcová

Organizational Structure

The company Minerva Czech Republic is subject to the Board of Directors, which is composed of directors of individual departments within the company i.e. department of implementation, financial department, sales department, service and quality and market development department. The director of the department of implementation is also the CEO. Financial director is head of the financial department. Sales, marketing and sales promotion activities are under responsibility of head of the sales department, who is also head of the board of directors. The head of service department is responsible for helpdesk and outsourcing.

The Organizational structure of Minerva CR



Company structure and its management:

Board of Directors	
Chairman	Petr Koptík
Member	Ing. Jan Kuklík
Member	Ing. Jan Kotouček
Member	Ing. Pavel Šrubař
Member	Ing. Zdeněk Vokáč

Supervisory Board	
Chairman	Ing. Kateřina Špolcová
Member	Ing. Josef Brzobohatý
Member	Petr Pischek

Company logo:



3.2 PESTEL Analysis

The political, economic, social, technological, legal and environmental structure in the Czech Republic will be analyzed hereafter.

The Czech Republic is ranked highly in the voice and accountability parameter, which measures the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and free media. The country has gained a reputation as a one of the most stable democracies in the former Soviet bloc. The country received a percentile rank of 73.8 in the rule of law indicator measured by the United Nations in 2007, compared to 60.5 of Slovakia. Rule of law measures the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, the police, and the courts, as well as the likelihood of crime and violence. This indicates that the Czech Republic has done well with respect to comparable countries such as Slovakia. However, corruption remains a significant problem in the country, although it is considered to be one of the better transition countries when it comes to perceptions of corruption. According to Transparency International's Corruption Perceptions Index for 2009, the Czech Republic ranks 52nd out of 180 countries. The Czech Republic ratified the OECD's anti-bribery convention in January 2000. Furthermore, the government signed the UN Convention against Corruption in 2005 but has not ratified it. In spite of the existence of tough laws, the implementation continues to be slow and corruption continues to be high.

The Czech Republic – basic facts

The Czech Republic	
Country and capital	
<i>Full name</i>	Czech Republic
<i>Capital city</i>	Prague
Government	
<i>Government type</i>	Parliamentary republic
<i>Head of state</i>	President Vaclav Klaus
<i>Head of government</i>	Prime Minister Petr Nečas
Population	10 509 377
Currency	Czech koruna
GDP per capita	\$25,100
Internet domain	.cz
Country area	78,866 sq km
Language	Czech
Exports	Raw materials and fuel, machinery and transport equipment, chemicals
Imports	Chemicals, raw materials and fuels, machinery and transport equipment

3.2.1 Political/ Legal Factors

The Czech Republic is a multi-party parliamentary democratic stable country that entered the EU in May 2004, and is a member of the World Trade Organization (WTO), the International Monetary Fund, and the European Bank for Reconstruction and Development. Czech commercial, accounting and bankruptcy laws are compatible with Western standards. The parliament has two chambers – the Chamber of Deputies and the Senate. The supreme law of the Czech Republic is its constitution, which was ratified by the Czech National Assembly in December 1992. The president of the Czech Republic has limited powers but is the official head of state. The prime minister is the head of the government. President Vaclav Klaus is the current head of state and Petr Nečas is the prime minister.

The Czech Republic made a successful transition to democracy and has been credited with fostering democratic values in the country. Moreover, the country has higher ranking in some of the governance indicators, such as voice and accountability and the rule of law, compared to countries such as Slovakia. The Czech Republic became a member of NATO in March 1999 and the EU on May 1, 2004, after a referendum on June 13–14 2003 revealed nearly 80% support for EU membership on a turn-out of 55%. Among the transitioning countries of the former Soviet bloc, the Czech Republic is rated as one of the better countries in terms of establishing and fostering democratic values in the country.

The Czech government is transforming its laws to fully align with EU legislation, with positive reforms in areas such as the judicial system, civil administration, financial market regulation and intellectual property rights protection. The Czech Republic has improved on its regulatory framework to protect the intellectual property rights. The losses due to intellectual property rights violations have come down in the country due to the strengthening of the relevant laws. According to the World Bank's Doing Business Report, the Czech Republic has received a lower ranking than most of its neighboring Central European countries. The Doing Business rank of the Czech Republic is 74 out of 183 countries in 2010 (compared with 56th in 2008) for 2010, compared to Slovakia's 42. Moreover, the number of procedures required to start a business in the country stands at eight compared to the OECD average of 5.8. The number of days required to start a business in the country is 15 compared to the OECD's 10. To add to the country's woes, the Czech Republic is also losing its competitive advantage due to its rising labor costs. Therefore, the country faces a major challenge to attract FDI. The government has to simplify and reduce procedures, and improve the regulatory framework.

The corporate tax rate in the Czech Republic is lower than in many other European countries, which makes it an attractive destination for investment. The corporate tax rate is 19%. The revenue losses from the reduction in income and corporate taxes will be offset by an increase in value-added tax of 20% (compared to 19% in 2009) in the lower rate of value-added tax, which is now 10% (compared to 9% in 2009) and a large hike in excise duty on cigarettes.

Corruption remains a significant problem in the country, however, it is considered to be one of the better transition countries when it comes to perceptions of corruption. According to Transparency International's Corruption Perceptions Index for 2009, the Czech Republic ranks 52nd (compared to 46th in 2006) out of 180 countries. The Czech Republic ratified the OECD's anti-bribery convention in January 2000, and has signed the UN Convention against Corruption in 2005, but is yet to ratify it. In spite of being a signatory to many conventions, corruption levels continue to remain high in the country.

3.2.2 Economic Factors

The world economy has been recovering from contraction caused by financial market crisis. Nevertheless due to plans of some EU countries to reduce high budget deficits, restoring thus confidence on government bond markets, recovery in the EU can slow down in future. The Czech economy came out of recession a year ago and has been increasing its performance since the third quarter of 2009. Recovery nevertheless remains fragile and future development is still encumbered with considerable risks related especially with external environment. A slight increase in real GDP by 1.6 % is assumed for 2010. Thanks to an increase in imports by our main trading partners, growth should be pulled by means of foreign trade mainly. Under current assumptions, the economy's growth should accelerate to 2.3 % in 2011. Average rate of inflation is estimated at some 1.6 % in 2010 with growth of consumer prices accelerating to 2.5 % in 2011. Consequences of lower economic activity are still seen on the labour market. After considerable growth of rate of unemployment (LFS) from 4.4 % in 2008, a maximum of some 7.6 % should be hit in 2010. After that, rate of unemployment should start falling slowly. Employment should decrease by 1.4 % in this year and grow moderately by 0.6 % in 2011. Wage bill should fall by 0.3 in this year. In 2011 wages and salaries could grow by 3.8 %. Ratio of current account deficit to GDP should remain at favorable level with current account nearly balanced in 2010.

The Czech economy is benefits in a major way from the continual liberalization of world trade and closer integration with the EU. However, the Czech households have been steadily reducing their retail expenditure. Moreover, the economy is facing labor

shortages, which could hurt the growth potential of the country's economy. The largest segment in the country is the services sector, with an output constituting 60.5% of the GDP. The industrial sector constitutes 37.7% of the GDP and the agricultural sector constitutes 2.3% of the GDP. However the Czech services sector is relatively underdeveloped compared to other countries in the region and so this sector is expected to expand in the medium term.

Figure 11 Main Macroeconomic Indicators

		2006	2007	2008	2009	2010	2011	2009	2010	2011
		<i>Forecast</i>						<i>Previous forecast</i>		
Gross domestic product	<i>growth in %, const.pr.</i>	6,8	6,1	2,5	-4,1	1,6	2,3	-4,2	1,5	2,4
Consumption of households	<i>growth in %, const.pr.</i>	5,2	5,0	3,6	-0,2	-0,5	2,0	-0,2	-1,1	2,0
Consumption of government	<i>growth in %, const.pr.</i>	1,2	0,7	1,0	4,2	-1,8	-0,9	4,4	-2,5	-0,9
Gross fixed capital formation	<i>growth in %, const.pr.</i>	6,0	10,8	-1,5	-9,2	-4,3	2,5	-8,3	-3,7	2,5
Cont. of foreign trade to GDP growth	<i>p.p., const.pr.</i>	1,5	1,1	1,3	-0,6	1,9	0,6	-0,5	1,8	0,7
GDP deflator	<i>growth in percent</i>	1,1	3,4	1,8	2,6	-0,2	1,3	2,7	0,2	1,1
Average inflation rate	<i>percent</i>	2,5	2,8	6,3	1,0	1,6	2,5	1,0	1,5	2,3
Employment (LFS)	<i>growth in percent</i>	1,3	1,9	1,6	-1,4	-1,4	0,6	-1,4	-0,6	0,1
Unemployment rate (LFS)	<i>average in percent</i>	7,1	5,3	4,4	6,7	7,6	7,3	6,7	7,9	7,8
Wage bill (domestic concept)	<i>growth in %, curr.pr.</i>	7,9	9,4	8,7	-0,1	-0,3	3,8	-1,7	-0,1	4,3
Current account / GDP	<i>percent</i>	-2,4	-3,2	-0,6	-1,0	-0,1	-1,0	-1,0	0,4	-0,5
<i>Assumptions:</i>										
Exchange rate CZK/EUR		28,3	27,8	24,9	26,4	25,5	24,6	26,4	25,5	24,6
Long-term interest rates	<i>% p.a.</i>	3,8	4,3	4,6	4,7	3,7	4,0	4,7	4,0	4,0
Crude oil Brent	<i>USD/barrel</i>	65	73	98	62	78	87	62	81	92
GDP in Eurozone (EA-12)	<i>growth in %, const.pr.</i>	2,9	2,7	0,5	-4,1	1,1	1,9	-4,1	1,1	1,9

Source: Ministry of Finance of the Czech Republic

3.2.3 Socio-cultural Factors

The population of the Czech Republic is around 10.5 million. Around 7.3 million people are between the 15–64 years and they constitute around 71% of the population. The number of people above 65 comes to around 1.5 million, which constitutes around 15.1% of the total population. This is segment of the population that is dependent on the social security.

The Czech government introduced a flat rate of personal income tax of 15% (equivalent to 23% under a typical base) since January 2008 after replacing a schedule of four rates (which ranged from 12 to 32%). This has benefited the high income earners rather than people with low incomes. The reform included the introduction of a ceiling on the social contribution assessment base, which was set at four times the

average salary. This has further increased the benefits of the high income earners. The Czech government introduced the flat tax with the aim of bringing about structural benefits and reducing the slabs, but its action has ended up by benefiting the high income earners. The lowering of income tax rates was accompanied with increases in VAT rates in the country. However, the lowering of income tax rates help high-earners more than the low-income earners. The country has been witnessing a favorable employment trend with the decline in unemployment rates. According to UN estimates, the country will see a major surge in the aging population in the first half of this century. An aging population will create one of the largest fiscal related pressures on the country.

The health insurance system in the country is compulsory and is targeted at all persons who permanently reside in the Czech Republic. The financing of the healthcare scheme is entrusted to semi-public administrative bodies. Citizens decide the health insurance body with which they would like to be insured. In practice, the largest proportion of citizens is insured by the General Health Insurance Company. Contributions to the social insurance scheme, comprising sickness and maternity benefits, old-age, invalidity and survivor's pensions, unemployment benefits and employment programs, are set as a percentage of the gross salary: 25% of it is paid by the employee and 75% by the employer.

Healthcare spending in the country accounted for 6.8% of GDP in 2006, which is lower than the average of 8.9% in the OECD countries. In terms of total health spending per capita, the Czech Republic ranks below the OECD average, with a spending of \$1,490 in 2006 (adjusted for purchasing power parity), compared with an OECD average of \$2,824. The country's population has been aging, which makes it imperative to increase its healthcare spending.

The healthcare and pension systems require reforms due to the aging population. According to UN population projections, the Czech demography will witness two phases of an increase in its aging population in the first half of this century. The first phase will begin in 2012 and end in the early 2020s, and the second phase will start in the mid-2030s and end at around 2050. The European Commission suggests that if the same policies continue in the Czech Republic, then spending pressure will amount to

7% of GDP by 2050. As a result, one of the largest age related fiscal pressures will be created in the country among EU countries.

3.2.4 Technological Factors

The Czech Republic has one of the most well-developed telecoms markets in Europe. As in most other developed nations, the Czech market for fixed lines is witnessing a negative growth, but the growth rate for mobile subscription also has increased. The Czech Republic is presently referred to as the “new Detroit” due to its success in attracting investments of automotive companies. The largest foreign investment project in 2006 was that of Hyundai from South Korea.

The Czech Republic is receiving increased investments in the R&D and services sectors. Moreover, the accession of the country into the EU in 2004 provides the possibility of drawing financial support from EU structural funds. The Czech government formulated operational programs based on the National Development Plan, which were developed and launched during 2004–06. Furthermore, a new set of operational programs have been prepared for the next financial period (2007–13). Two of the operational programs are related to innovation: R&D for Innovation, and Entrepreneurship and Innovation. The operational programs are designed keeping in mind the principle of partnership between related ministries and all relevant stakeholders. However, R&D expenditure in the country continues to be low and does not compare favorably with developed countries. Furthermore, the number of patents granted to the country has been consistently falling since 2003.

The Czech Republic is also facing shortages in terms of highly-skilled manpower for conducting R&D activities in the country. The R&D expenditure increased from \$1.76 billion in 2005 to \$2.21 billion in 2006. Moreover, the total expenditure on R&D as a percentage of GDP has increased from 1.42% in 2005 to 1.55% in 2006. The Czech Republic’s R&D expenditure does not compare favorably with that of other developed countries, such as the US and Japan, where R&D expenditure was 2.62% and 3.34% of GDP, respectively, in 2007. This will adversely affect future technological development. There has been a decline in the number of patent applications made by the

Czech Republic since 2003. The number of patents granted came down from 44 in 2003 to 37 in 2006. There is insufficient and unsuitable capital financing for innovation in the country. In addition, the Czech Republic has insufficient human resources for conducting R&D and the universities do not participate in the application of R&D results, which has led to an extremely bad performance in terms of patents granted.

Highly-skilled human resources are the cornerstone of a knowledge economy, but there are insufficient human resources for R&D in the Czech Republic. Furthermore, the quality of graduates is unsatisfactory and their skills do not always match the market demand. Only about 30% of all Czech university graduates continue in research, either as assistants at universities or as part of their PhD studies. The primary weakness in the area of human resources in the country is that a high number of young researchers quit the R&D sector, which increases the average age of researchers.

The general approach to information technology in the Czech Republic is described in the State Information Policy, approved by the Government Resolution No. 525 of May 31, 1999. The document sets the objectives and priorities on the way to build the information society of the Czech Republic. The state information policy has been constituted to address the following priority areas:

- electronic commerce,
- information literacy,
- information democracy,
- communication infrastructure,
- reliability and security of information systems and personal data protection.

3.2.5 Environmental Factors

The country has incorporated most of the EU environmental laws into its regulatory framework. The Czech Republic witnessed massive environmental degradation during the communist era, which was characterized by a complete absence of laws for the protection of the environment. The Czech Republic has air and water pollution in some areas of northwest Bohemia and in northern Moravia around Ostrava. This poses

potential health risks to people in those areas. Moreover, acid rain has been damaging forests in the country, which it has to urgently address. The government has made efforts to bring industry up to the EU code, which should improve the domestic pollution situation in the country.

The Czech Republic has ratified a number of international environmental treaties and has made legislative changes to meet such international directives. The country has played an active role in the preparation of global agreements on environmental protection and sustainable development, and in the strengthening of international environmental governance. The country is party to a large number of environmental agreements on air pollution, biodiversity, climate change, endangered species, hazardous wastes, and the ozone layer.

The growing popularity of wind power in the Czech Republic has resulted in the alleviation of greenhouse gases such as carbon dioxide. The wind power plants reduced carbon dioxide emissions by around 152,000 tons in the Czech Republic. The wind power plants produced electricity that was sufficient for around 36,000 households in 2007, and generated 2.5- times more electricity in 2007 than in 2006.

The Czech Republic is one of the trailing nations in the EU in terms of the air quality. The prevalence of dust in the air is one of the major causes of air pollution. The level of dust in the air exceeded the limits on 29% of the country's territory in 2006 and on 35% in 2005. Consequently, around 62% and 66% of the Czech population were exposed to excessive dust pollution in 2005 and 2006, respectively. Moreover, in terms of local dust pollution, the country's pollution came to 150% of the EU average in 2006.

The State Environmental Policy (SEP) was approved by the government in January 2001. This was again updated and revised in March 2004. The significant features of the SEP are:

- the protection of nature, landscape and biological diversity;
- sustainable use of natural resources, protection of waters and protection against floods, optimization of material flows and waste management;
- reducing the damage to the environment from human activities;
- improving environmental standards for the quality of human life.

Following the recommendation of the European Commission, the Czech government has decided to use economic instruments to achieve the aims of the State Environmental Policy.

3.3 Porter's Five Forces Analysis

The success of a company is determined by way in which it responds to the five forces: rivalry among existing firms, threat of new entrants, bargaining power of suppliers, bargaining power of buyers, and threat of substitute products or services. By analyzing these forces company acquires opportunities for positioning its products or services and activities which should be performed to strengthen its position and weaken position of those who threaten it.

3.3.1 Rivalry among existing firms

The competition in the ERP market is fierce, and there is a strong trend of consolidation. According to catalogue of ERP solutions by SystemOnLine website there is 137 different ERP products on the Czech ERP market. Some of them are disappearing because they are too small with too low customer portfolio. In order to overcome pitfalls the ERP market must be segmented. There are two categories of ERP systems: all-in-one ERP systems and best-of breed ERP systems. The all-in-one ERP solutions are able to cover all key processes of a business such as finance, logistics, manufacturing, and human resources within one implementation. Typical examples of all-in-one ERP system vendors are SAP, Helios, and Microsoft Dynamics NAV. On the other hand best-of-breed ERP systems are designed to focus on particular industries or on specific business processes within a company. The ERP system QAD Enterprise Applications sold by Minerva CR is typical example of best-of-breed ERP system.

The systems within the all-in-one ERP segment are easily comparable as these are considered to be substitutes. On the other hand the best-of-breed products are easily

defined but it is almost impossible to measure this segment for instance in terms of number of implementations.

The biggest competitors of Minerva CR are SAP, Microsoft Dynamics NAV, Infor, and Helios.

3.3.2 Threat of new entrants

The threat of new entrants in the ERP market is relatively low as in last few years there was strong trend of consolidation. According to research conducted by AMR Research (2007) in 1999 the top five vendors in the ERP market accounted for 59% of the industry's revenue. In 2005 these top five vendors accounted for 72% of ERP market revenue. This trend continues at present as now the market is served by three companies with significant market share – SAP AG, Oracle Corporation, and Infor Global Solutions. The market is balanced by niche players such as Minerva Czech Republic.

3.3.3 Power of suppliers

The software market requires employees with specific know-how, and also hardware devices. Key to the success in this market are skilled programmers. Market players rely on the continued service of highly qualified and usually generously paid employees. Inputs such as hardware components are often purchased from sole suppliers, who are often large companies offering differentiated products, resulting in significant supplier power. The likelihood of forward integration from suppliers is rare as software production entails a highly complicated process with large amounts of proprietary knowledge, which directly weakens supplier power. Supplier power in this market is moderate overall.

3.3.4 Power of customers

The customers of ERP market are businesses of all sizes and government institutions. Business buyers come from a range of industries, including banking services, retail, logistics, telecommunications and healthcare. They may be reliant on particular players as software is often industry-specific and/or requires users to be trained to use it, and thus switching costs can be high. This is particularly important in the case of Minerva Czech republic as it sells solution which is highly industry specific. However, buyers are often large companies (although software solutions are required by businesses of any size) which provides them with stronger bargaining power. Therefore bargaining power of customers is moderate. The reason is that there are many options for customers to choose from and vendors have to compete in the ERP market with each other to attract potential customer, but the switching costs can be high. More over the customers in the Czech Republic and other Eastern European countries are substantially price sensitive therefore ERP vendors must compete in terms of price and thus increase bargaining power of customers.

Some of the Minerva's customers are:

- *Automotive industry:* Johnson Controls, Fuji Koyo Czech, Citroën (PSA Group).
- *Food and Beverage:* Hamé, Kraft Foods, Madeta Group, United Bakeries. Life Sciences: GlaxoSmithKline, SpofaDental, Teva Pharmaceuticals.
- *Industrial equipment and electronics:* Carborundum Electrite, FEI Czech Republic, Laird Technologies.
- *Consumer Products:* JITONA I Tusculum, KORADO, Hranipex.

3.3.5 Threat of substitutes

The threat of substitute product in the ERP market is high as there are many products from different suppliers which are relatively comparable. Although ERP vendors require advanced technology, hardware and skilled programmers and consultants the access to market appeals to new entrants and eases rivalry amongst incumbent players.

3.4 Analysis of the Marketing Mix

3.4.1 Product

QAD Enterprise Applications

The main product used by Minerva Czech republic in achieving its goals is the implementation of the QAD Enterprise Applications enterprise resource planning information system.

QAD Enterprise Applications are intended for companies in the following industries: electronics, industrial equipment, the automotive industry, food and beverage, consumer products, and life sciences. The QAD EA include the planning and management of production, sales, purchasing, warehouse management, financial management, and services management.

The product was designed using ERP II production standards. From this set of functions customers can choose those necessary for their enterprises. Initiatives for functional enhancements come from advisors, system integrators, and especially customers. Over 50% of QAD EA functional enhancements are the result of annual evaluations of customer needs. QAD EA focuses not only on the management of material and information flow within the company, but also on the bonds between the various subjects of a large enterprise and on the management of the supply chain.

QAD Enterprise Applications Rapid

Is intended for the small and medium businesses sector and, just like QAD Enterprise Applications, is focused on the automotive industry, electronics and industrial products, food and beverage, consumer products and life sciences. The system is intended for companies with up to 150 employees, with a starting number of licenses and with the possibility of gradual upgrades in connection with the growth of the company and actual needs. This also includes a fixed number of days of consultation and possible program modifications. In this way the period of implementation is reduced from an average of six months for QAD EA to just a single month. The short period of QAD EA implementation has been confirmed several times in studies by

leading analytical firms. The system likewise contains all modules (manufacturing, financials, and distribution) with predefined company processes that Minerva consultants have developed on the basis of long-term experience with implementation in manufacturing businesses. This method guarantees the full functionality of the QAD EA enterprise resource planning system, which Minerva has implemented for more than 100 customers, particularly in the Czech Republic and Slovakia, but also in Russia, Ukraine, and Lithuania.

QAD Enterprise Applications are available in the following module groups:

- Enterprise Financials – Provides the ability to manage and control businesses at a local, regional and global level with solutions for accounting, regulatory compliance, financial reporting and other critical business requirements.
- Standard Financials – enables manufacturing companies to streamline their financial processes from planning to recording, reporting and complying.
- Customer Management – Provides improved responsiveness through collaboration and management of customers and demand.
- Manufacturing – Enables companies to reduce costs and increase throughput using the latest manufacturing scheduling techniques, including the capability to fully support Lean adoption.
- Supply Chain – Includes modules that help improve the management of supply and suppliers through real-time collaboration.
- Service and Support – Provides the capability for after-sale service and support of products. Manages Warranty Tracking, Services Calls, and Returns and Repairs.
- Enterprise Asset Management – Manages the life cycle of capital assets from planning to installation, supports preventive maintenance and repair, and manages parts inventory cost-effectively.

- Analytics – Helps companies analyze data to measure business performance in key areas.
- Interoperability – Allows database portability and operating system flexibility, and works with QAD QXtend integration layer to enable access to all elements of QAD Enterprise Applications. Also includes QAD's Product Information Management solution.

Key advantages of QAD Enterprise Applications:

- focus on distinct vertical markets
- fast implementation
- rapid return on investment
- flexibility,
- local support,
- multi-currency,
- global support,
- multi-language,
- scalability,
- continuous development,
- localization,
- long-term partnership with key suppliers,
- providing support to all the old versions.
- software that is simple to implement, learn and use.

QAD Warehousing

Other product implemented by Minerva helps customers to better organize their warehouses, reduce costs for warehouse operations, increase their performance, and optimize the management of their warehouse sites. The application was specially developed to fulfill the needs of companies active in a manufacturing or distribution environment, where strong and flexible inventory control software is an important component of enterprise processes.

Benefits of QAD Warehousing:

- Significantly increases operational efficiency.
- Optimization and savings on warehouse space.
- Possibility of using all advantages of barcode technology in organizing the warehouse.
- Minimization of human error: the “Labour Management” function enables the system to be controlled directly by warehouse workers using a portable computer, which minimizes human error.
- Operations can be fully managed electronically (portable terminals), by means of print reports, or through a combination of both methods.

Preactor

Preactor is an Advanced Planning System (APS) intended for companies that require better control of their activities, improved customer service, and reducing costs at same time. Preactor provides a planner with a support tool for interactive decision making; this planner maintains the balance between demand and capacity. The software has been installed at more than 3,000 locations in 64 countries.

Some of the benefits of Preactor:

- up to 15% higher productivity,
- up to 40% reduction of inventory,
- up to 50% reduction of work-in-progress,
- up to 60% improvement in the fulfillment of deliveries,
- better utilization of critical resources,
- perfect production management.

Other products and services

Other products sold by Minerva CR are **Business Intelligence** (BI) – a tool for supporting decision making of lower and top management, **Supply Chain Management** (SCM) – a tool for management of supplier relationships and e-commerce, **HamiltonSFA** (Sales Force Automation) – a software solution that uses various types of mobile devices (handheld, notebooks) to help companies improve the efficiency of their business activities, **SalesLogix** (CRM) - a fully integrated solution for managing relationships with customers and contains modules for managing sales, marketing, customer support, and e-business, **Human Resource Management** system (HRM), and **Enterprise Assets Management** (EAM) – a tools to maintain a company's production equipment, leading to improved utilization of machines and equipment.

Minerva Czech Republic is also provider of numerous services. Main services provided are **consultation, training, and support**. All services are provided by skilled and highly qualified experts who have acquired experience during more than one hundred local installations. This experience enables the team to effectively employ its strengths and maximize the potential of each customer, with the goal of optimizing profits.

Services provided by Minerva:

- Implementation which comprises of consulting, project management, and training.
- Optimization and analysis of business processes.
- Outsourcing.
- MMOG/LE (Global Materials Management Operations Guideline / Logistics Evaluation) methodology.
- System integration.
- Education.

3.4.2 Price

In countries where QAD doesn't have direct operations, such as the Czech Republic, it has established a distribution alliance with local strong partner, who sells directly, although QAD does not grant exclusive rights to any of its distributors or sales agents. Minerva Czech Republic is such a partner of QAD in the Czech Republic, Slovak Republic, Lithuania, Russia, Slovenia, Poland, Hungary, and Ukraine. Minerva sells independently to companies within its geographic territory, but may also work in conjunction with QAD's direct sales. It functions as a distributor of QAD Enterprise Applications distributor in the specified region and as such it must follow official pricelists of QAD licenses. These license agreements provide for the non-exclusive license of QAD Enterprise Applications and are generally perpetual. Although Minerva CR must follow QAD's pricing policy, which is based on a standard price list and may vary based on different parameters, including the number of end-users, number of sites, number of modules, number of languages, length of time, the country in which the license is granted and level of ongoing support, training and services to be provided, there is still some room for price to be negotiated, but any price deviation must be first discussed with QAD. Minerva pays QAD one half of every license fee sold.

However there is no exact price of license mentioned in this thesis, the price QAD Enterprise Application is comparable with those of other competitors and depends on vast number of factors but generally QAD applications are easier and less expensive to implement and support over time than those of its larger competitors. This is possible thanks to strong focus on manufacturing capabilities and by further focusing on sub-segments of the markets it serves rather than trying to serve everyone.

Minerva applies the policy of maximum openness and transparency in the pricing area toward its customers. This, among others, includes clear pricelists of products and services.

3.4.3 Place

QAD is selling and supporting its products and services through direct and indirect sales channels and service organizations located throughout the world. Direct sales organization is composed of approximately 85 commissioned sales people. Within each territory, a focus on the industries that are served is maintained through marketing, local product development and sales training. QAD's indirect sales channel consists of over 70 distributors and sales agents worldwide. QAD's distributors and sales agents primarily sell independently to companies within their geographic territory, but may also work in conjunction with our direct sales organization. Minerva Czech Republic is one of those distributors for in the Czech Republic, Slovak Republic, Lithuania, Russia, Slovenia, Poland, Hungary, and Ukraine. There are no other intermediaries involved between Minerva and final customers as Minerva sells directly to customers through its Sales and Marketing Department which consists of three employees specialized in marketing and four sales people (the total number of Minerva's employees is 80).

3.4.4 Promotion

The overall promotion strategy or so called communication mix of Minerva Czech Republic is based on push strategy, which emphasizes personal selling rather than mass media advertising in the promotional mix. Push strategy is suitable for Minerva CR because the ERP system it is selling is a complex industrial product designed for business customers and the distribution channels are short as there are no other intermediaries in the process of distribution.

Advertising

Minerva Czech Republic uses print advertisements published in specialized magazines oriented on IT such as:

- Computer World,
- Business Word,
- Údržba podniku,
- Connect,
- IT Systems,
- Upgrade IT,
- Progress.

Other forms of print advertisements employed by Minerva are reference leaflets of successful implementation and brochures.

Public relations

In order to maintain and develop prosperous relationship with customers Minerva publishes its annual report in graphic form as well as in interactive form distributed on

CD-ROM. Employees of the company frequently publish technical articles in numerous magazines and books. Marketing department is responsible for publishing public relations articles and press releases.

Minerva also participates and arranges number of seminars, training sessions, conferences, presentations, and conventions above all Salima (International Food Fairs), Auto, or Manager's Day. The company also cooperates with several universities, namely with the University of Economics in Prague, where Minerva teaches at the Faculty of Finance and Accounting an optional course Computer-integrated Business Management. Employees of Minerva lecture at the Technical University in Zvolen.

Personal Selling

Team of well-selected, well-trained sales people are a key in acquiring new customers. Sales people with cooperation people from marketing department trace any new opportunity in form of request of ERP implementation from potential customers. They continuously monitor proposal solicitations of businesses for ERP solutions published on the internet, newspaper, or other medium. When an opportunity is spotted a future possible customer is contacted and offered a personal meeting with sales people who then present a solution provided by Minerva at customer's site. Usually process of ERP vendor selection comprises several steps and goes on for long-run period of time.

Direct marketing

To reach customers directly Minerva Czech Republic uses e-mails and telemarketing. Minerva has its own CRM software with database of current customers. It has also access to a paid database of potential customers. Before contacting a potential future customer, businesses are pre-selected based on criteria such as industry, size, number of employees, sales etc.

The company has its own corporate website (<http://www.minerva-is.eu/>) which is also used for direct communication and interaction with customers. Maintenance of the

corporate website is in charge of external supplier who is also providing webhosting for Minerva.

Sales Promotion

For current customers as well as for potential customers the firm provides gifts such as ball pens, T-shirts, CD cases, bags, calendars, notepads, and brochures.

Figure 12 Budget of Marketing Department for Year 2009

	January	February	March	April	May	June	July	August	September	October	November	December	TOTAL
Advertising													
Magazines		40 000	30 000	65 000	50 000	50 000	28 000	45 000	70 000	80 000	40 000	40 000	538 000
New ads							7 000			7 000			14 000
Database update													
											18 000	15 000	33 000
Literature													
New brochures & leaflets		50 000			35 000			40 000		30 000			155 000
Reference sheets	20 000		20 000				20 000		20 000			20 000	100 000
Annual report			30 000										30 000
Brochures update			20 000	20 000				40 000			15 000		95 000
Exhibitions / Events													
User conference					100 000	250 000							350 000
D2			40 000				40 000			40 000		40 000	160 000
Partner events			60 000	50 000					70 000		40 000		220 000
Other				115 000									115 000
Promotional													
Gifts		45 000	45 000	30 000			45 000			45 000		130 000	340 000
Business cards	20 000	10 000			15 000				10 000		10 000		65 000
Various													
Website update and maintenance	5 625	15 000	3 000	3 000	15 000	3 000	3 000	3 000	3 000	3 000	3 000	3 000	62 625
Reserve	30 000	30 000	30 000	30 000	30 000	30 000	30 000	30 000	30 000	30 000	30 000	30 000	360 000
TOTAL	75 625	190 000	278 000	313 000	245 000	333 000	173 000	158 000	203 000	235 000	156 000	278 000	2 637 625
CUMULATIVE	75 625	265 625	543 625	856 625	1 101 625	1 434 625	1 607 625	1 765 625	1 968 625	2 203 625	2 359 625	2 637 625	
CUMULATIVE %	3%	10%	21%	32%	42%	54%	61%	67%	75%	84%	89%	100%	

3.5 Analyses Overview – Overall Trends of ERP market

According to research by AMR (2010) the worldwide ERP market is expected to grow to \$43 billion by 2011, a compounded annual growth rate of 11% over the next year. The ERP market is currently worth \$39.4 billion. AMR predicts a five-year compound annual growth rate of 6% for the ERP market during the period from 2008 through 2013. Geographically Central and Eastern European countries like the Czech Republic, Slovakia, Poland, and Russia continue to be low-cost centers for global firms and therefore have potential of growth for ERP vendors. Romania and Bulgaria, the 2007 entrants of the European Union have also potential of growth of ERP market. The Czech overall computer software market including ERP market generated total revenues of \$348.7 million in 2009, representing a compound annual growth rate (CAGR) of 8.6% for the period spanning 2005-2009. The performance of the market is anticipated CAGR of 4.8% for the five-year period 2009-2014, which is expected to drive the market to a value of \$441 million by the end of 2014.

Overall trend within the ERP market is its strong consolidation. There are few top companies who share more than three quarters of total ERP market revenue. There is strong tendency of acquisition and mergers of software manufactures by ERP vendors. The market leader in ERP industry is SAP who accounts for more than 40% of total market revenue. The secret of SAP's success is its early entry to the ERP market; in fact SAP was the pioneer in this particular industry.

The ERP market was traditionally segmented by size of customer that vendors were targeted to: small business vendors, middle market vendors, and large enterprise vendors. It was claimed that same vendors cannot serve multiple segments, but nowadays many vendors compete in all segments. The products of the large vendors were too big, complex and expensive to serve other than big enterprises. Therefore they start to attract midmarket companies through reseller channels. The midmarket is considered to be one of the key areas where large vendors such as Minerva have an opportunity to growth.

3.6 SWOT Analysis

Next tool used in this paper is SWOT analysis which brings up together key issues from the business environment with strategic capabilities of the company which can have an impact on development of a strategy. The analysis in this report identifies opportunities and threats of the ERP market and detects strengths and weaknesses for Minerva Czech Republic within the ERP market.

3.6.1 Strengths

The main strength of Minerva CR is its strong focus on manufacturing companies and more precisely on selected set of six vertical markets within manufacturing industry: automotive, consumer products, food and beverage, high technology, industrial products and life sciences. The focus on specific market niches allows Minerva CR to target its product development and to differentiate itself from competitors.

3.6.2 Weaknesses

The major weakness of Minerva CR is its strong dependence on QAD's product. Moreover most of applications of QAD sold by Minerva are using programming language that is proprietary to Progress Software Corporation. Although QAD has an agreement with Progress which licenses to distribute and use Progress software related to its products, this agreement may be terminated either by a written three-year advance notice or due to a material violation that is not repaired.

3.6.3 Opportunities

The opportunities for Minerva Czech Republic in the ERP market are in particular serving customers from small and middle size business. These customers can't afford products from large vendors such as SAP so there is an opportunity for smaller vendors

such as Minerva. Staying focused on manufacturing industry and on particular industries within it provides Minerva with another opportunity, as it can better understand its customers and their specific needs therefore it can better serve them and deliver them solution targeted precisely to their businesses. Other opportunity for Minerva is to focus on niche markets and differentiate itself from competitors. To remain competitive Minerva also invests large amounts of money into research and development to broaden capabilities of its products.

3.6.4 Threats

One of the biggest threats of Minerva is its high dependency of its core product on certain types of software and programming languages of third-party companies foremost the Progress Software Corporation. Although Minerva has global and royalty free license with this company, there is no guarantee on the part of Progress that it will continue to update, develop and support its programming language. If customers wish to purchase and use QAD's product sold by Minerva they must also purchase rights to use Progress software. QAD's dependence on software license form its supplier puts it at risk from competitive performance of its buyers and also its suppliers.

3.6.5 SWOT Analysis Highlights

The overall situation of Minerva and its position on the ERP market is very good, according to research by IDC it is one of five best performing ERP vendors on the market, when talking about specific industries such as automotive, or food and beverage, Minerva can be considered as a leader. The portfolio of offered products and services is on very high level. The main product sold by Minerva, QAD Enterprise Applications, is tailor-made to the needs of producers in specific industries what makes it different from products of its competitors such as SAP or Microsoft whose products are more general. Minerva CR has strong and stable relationships with its customers, which is crucial for good performance on the market Minerva operates on. The

employees of Minerva Czech Republic are loyal, skilled professional who ensure the highest level of value delivered to Minerva's customers.

Thus the overall competitiveness of Minerva Czech Republic is high but it must keep improving its activities in order to stay competitive in future. After conduction several analyses of Minerva's external and internal environment, it seems that the most room for improvement is in its marketing activities. The recommendations for improvement of Minerva's marketing activities are summarized in the last chapter of this thesis.

Strengths:

- Qualified and skilled employees,
- long-term relationships with leading information technology companies on both the international and local level,
- exclusive provider of QAD Enterprise Applications in the Czech Republic and Slovakia and serves as a QAD distributor in Eastern Europe,
- good image,
- broad foundation of reference and satisfied customers,
- experience and strong understanding of customers' needs.

Weaknesses:

- Marketing,
- language proficiency of the employees,
- dependency of third-party products,
- decentralized network of offices,
- low R&D capacities,

- insufficient cash.

Opportunities:

- International projects,
- new products and services,
- new territories.

Threats:

- Fierce competition,
- customer loyalty,
- economic environment and situation,
- loss of trained and skilled employees.

4 RECOMMENDATIONS

After analyzing the external and internal environment of the company, its strengths and weaknesses, opportunities and threats of the market it operates on and critical analysis of marketing activities of the firm, this part of the thesis is concerned with proposal of recommendations regarding marketing activities and marketing strategy that will lead to increase of competitiveness of the company.

Strategic Mission of the Company

The marketing strategy of any company must be in accordance with its overall strategy so it is in the case of Minerva Czech Republic. Marketing strategy involves various activities that lead to achieving the company's overall mission and objectives stated in the strategic plan. The role of marketing strategy is to find a match between the company and its environment. Marketing strategy focuses on ways in which the firm can differentiate itself from its competitors, profiting on its distinctive strengths to deliver better value to its customers and thus gain and sustain an advantage over its competitors. Managers of Minerva Czech Republic are fully aware of the importance of every customer and therefore the overall corporate mission of Minerva is following: **to take care of customers and to work hard to increase their competitive advantages, as well as to help them strengthen their enterprise processes to the highest possible level.** Taking into account the corporate mission and the current situation of Minerva regarding the results acquired from conducting several analyses in the precedent section of this thesis, the recommendations focused on its marketing activities were created and will be presented later on in the text.

Marketing Strategy – Recommendations

In this section of the thesis the several recommendations regarding the marketing strategy of Minerva Czech Republic will be given. By following these

recommendations the company can increase its competitiveness and ensure better position on the ERP market compared to its competitors.

1. Follow the Focus Strategy

The general strategy according to Porter pursued by Minerva CR is focus. The firm is focused on selected set of six vertical markets within manufacturing industry: automotive, consumer products, food and beverage, high technology, industrial products and life sciences. The businesses within the six industries mentioned above make up the segment served by Minerva. I would recommend Minerva to continue with following of the focus strategy and to keep targeting on the same segment as it allows the firm to differentiate itself from competitors and thus gain a competitive advantage. The foundation of this competitive advantage lays in better understanding of customers' needs and requirements and allows Minerva to deliver them a greater value than its competitors together with comparable or even lower price than competitors.

2. Concentrate on Small and Medium Businesses

Next recommendations for Minerva regarding the marketing strategy are based on specifics of the ERP market, as the ERP market is much different than consumer goods market. The customers on ERP market are businesses. Business customers have quite different buying behavior than those of individual customers. The whole process of business buying is a lot more complicated and there are many people involved before the final decision for ERP supplier is made. The ERP market is even more specific and complicated as the buying cycle for ERP solution averages 10 years and costs of implementation and license of ERP systems are rather high (millions of CZK). The current global economic situation does not make it any easier for ERP vendors to acquire new customers and make some profit from new licenses along with profits from maintenance of current customers. Almost all of large enterprises already have some kind of ERP solution, thus vendors must focus on small and medium enterprises. SME segment is the most dynamic with the highest potential of future growth for ERP

vendors as according to ERP market research conducted by CVIS (Centre for Research of Information Systems) only 10% of Czech companies are using any ERP solution. On the other hand small and medium business are much more price sensitive than their large colleagues and therefore think twice as much when deciding the ERP solution supplier. All these factors make selling of ERP very hard, therefore Minerva should put much more emphasis on marketing strategy and marketing activities than ever before. Marketing department of Minerva comprises of 3 full-time employees plus 4 sales people out of 80 total employees and accounts only for 3% of all costs of Minerva. Marketing is far too important to be left only to the marketing department. Hence Minerva's marketing department would deserve more attention and consideration especially in turbulent and hyper-competitive times like these.

3. Building Relationships with Customers

According to research by Gartner main reasons of SMB for choosing a particular ERP solution vendor are: price of the solution (63%), user friendly application environment (49%), fast implementation (38%), overall vendor's experience (36%), vendor's knowledge of the particular business environment (25%), and reference (15%). Taking into account results of the research, there is number of opportunities for Minerva regarding the small and medium businesses due its focus strategy which matches the requirements of SME clients. Minerva should adjust its marketing strategy more precisely its marketing communication mix in order to attract customer from SME. Minerva is not as big as SAP or other bigger competitors in terms of financial resources it can invest in mass advertising. Therefore it should use different methods. One of the possible ways is to use current customers who have already successfully implemented QAD Enterprise Applications as a form of advertisement and take prospect customers to the site. In many cases the final decision for ERP system supplier is made by small and medium company's owner. Therefore organizing some kind of excursion and demonstration for decision makers to show them functionality and benefits of QAD Enterprise Application in real life environment seems like ideal step in process of selling ERP solution.

4. Use of EU Grant to Strengthen Pricing Strategy

Other very important factor for SME clients when choosing ERP system supplier is price. Although Minerva is selling product developed by QAD and must follow its pricing strategy, there is an opportunity for Minerva to outperform its rivals in terms of price – the EU Grant for ICT Innovation. Even if Minerva cannot reduce price of its solution due to QAD's pricing strategy, it can help prospect customers with preparation of high-quality application for EU Grant for ICT Innovation. The grant is intended for small and medium companies, with no more than 250 employees, who can qualify for up to 60% incentive when investing in purchase of ICT mainly ERP and necessary hardware. When the application for the Grant is successful, both companies benefit, Minerva by making a sale, and the customer by getting the ERP solution with up to 60% discount.

5. Cooperation with Universities to Strengthen Public Relations

Next recommendation for Minerva CR is regarding its public relations. It was mentioned that Minerva cooperates with two universities, one in Prague in the Czech Republic, and one in Zvolen in Slovakia, but greater cooperation with more universities should be considered. It could be beneficial for the company to cooperate with universities in Brno, particularly with Brno University of Technology and its Faculty of Business and Management. The faculty offers field of study that seems like perfect fit for cooperation with Minerva CR. Especially the specializations Managerial Informatics, and Company Management and Economics whose alumni are skilled as professionals in IT and IS as supporting systems of the company management and organization in small and medium enterprises. After all they are gonna be those who decide of purchase of new ERP systems in companies in future, therefore it is in the firm's own interest to show them quality and functionality of QAD Enterprise Applications, and thus creating and nurturing realionships with possible prospect customers. Apart from the fact that Minerva can also find new capable employees within the students. The cooperation could have form of optional courses taught by

specialists from Minerva, or form of internship, and last but not least assignment of diploma theses' topics.

6. Use of Online Advertising

Another recommendation for Minerva Czech Republic is regarding its online marketing activities. The Internet is medium with an incredible potential when talking about effectiveness and impact of online advertising, unfortunately Minerva CR is not taking advantage of the Internet. Although it has its corporate website (available at: <http://www.minerva-is.eu/>), Minerva CR should develop and employ more online marketing activities such as SEO (search engine optimization) which is a process of improving the visibility of a website in a search engines (Google, Bing, Yahoo, Seznam) via unpaid search results. Other possible option is paid form of online advertising such as contextual ads on search engine results pages, banner ads, Rich Media Ads, Social network advertising, interstitial ads, online classified advertising, advertising networks and e-mail marketing, including e-mail spam, which is a form of promotion that uses the Internet and World Wide Web for the expressed purpose of delivering marketing messages to attract customers. The advantage of online advertising is in its effectiveness. When a potential customer inserts a query for instance “ERP implementation” in a search engine the ad appears next to search results meaning that advertising appeals to an audience that is already interested in particular product or service, ERP system in case of Minerva Czech Republic. Thus the impact of such advertising is greater than traditional form of mass advertising such as print ads. Another form of online advertising suitable for Minerva is a web banner or banner ad. It is form of online advertising that entails embedding an advertisement into a web page. It is intended to attract traffic to a website by linking to the website of the advertiser. The advertisement has usually a graphic form. Images are usually in a high-aspect ratio shape (i.e. either wide and short, or tall and narrow) therefore referred to as banners. The web banner is displayed when a web page that references the banner is loaded into a web browser. When the viewer clicks on the banner, the viewer is directed to the website advertised in the banner. Web banners function the same way as traditional advertisements: notifying consumers of the product or service and presenting reasons

why the consumer should choose the product, although web banners differ in that the results for advertisement campaigns may be monitored in real-time and can be targeted to the viewer's interests and thus more effective. It would be suitable for Minerva CR to use banner ads on websites specialized on IS/ICT such as SystemOnLine, ERPForum, CIO Business World.

7. Company's Newsletter

Last but not least recommendation for Minerva Czech Republic, concerned with public relations, is company's newsletter. This tool is a common marketing strategy used by companies to connect with customers and prospects leading in creating and maintaining mutual relationships and hence increasing competitiveness of the company. Minerva should develop its own newsletter that would be regularly distributed to groups of interest such as current and prospect customer. The topics covered by newsletter should include news and upcoming events of the company and related industry.

Contribution and Implementation of the Recommendations

The contributions of all the above proposed recommendations are hard or even impossible to express in terms of finance but as a result the company should become more competitive, thus it will ensure higher profits and awareness within customers. Furthermore, the company will gain and profit from reference of its satisfied customers, which is extremely important in the process of obtaining new contracts, that are crucial for the further company existence. The main objective of every business is to increase market share, achieved better status within the particular industry and thus increase profits and competitiveness. With overall analysis of the company, the company and its environment, together with the above mentioned recommendations Minerva should gain and sustain competitive advantages over its rivals. But the final contribution of these recommendations lays in hands of Minerva's managers and board of directors who are responsible for the implementation of the recommendations proposed into company's real life.

CONCLUSIONS

The thesis was conducted for purpose of Minerva Czech Republic, a company that was founded in 1992 and since that time it operates on the market of Enterprise Resource Planning information systems.

The ERP market has experienced several important changes in last few years. One of the major trends of ERP market is its strong consolidation. The market is dominated by few large vendors such as SAP and Oracle, who were traditionally focused on large enterprises and have years of experience and strong market position. On the other hand ERP systems of these large vendors are too expensive and far too robust for needs of small and medium business. Thus the ERP market is balanced by niche players such as Minerva Czech Republic, who can offer better value to small and medium businesses for reasonable price compared to its bigger rivals. Unfortunately most of the large enterprises have already implemented some form of ERP system therefore large vendors have aimed their interests on SME, who were before out of their concern. Thus the situation of ERP market for smaller vendors such as Minerva worsen, as the market got more competitive and it must now compete with businesses that have disproportionately higher financial and other resources to spend for instance to market their products. Hence smaller vendors must adjust their strategies in order to stay competitive on the ERP market. This is the reason for creation of this thesis.

The thesis is divided in three parts. First part, the Literature review, summarizes findings from current literature regarding strategy, competitiveness, and marketing strategy. Next part of the thesis is the analytical part, which is concerned with analyzing external and internal environment of the chosen company as well as current situation of its marketing activities. The final part of this thesis comprises proposal of recommendations regarding development of marketing activities within marketing strategy of Minerva Czech Republic.

The objective of this thesis, which was to propose marketing activities that the company should develop in order to increase competitiveness of the company, have been achieved.

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LIST OF ABBREVIATIONS

APS	Advanced Planning System
BI	Business Intelligence
CAGR	Compound Annual Growth rate
CIO	Chief Information Officer
CR	Czech Republic
CRM	Customer Relationship Management
CZK	Czech Koruna
EAM	Enterprise Asset Management
ERP	Enterprise Resource Planning
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
HRM	Human Resource Management
HP	Hewlett Packard
ICT	Information and Communication Technology
IS	Information System
IT	Information Technology
NATO	North Atlantic Treaty Organization
OECD	Organization for Economic Co-operation and Development
R&D	Research and Development
ROIC	Return on Invested Capital
SCM	Supply Chain Management
SEO	Search Engine Optimization
SEP	State Environmental Policy
SMB	Small and Medium Businesses
SME	Small and Medium Enterprises
UN	United Nations
VAT	Value Added Tax
WTO	World Trade Organization