

Competitiveness analysis of the company ReIm, s. r. o.

Martin Horváth

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Faculty of Management and Economics

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Zásady pro vypracování:

Úvod

I. Teoretická část

- Zpracujte literární prameny orientované na problematiku konkurenceschopnosti a formulujte teoretická východiska pro zpracování analýzy.

II. Praktická část

- Charakterizujte firmu Relm, s. r. o., výrobní program firmy a používanou výrobní technologii.
- Analyzujte postavení firmy v globálním konkurenčním prostředí a proveďte průzkum nejvážnějších konkurentů firmy Relm, s. r. o.
- Na základě analýzy navrhněte doporučení pro zlepšení konkurenceschopnosti společnosti Relm, s. r. o.

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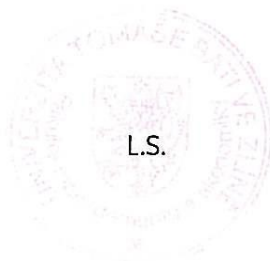
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ABSTRAKT

Tématem mé bakalářské práce je analýza konkurenceschopnosti firmy Relm, s.r.o. Na základě analýzy jsou navržena doporučení pro zvýšení produktivity a zlepšení konkurenčního postavení společnosti. Práce se skládá z teoretické a praktické části.

Teoretická část je zpracována jako literární rešerše, ve které jsou popsány základy konkurence, podílu na trhu, vnější i vnitřní faktory ovlivňující působení firmy na trhu z důvodu měření a posílení pozice v globální konkurenci.

V úvodu praktické části je představena společnost, její výrokové portfolio i organizační struktura. Následuje vnitřní analýza zahrnující analýzu tržeb, analýzu produktivity a zhodnocení hlavních dodavatelů a SWOT analýzu. Ve vnější analýze jsou vypracovány analýzy PEST a Porterův model pěti sil, které nám vykreslují prostředí konkurenčního boje. V závěru jsou výsledky jednotlivých analýz shrnuty a jsou formulována doporučení pro zlepšení konkurenční pozice firmy.

Klíčová slova: Konkurenceschopnost; Podíl na trhu; PEST analýza; SWOT analýza; BCG analýza; Porterův model pěti sil; Analýza dodavatelů

ABSTRACT

The topic of my bachelor thesis is competitiveness analysis of the company Relm, s.r.o. On the basis of analysis, recommendations for productivity increase and competitive position improvement of the company are proposed. Paper consists of theoretical and practical part. Theoretical part is written as literature retrieval, where fundamentals of competition, market share, external and internal factors that affect company's performance are described in order to measure and enhance firm's position in global competition.

At the beginning of the practical part, company is being introduced, product portfolio and organization structure followed by productivity analysis are visualized. Main suppliers are evaluated and SWOT analysis is conducted. In external analysis, PEST and Porter's five forces analyses are done to describe environment, which competition takes place in. At the end, results of the particular analyses are summarized and conclusion in form of recommendations, how to strengthen competitive position of the company, are formulated.

Keywords: Competitiveness; Market share; PEST analysis; SWOT analysis; BCG analysis; Porter's five forces; Supplier analysis

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Finally, I would like to express my deepest gratitude for the constant support, understanding and love that I received from my parents Erika and Ján, my girlfriend and close friends, who always were there and will always be for me whenever I need them.

I dedicate this thesis to my mother and father.

I hereby declare that the print version of my Bachelor's thesis and the electronic version of my thesis deposited in the IS/STAG system are identical.

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INTRODUCTION

Competition is increasingly global in scope today. There are several reasons for this. One significant reason is technological—because of improved transportation and communication opportunities today, trade is now more practical. Thus, consumers and businesses now have access to the very best products from many different companies. Increasingly rapid technology lifecycles also increases the competition among countries as to who can produce the newest in technology. In part to accommodate these realities, countries in the last several decades have taken increasing steps to promote global trade through agreements such as the General Treaty on Trade and Tariffs, and trade organizations such as the World Trade Organization (WTO), North American Free Trade Agreement (NAFTA). Significant changes happened after entering of Central European countries the European Union. Competitive position of many local-operating firms was threatened.

Demands on competitiveness are more and more challenging. It is up to company's management and its abilities how it chooses competitive strategy and be able to compete in such rival environment.

Therefore, in my thesis, I focused on certain factors, which affect competitiveness of analyzed company. An industry, which the firm operates in, is a large number of competitors. In order to be successful, company has to be in some way unique (either with high product quality or low prices at fair quality).

For my analysis, I have chosen company Relm, s.r.o. which is a Slovak manufacturer of distribution boards, switchgears and other electro-technical installation material.

Goal of this paper is to analyze company's competitive position; to reveal its strengths and weaknesses, opportunities and threats; to analyze external factors that affect company from outside and compare it to main competitors. Such complex analysis ends in recommendations for improvement of competitiveness.

Theoretical part involves definitions of basic ideas, conceptions about competition, competitive strategies, competitive advantages and description of analytical techniques that are used in competitiveness evaluation such as: PEST analysis, Porter's five forces model, SWOT analysis, etc. To link theoretical and practical part, current European Union's efforts at development of competitive abilities of companies are briefly defined.

Analytical part includes internal analysis, which deals with factors influencing company from inside, such as labor productivity, revenues analysis, organization structure, information management system and so on. Second part is the external analysis, which is oriented on suppliers, market share and there are used analytical methods mentioned above.

In the last chapter, recommendations and measures for improvement of competitive ability of the company are stated.

I. THEORY

1 COMPETITIVENESS

1.1 Competition

The world economy has entered an era of total competition. Competition is essential factor of capitalism. Traditional barriers fell down, new competitors have come up and global competition has increased. [1]

Enterprises produce a product; customers buy it based upon their opinion that it is the best price for the best quality they can get. If a price of the product is too high, rival firm will seek a way to cut down the price to steal their clients away- it sounds like it is not very fair, but in fact, that is the real world. Due to globalization, especially development of communication and transportation technology, is more and more likely that a producer offering a product to the market in one part of the world, has to face competition in form of another manufacturer that probably has a way of making the same stuff more cheaply and offering it to the same customer.

1.2 Competitiveness concept

Competitiveness at the firm level is the ability to provide services and products more efficiently and effectively than relevant rivals. That means permanent success in national and international markets without subsidies. Competitiveness at the firm level is measured by several indicators:

- measure of cost and quality
- firm profitability
- regional or global market share, etc.

Performance in the marketplace usually provides a good measure of the competitiveness of the firm. [1]

1.3 Competitive advantage

If a company keeps up its profits above the industry average, it is said this company possess a competitive advantage over its rivals. The goal of business strategy is to achieve a sustainable competitive advantage.

Michael Porter identified two types of competitive advantage:

- cost advantage
- differentiation advantage

We talk about competitive advantage when the firm is able to offer the same benefits as competitors but at a lower cost (cost advantage), or deliver benefits that exceed those of competing products (differentiation advantage). Then, a competitive advantage provides an opportunity for the enterprise to make superior profits and create superior value for its customers.

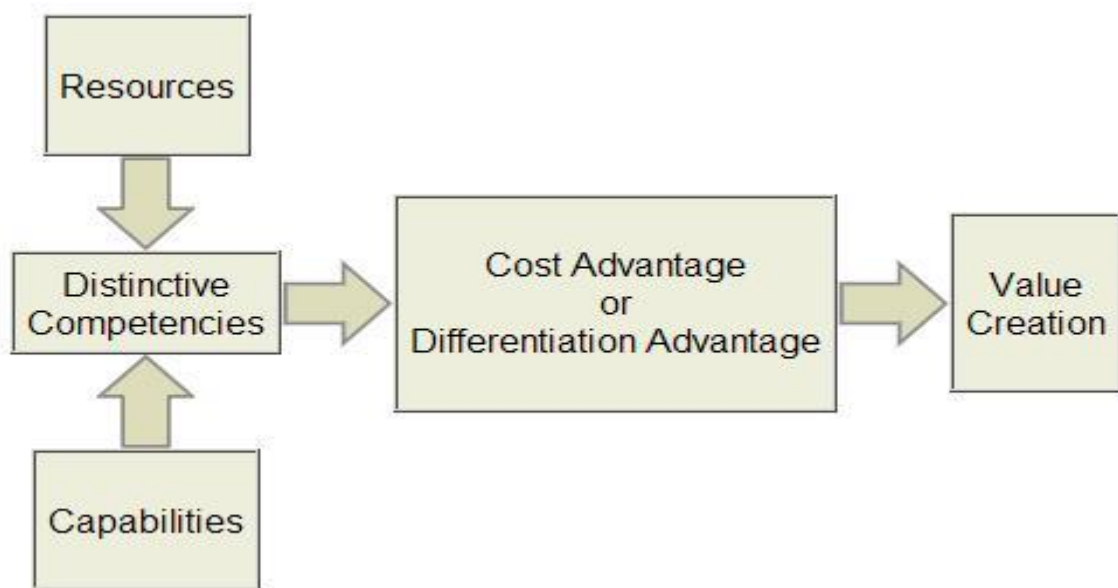


Figure 1 A model of competitive advantage

A resource-based model shows that a firm makes use of its resources and capabilities to create a competitive advantage that results in superior value creation.

Capabilities refer to the firm's ability to use its resources effectively. Such an example of capability: ability of bringing a product to market faster than competition. Such capabilities are difficult for competitors to replicate because they are enclosed in the routines of the organization and are hard to document as procedures.

Resources are the firm-specific assets useful for creating a cost or differentiation advantage and that few competitors can acquire easily. Here are some examples of such resources:

- patents and trademarks
- installed customer base

- brand equity
- reputation of the firm
- possessive know-how

Resources and capabilities together form distinctive competencies, which enable efficiency, innovation, customer responsiveness, and all of which can be applied to create a cost advantage or a differentiation advantage.

Competitive advantage is created by applying capabilities and resources to achieve either a lower cost structure or a differentiated product. A firm positions itself in its industry through its choice of low cost or differentiation. This decision is a main component of the company's competitive strategy.

The enterprise creates value by performing a series of activities that Porter identified as the value chain. In addition to own value-creating activities, company performs in a value system of vertical activities including those of downstream channel members and upstream suppliers. To achieve a competitive advantage, the company has to do one or more value creating activities in a way that exceeds overall value created by competitors. Superior value is reached through superior benefits delivered to the customer (differentiation) or lower costs. [2]

1.4 Competitive strategy

Competitive strategy is a plan for how a firm will compete, formulated after evaluating how its strengths and weaknesses compare to those of its competitors. Every company competing in an industry has implicit or explicit competitive strategy. That strategy may have evolved implicitly through the activities of several firm departments or it may have been developed through a planning process. Nowadays, the emphasis is being placed on strategic planning while insuring that policies (actions) of functional departments are fully coordinated and steered into some common set of goals.

Process for formulating a competitive strategy:

- A. What is the business doing now?
 - a. Identification of current strategy

- b. Making reasonable assumptions about the company's relative position, strengths and weaknesses, rivals, industry.
- B. What does the environment look like?
- a. Rivals analysis
 - b. Industry analysis
 - c. Strengths and weaknesses
 - d. Societal analysis
- C. What should be the business doing?
- a. Assumptions and strategy testing
 - b. Strategic alternatives
 - c. Strategic choice [3]

2 MARKET SHARE ANALYSIS

Appropriate indicator of how well the company is performing relative to its competitors is market share. It can be measured in three ways:

- overall market share - firm's sales expressed as a percentage of total market sales
- served market share - firm's sales expressed as a percentage of the total sales to its served market (all the buyers able and willing to buy its product or service)
- relative market share – company's market share compared to its largest competitor's market share (relative market share over 100% = market leader; relative market share = 100% = company is tied for the lead; rise in relative market share = company is gaining on its leading competitor)

We can draw several consequent conclusions from market share analysis:

- ❖ The assumptions that forces affecting all companies from outside in the same way are usually not true.
- ❖ Market share may fluctuate for many minor reasons.
- ❖ From time to time, market share decline is intentionally designed to improve profits (e.g. dropping unprofitable products or customers)
- ❖ Entering of a new company to industry may cause that every firm's market share fall.
- ❖ A firm's performance should be judged against the performance of its closest rivals.

Four components overall market share analysis:

- 1) Customer penetration: percentage of customers who buy from the firm
- 2) Customer selectivity: size of the average customer purchase from the company
- 3) Customer loyalty: purchases from the company by its customers
- 4) Price selectivity: average price charged by the company [4]

2.1 BCG Matrix

Companies that are large enough to be organized into strategic business units face the challenge of allocating resources among those units. The Boston Consulting Group created in the early 1970's a model for managing a portfolio of major product lines. The BCG growth-share matrix shows the various business units on a graph of the market growth rate vs. market share relative to rivals.

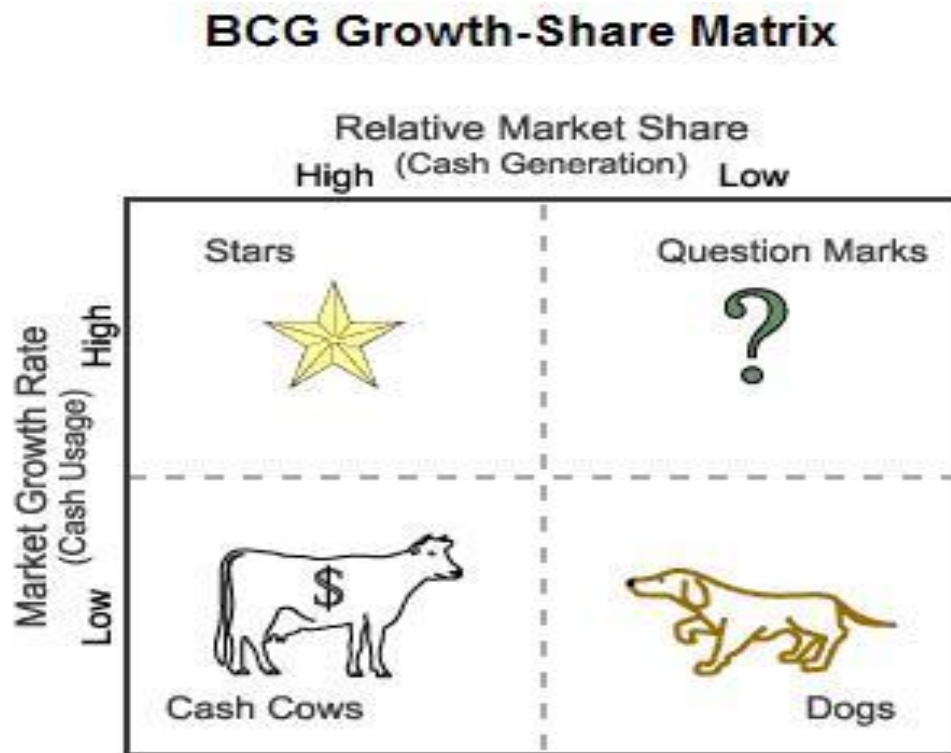


Figure 2 BCG Matrix [5]

Market growth rate = $\Delta \text{market} / \Delta \text{GDP} (\%)$

Relative market share = $\text{firm's market share} / \text{market share of the most serious competitor}$

Resources are allocated to business units, which have specific names, according to where they are situated on the grid:

- **Dogs** – a business unit with a small market share in a mature industry. A dog may not need substantial cash, but ties up capital could be better used somewhere else. It should be dropped, unless it has some strategic purpose.
- **Question marks** – a business unit with a small market share in a high growth market. They require resources to grow market share, but it is uncertain whether they become stars or dogs.
- **Stars** – a business unit with a large market share in a fast growing industry. Stars can generate cash, but they still require investment because of rapid market growth. If successful, they will become cash cows when its industry matures.

- **Cash cows** – a business unit with a large market share in a mature, slowly growing industry. They need only small investment and generate cash that can be invested in other business units. [5]

However, there are some negative aspects and limitations of the matrix:

- The approach may overemphasize high growth, since it ignores the potential of declining markets.
- Connection between market share and profitability is controversial since increasing market share may be very costly.
- High market share is not the only success factor.
- Market growth is not the only indicator for attractiveness of a market.
- Sometimes Dogs can earn more cash than Cash Cows.

All four phases of discussed matrix are approximately compatible and interchangeable with four stages of product life cycle, which will be described in the next chapter. These two concepts, even though they are independent on each other, are complementary. [6]

3 PRODUCT LIFE CYCLE

The probable course of industry evolution could be forecasted using product life cycle. However, there is some controversy whether the life cycle applies only to individual products or to whole industries. We will discuss approach, which applies to whole industry.

The assumption is that an industry goes through a numerous phases or stages – **introduction, growth, maturity and decline**.



Figure 3 Stages of the life cycle [3]

Industry growth follows an S-shaped curve because of the process of innovation and diffusion of a new product. Introductory phase of industry growth is flat because of buyer passivity and stimulating trials of the new product. Rapid growth occurs as buyers rush into the market when the product has proven itself successful. After reaching penetration point of the product's potential buyers, rapid growth is going to stop and to level off to the underlying rate of growth of the relevant buyer group. Lastly, growth will finally shrink as new substitute products show.

As industry passes through its life cycle, the nature of competition will shift. In the following table, there are summarized the most common prognoses about how an industry will change during the life cycle and how this should influence strategy. [3]

Table 1 Predictions of product life cycle theories about strategy, competition and performance [3]

	<i>Introduction</i>	<i>Growth</i>	<i>Maturity</i>	<i>Decline</i>
<i>Buyers and buyer behavior</i>	Buyer passivity High income purchaser	Widening buyer group Consumer will accept uneven quality	Mass market Saturation Repeat buying	Customers are sophisticated buyers of the product
<i>Products and product change</i>	Poor quality Basic product designs Frequent design changes	Good quality Competitive product improvements Technical differentiation	Superior quality Standardization Less rapid product changes	Little product differentiation Spotty product quality
<i>Marketing</i>	Very high advertising/sales High marketing costs	High advertising	Market segmentation Advertising competition	Low advertising/sales and other marketing
<i>Manufacturing and distribution</i>	Overcapacity Specialized channels High production costs	Undercapacity Mass channels Shift toward mass production	Optimum capacity Lower labor skills Mass channels	Mass production Specialty channels Overcapacity
<i>R&D</i>	Changing production techniques			
<i>Foreign trade</i>	Some exports	Significant exp. Fem imports	Falling exports Significant imp.	No exports Significant imp.
<i>Overall strategy</i>	Best period to	Reasonable to	Bad time to	Cost control key

	increase market share (R&D, engineering are key functions)	change price or quality image Marketing is the key function	increase market share Key is having competitive costs	
Competition	Few companies	Entry Many competitors Lots of mergers	Price competition Shakeout	Exits Fewer competitors
Risk	High risk	Risks can be taken here because growth covers them up	Cyclicality sets in	
Margins and profits	High prices and margins Low profits	Highest profits Fairly high prices Lower prices than intro phase	Falling prices Lower profits Lower margins Lower dealer margins	Low prices and margins Falling prices Prices might rise in late decline

4 PORTER'S FIVE FORCES

The model of pure competition proposes that rates of return should be constant across companies and industries. However, several economic studies have confirmed that different industries can sustain different levels of profitability; part of this difference is explained by industry structure.

Michael Porter provided a framework that models an industry as being influenced by five forces. The strategic business manager seeking to develop an edge over rival firms can use this model to better understand the industry context in which the firm operates.

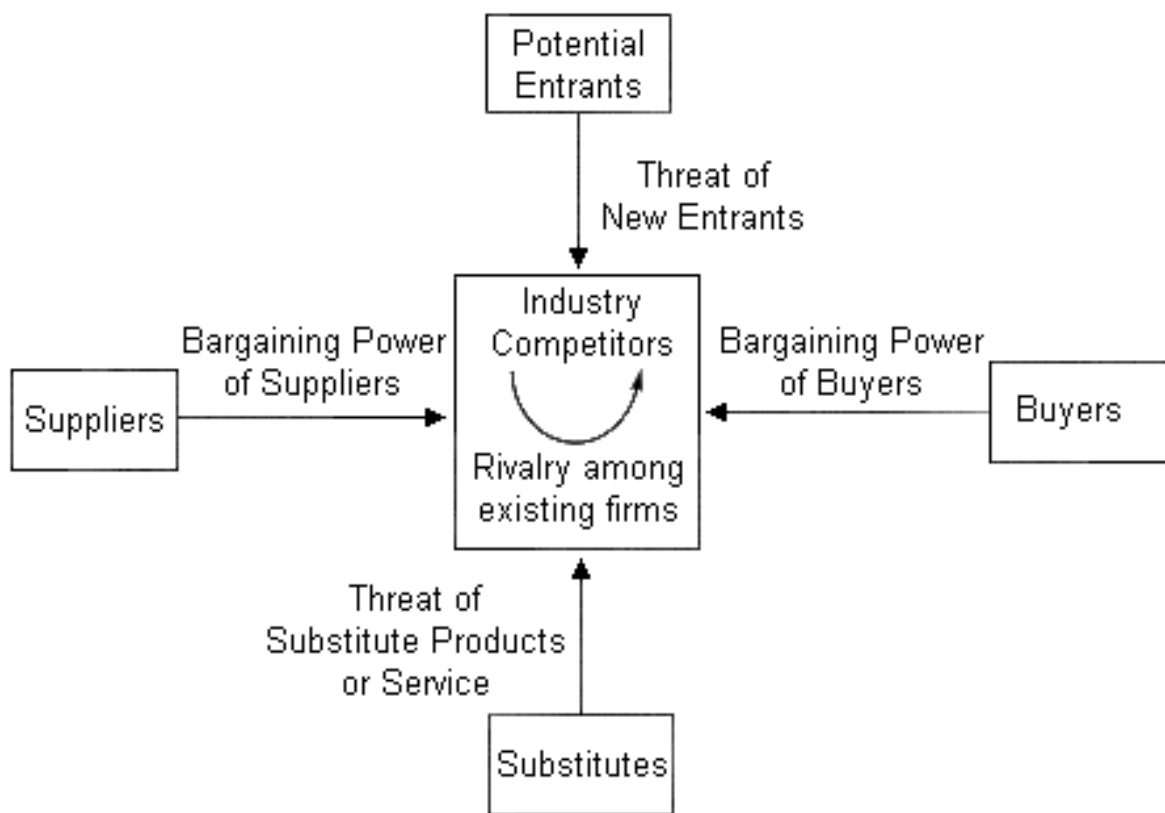


Figure 4 Forces driving industry competition [3]

4.1 Threat of entry

New entrants to an industry bring new capacity, the ambition to gain market share, and usually substantial resources. In theory, any firm should be able to enter and exit a market, and if free entry and exit exists, then profits should always be nominal. In reality, industries are characteristic by protecting the high profit levels of companies in the market and restraining additional rivals from entering the marketplace. These are barriers to entry. If bar-

riers are high or the new entrant can expect stiff countermeasure from entrenched competitors, the threat of entry is low.

When industry profits increase, one expects additional firms to enter the market to take advantage of the high profit levels, over time driving down profits for all firms in the industry. When profits decrease, one would expect some firms to exit the market thus restoring market equilibrium. Falling prices, or the expectation that future prices will fall, deters rivals from entering a market. These are major sources of barriers to entry: *economies of scale, product differentiation, capital requirements, switching costs, access to distribution channels, government policy.*

It is easy to enter an industry if there is:

- Common technology
- Limited brand strength
- Access to distribution channels
- A low production scale threshold

It is difficult to enter if there is:

- Patented or proprietary know-how
- Restricted distribution channels
- A high production scale threshold

It is easy to exit an Industry if there are:

- Salable assets
- Low exit costs
- Independent business units

It is difficult to exit if there are:

- Specialized assets
- High exit costs
- Interrelated businesses

4.2 Rivalry

In the traditional economic model, competition among rival firms drives profits to zero. But competition is not perfect and firms are not unsophisticated passive price takers. Rather, firms strive for a competitive advantage over their rivals. The intensity of rivalry

among firms varies across industries, and strategic analysts are interested in these differences.

When a rival acts in a way that elicits a counter-response by other firms, rivalry intensifies. The intensity of rivalry commonly is referred to as being cutthroat, intense, moderate, or weak, based on the firms' aggressiveness in attempting to gain an advantage.

In pursuing an advantage over its rivals, a firm can choose from several competitive moves:

- ❖ Changing prices - raising or lowering prices to gain a temporary advantage.
- ❖ Improving product differentiation - improving features, implementing innovations in the manufacturing process and in the product itself.
- ❖ Creatively using channels of distribution - using vertical integration or using a distribution channel that is novel to the industry.
- ❖ Exploiting relationships with suppliers - for example setting high quality standards for product specifications and price.

The intensity of rivalry is influenced by the following industry characteristics:

1. **A higher number of companies** increases rivalry because more firms must compete for the same customers and resources. The rivalry intensifies if the firms have similar market share, leading to a struggle for market leadership.
2. **Slow industry growth** causes firms to fight for market share. In a growing market, firms are able to improve revenues simply because of the expanding market.
3. **High fixed costs** result in an economy of scale effect that increases rivalry. When total costs are mostly fixed costs, the firm must produce near capacity to attain the lowest unit costs. Since the firm must sell this large quantity of product, high levels of production lead to a fight for market share and results in increased rivalry.
4. **High storage or fixed costs or highly perishable products** cause a producer to sell goods as soon as possible. If other producers are attempting to unload at the same time, competition for customers intensifies.
5. **Lack of differentiation or low switching costs** increases rivalry. When a customer can freely switch from one product to another there is a greater struggle to capture customers.

6. **Low levels of product differentiation** are associated with higher levels of rivalry. Brand identification, on the other hand, tends to constrain rivalry.
7. **Strategic stakes are high** when a firm is losing market position or has potential for great gains. This intensifies rivalry.
8. **High exit barriers** place a high cost on abandoning the product. The firm must compete. High exit barriers cause a firm to remain in an industry, even when the venture is not profitable. A common exit barrier is asset specificity. When the plant and equipment required for manufacturing a product is highly specialized, these assets cannot easily be sold to other buyers in another industry.
9. **Shifting rivalry.** A growing market and the potential for high profits induces new firms to enter a market and incumbent firms to increase production. A point is reached where the industry becomes crowded with competitors, and demand cannot support the new entrants and the resulting increased supply. The industry may become crowded if its growth rate slows and the market becomes saturated, creating a situation of excess capacity with too many goods chasing too few buyers. A shakeout follows, with intense competition, price wars, and company failures.
10. **Diverse competitors** with different cultures, histories, and philosophies make an industry unstable. There is greater possibility for mavericks and for misjudging rival's moves. Strategic choices right for one competitor will be wrong for others. Rivalry is volatile and can be intense.

4.3 Threat of substitutes

All companies in an industry are competing, in a broad sense, with industries which produce substitute products. A threat of substitutes exists when a product's demand is affected by the price change of a substitute product. Substitute products affect price elasticity- as more substitutes become available; the demand becomes more elastic since customers have more alternatives. A close substitute product limits the ability of enterprises in an industry to raise prices.

4.4 Power of buyers

The power of buyers is the impact that customers have on a producing industry. In general, when buyer power is strong, the relationship to the producing industry is near to what an

economist terms a monopsony - a market in which there are many suppliers and one buyer. Under such market conditions, the buyer sets the price. In reality few pure monopsonies exist, but frequently there is some asymmetry between a producing industry and buyers.

4.5 Power of suppliers

A producing industry requires raw materials - labor, components, and other supplies. This requirement leads to buyer-supplier relationships between the industry and the firms that provide it the raw materials used to create products. Suppliers, if powerful, can exert an influence on the producing industry, such as selling raw materials at a high price to capture some of the industry's profits. [3]

5 PEST ANALYSIS

The enterprise and all the other actors operate in a larger macro-environment of forces that shape opportunities and pose threats to the company. A view of the external macro-environment in which the firm operates can be expressed in terms of the following factors:

- ❖ Political
- ❖ Economic
- ❖ Social
- ❖ Technological

The abbreviation PEST is used to describe a framework for the analysis of given macro-environmental factors. [7]

Political factors. Strategic decisions are strongly influenced by developments in the political environment. The political environment consists of laws, government agencies and pressure groups that influence and limit different organizations and individuals in a particular society. Examples of such factors: *tax policy, employment laws, environmental regulations, political stability, trade tariffs, etc.*

Economic factors. Markets require buying power. The economic environment includes factors that affect purchasing power of potential customers, spending patterns and the company's cost of capital. Such factors are indicators as: *economic growth, interest rates, inflation rate, exchange rates and so on.*

Social factors. These factors are components of demographic and cultural environment. Demography is the study of population in terms of age, gender, race, occupation, and other statistics. This environment is considerable important because it involves people who represents purchasing power in a marketplace. Some notable demographic factors are: *population size and growth trends, age structure, education, health consciousness,...* The cultural environment consists of institutions and forces that affect society's basic values (beliefs in working, getting married, giving to charity), perceptions (opinions), behavior and preferences (career attitudes).

Technological factors. The technological environment is probably the most influential force that shapes our destiny nowadays. Technology is essential for competitive advantage

and is a main driver of globalization. New technologies create new markets and opportunities. They can determine barriers to entry, minimal efficient production level and influence outsourcing decisions. It includes aspects like *R&D activity, automation, rate of technological change and technology incentives*. [8]

The PEST factors merged with external micro-environmental factors (suppliers, competitors, customers, publics) can be classified as threats and opportunities in a SWOT analysis, which will be described in the next chapter.

6 SWOT ANALYSIS

A view of the internal and external environment is a significant part of the strategic planning process. Environmental factors internal to the company may be classified as strengths (S) or weaknesses (W), and those external to the company may be classified as opportunities (O) or threats (T). Such strategic environment analysis is called SWOT analysis. Strengths may help as a foundation for building a competitive advantage, and weaknesses may interfere it. By understanding these aspects, a company can better use its strengths, correct its weaknesses, capitalize on opportunities and avoid devastating threats. [9]



Figure 5 SWOT analysis diagram in environmental view [8]

6.1 External analysis (opportunities, threats)

Managers are expected to identify the main threats and opportunities that their firm faces. The reason of doing such analysis is to predict important developments that may have an impact on the company.

Opportunities (examples):

- Economic climate- improved economic conditions
- Market- expected market growth
- Technology- arriving of new technologies
- Removal of international trade barriers

Threats (examples):

- Politics- legislation constraints
- Demographic changes- changes of preferences of products
- Competitive activity- strong competitor enters the market
- Emergence of substitute products

6.2 Internal analysis (strengths, weaknesses)

Strengths and weaknesses in the SWOT analysis include only the features relating to crucial success factors. The strengths or weaknesses are relative, not absolute. It means that it is nice to be good at something, but the competition could be stronger and it can become a weakness.

Strengths (examples):

- Market leader
- Worldwide distribution and awareness
- Patents
- Strong brand name
- Proprietary know-how
- Exclusive access to resources or to distribution networks

Weaknesses (examples):

- Overall poor profits performance
- Low advertising and promotion budget
- Weak brand name
- High cost structure
- Poor reputation [8]

7 EUROPEAN UNION AND COMPETITIVENESS

A number of EU initiatives have referred to and are referring to competitiveness. Following the Lisbon Strategy promoting growth and employment, the Commission has recently presented a relevant programme for the competitiveness of the EU and its businesses: the Competitiveness and Innovation framework Programme (CIP). This will put together into a common group specific community support programmes and relevant parts of other community programmes in fields crucial for increasing European productivity, innovation capacity and sustainable growth, while simultaneously addressing supplementary environmental issues.

CIP lays stress on open markets. Fundamental to the programme are: the rejection of protectionism in Europe; the opening up of the principal markets outside Europe and the bringing together of the EU's internal and external policies. The programme aims at enhancement of the EU's external competitiveness and meeting global challenges. To achieve this, the action plan identifies the necessary priorities and methods, comprising an internal and an external dimension.

As for the internal dimension, European businesses must benefit both from the EU's competitiveness based on internal policies and opening up of foreign markets. European citizens should feel the advantages.

As for the external dimension the EU maintains its commitment to multilateralism. This action means to eliminate trade barriers in a stable and sustainable manner. [10]

II. ANALYSIS

8 INTERNAL ANALYSIS OF THE COMPANY

8.1 Company profile and history



Figure 6 Company logo [20]

8.1.1 Establishment

Company Relm, s.r.o. is a limited liability company registered in the Business Register of District court Trenčín, Slovak Republic, Part Limited Liability Companies, no. 145/R.

Enterprise was established on the 10th of May 1994 by signing establishment contract of three promoters- Krchnavý Milan, Ing. Cicala Ján, Ing. Kimle Karol. Headquarters is located on the Malinovského Street No. 15, Nové Mesto nad Váhom - city in the west part of Slovak Republic. In 1995 there was a significant change in company management- Milan Krchnavý became the only director and active partner. [25]

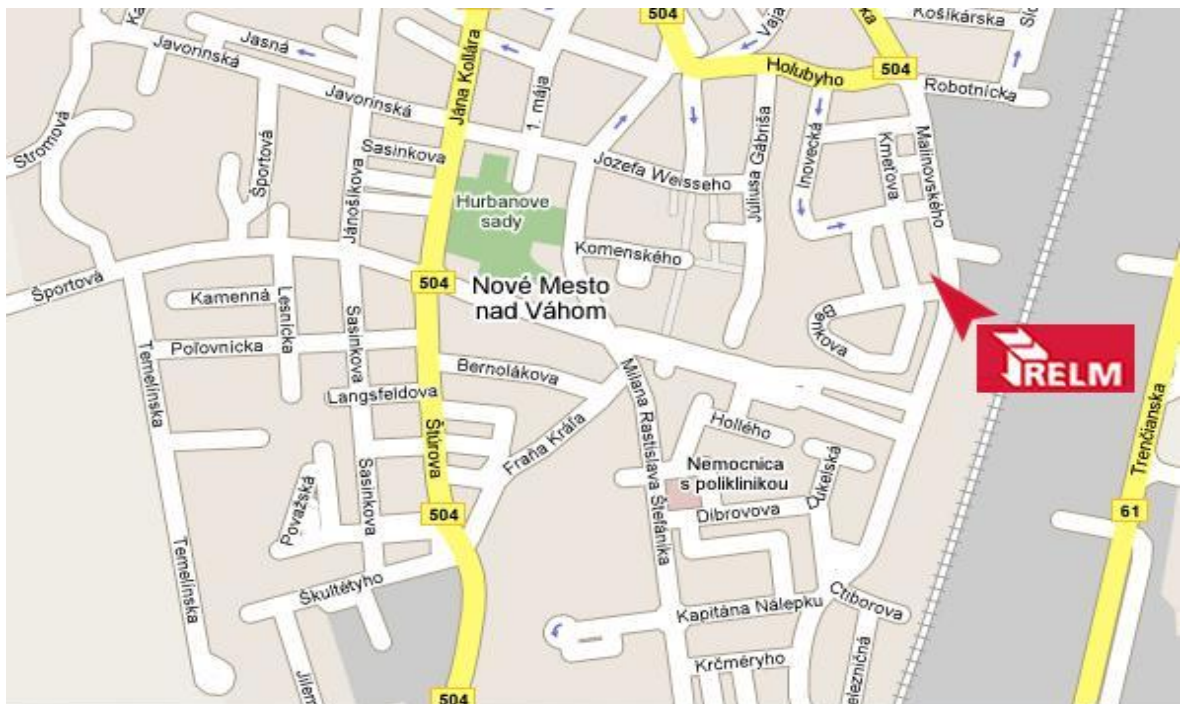


Figure 7 Company location on map [20]

8.1.2 Focus of activity, product portfolio

Main company's activity is production and installation of switchgears and switchboards (for industry, for housing and flats, for electrical supply meter, for building sites, to adapters) based on delivered technical documentation.

A **switchgear** is used to interrupt or reestablish the flow of electricity in a circuit. It is generally used in combination with metering, protective, and regulating equipment to protect and control motors, generators, transformers, and transmission and distribution lines. A switchboard is comprised of one or more panels with various switches and indicators that are used to route electricity and operate circuits.

Moreover, enterprise ensures wholesale and retail trade of electric installation material in own store and offers services: upkeep, repairs and service of electro-technical appliances including technical review and specialized tests of electro-technical appliances.

Article of company activity defined in Business Register is far wider and several activities defined there enable and support realization entrepreneurial activities within scheduled movement. Subjects of enterprise are following:

- Purchasing of goods for a purpose of further sale
- Mediation of trade
- Production of distribution boards of low voltage
- Electrical installation
- Assembly of cable distribution
- Assembly and revision of measuring and control engineering
- Other wholesale

Product portfolio

A.) Sale

- material to electrical installations
- cables and conductors
- lighting devices
- cable boxes for electrical dead-front panels
 - plastic
 - metallic
 - stainless components

- to data equipment
- to electrical supply meter
- for housing
- atypical
- to control circuits
- instruments for electrical dead-front panels
 - circuit breakers, switches
 - interfaces
 - fuses
 - transformers
 - power breakers
 - signals components
 - relays and accessories
 - alight to dead-front panels
 - data bus line

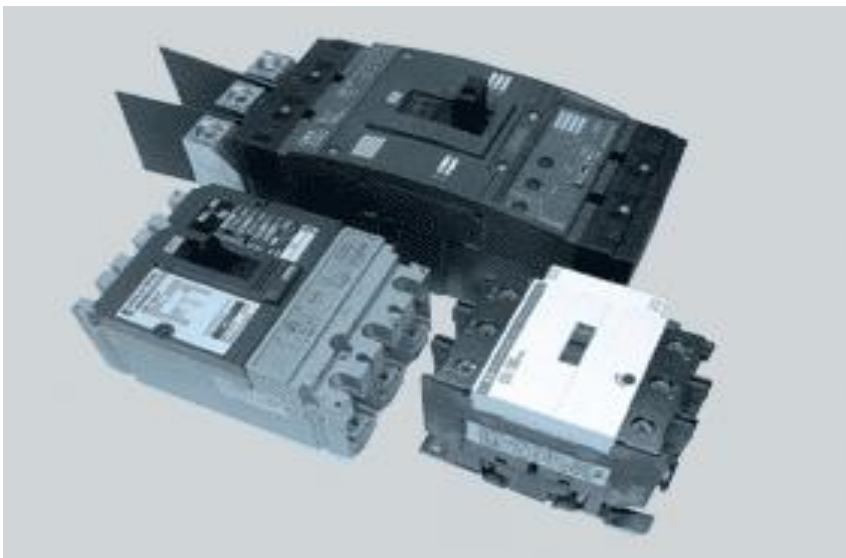


Figure 8 Circuit breaker [20]

B.) Production

- Distribution boards (for households, building sites, industrial buildings, electrometer, compensating 10-600 kVAr)

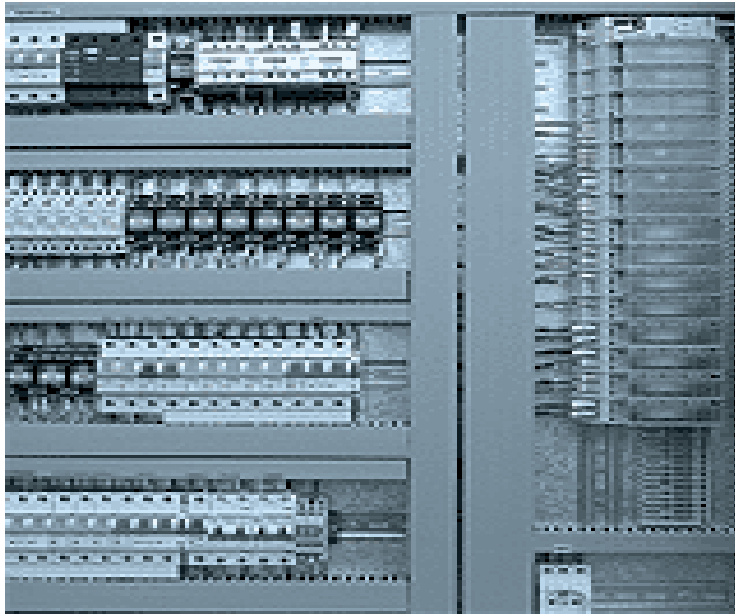


Figure 9 Switchgears 1 [20]



Figure 10 Switchgears 2 [20]

In 2004 this company has implemented quality management according to STN EN ISO standard 9001:2000 certified by SGS Société Générale de Surveillance to Relm, s.r.o. with certificate for activity: „Production of low voltage switchgears. “



Figure 11 ISO Standard certificate [25]

C.) Services

- Installation, controlling, measuring. [25]

8.1.3 Company's infrastructure

Enterprise has own manufacturing, warehousing, selling and administrative spaces near company's headquarters.

Company's area:

- Production building - production and installation rooms, test room, cabin stocks, offices, cloakrooms, sanitary facilities. (1100 square meters)
- Store and warehouse. (600 square meters)
- Administration and social building - offices and meeting rooms. (150 square meters) [25]



Figure 12 Company warehouse and outlet [20]

8.1.4 Management information system

Company has been using ERP system POHODA for 3 years. It is used for managing human resources, financial planning, inventory, invoices, taxes and many other functions. Till this time, software proved competent and employees are satisfied with easiness of operating it and overall efficiency. [25]

8.2 Organization structure

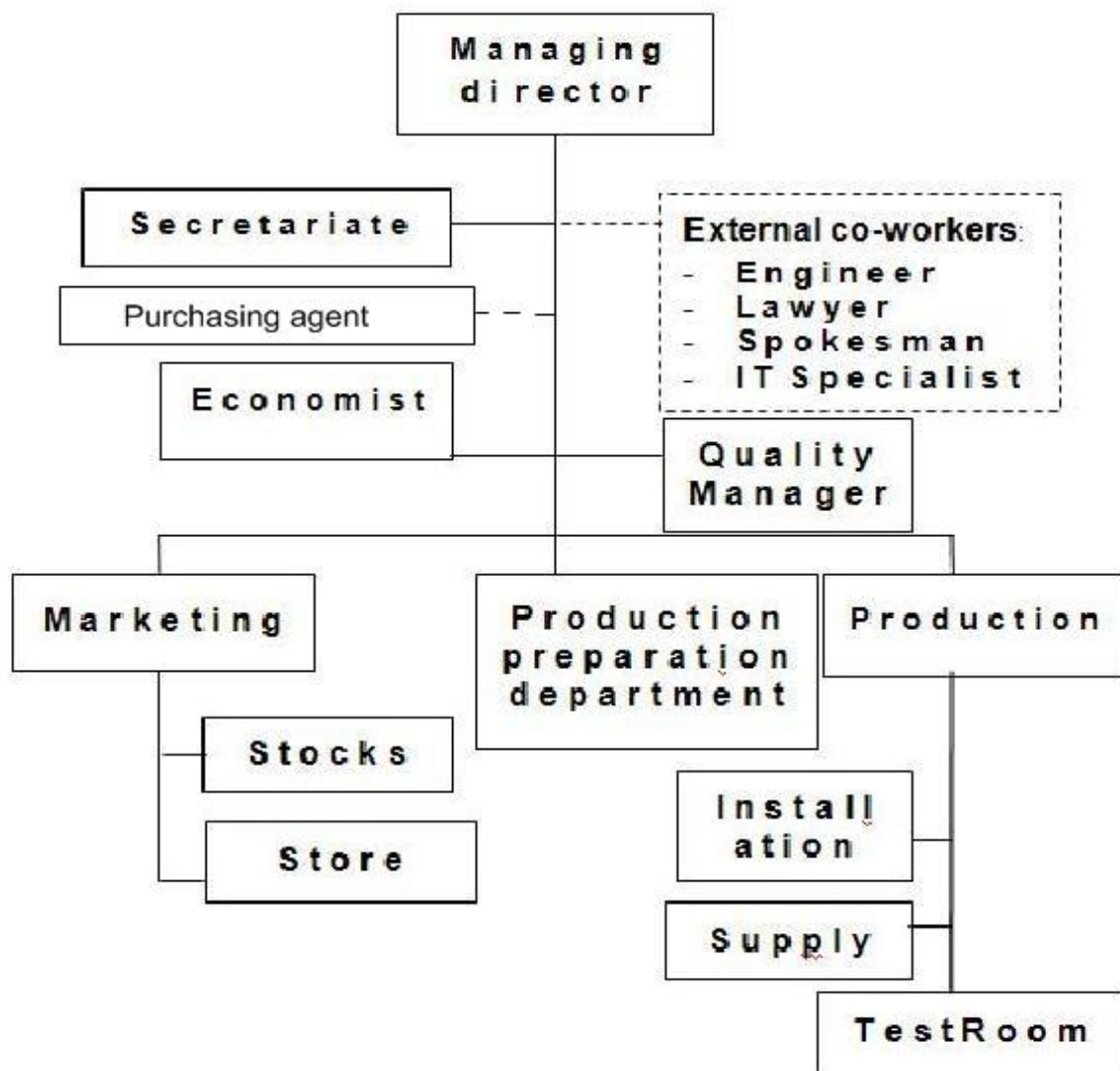


Figure 13 Organization structure [25]

Company employs 40 employees, 9 of them work in technical-economic field, 2 are responsible for controlling and testing activity, others are integrated in production field. Besides full-time job contracts, there are hired also high-qualified sole traders for specified range of work, such as lawyer, IT technician, spokesman, etc.

The managing director has responsibility for the overall management of a company, including the staff, the customers, the budget, the company's assets and all other company resources. Economic department operates accounting software, prepares financial state-

ments and does financial planning. Quality manager keeps eye on creating, applying and maintenance of quality management system.

External **purchasing agent** and company purchasing manager in one person is in charge of selection of suppliers and negotiation with them. His responsibilities are:

- seeking reliable vendors or suppliers to provide quality goods at reasonable prices
- negotiating prices and contracts
- reviewing technical specifications for raw materials, components, equipment or buildings
- determining quantity and timing of deliveries

All technical staff members have electro-technical education, experience and required certificates.

However, employees have lack of knowledge of foreign languages, only few people among company management speak Russian. [25]

8.3 Revenues analysis

Table 2 Labor productivity [25 + my own creation]

Year	2003	2004	2005	2006	2007	2008	2009
Revenues (in thousands €)	1100	1300	1800	1500	2660	2100	2223
Number of employees	31	30	34	36	37	33	35
Labor productivity (in thousands € per employee)	35,48	43,33	52,94	41,67	71,89	63,64	63,51

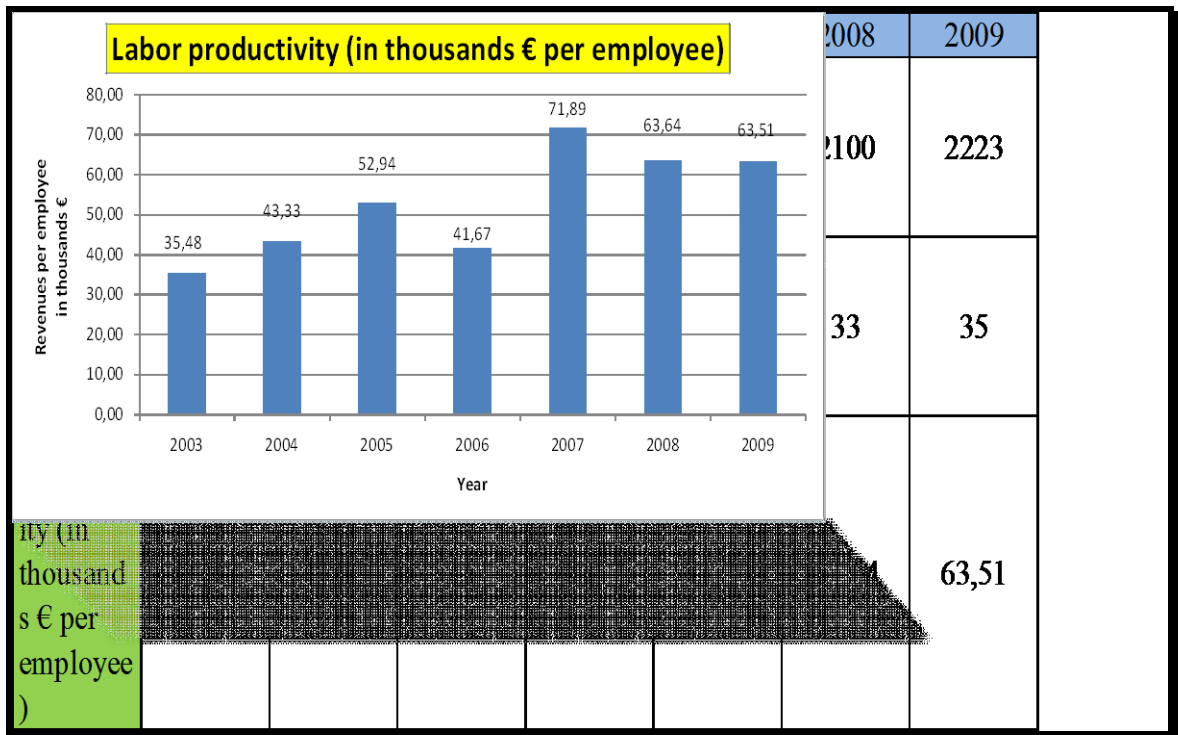


Figure 14 Labor productivity [my own creation]

In revenues there is obvious decline since year 2007, what was probably caused by incoming economic crisis to European Union. The company did not expect such decline and it also affected labor productivity as company adopted measures later as it is recommended. Significant decreasing of productivity was in year 2009 stopped and stabilized at number 63 510 EUR per employee. From a long-term point of view, enterprise tries to avoid a high staff turnover and rather finds other ways of cutting the costs.

8.4 BCG Matrix (Market share analysis)

Information that we get from the BCG matrix analysis may be very useful for comparison several types of products of the company, based on its market share. What is more, management can decide which product should be deeper analyzed or which product should be funded for the purpose of further innovation or development.

Total revenues structure

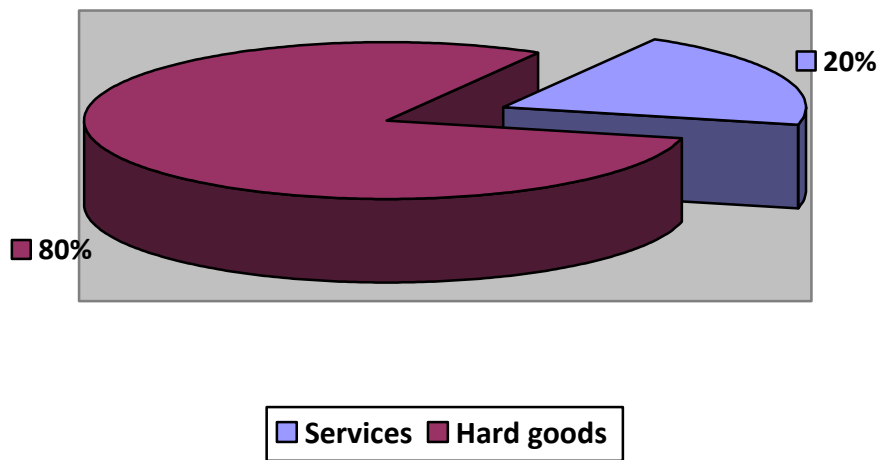


Figure 15 Share of services and goods on total revenues [25]

Structure of revenues obtained from sale of hard goods

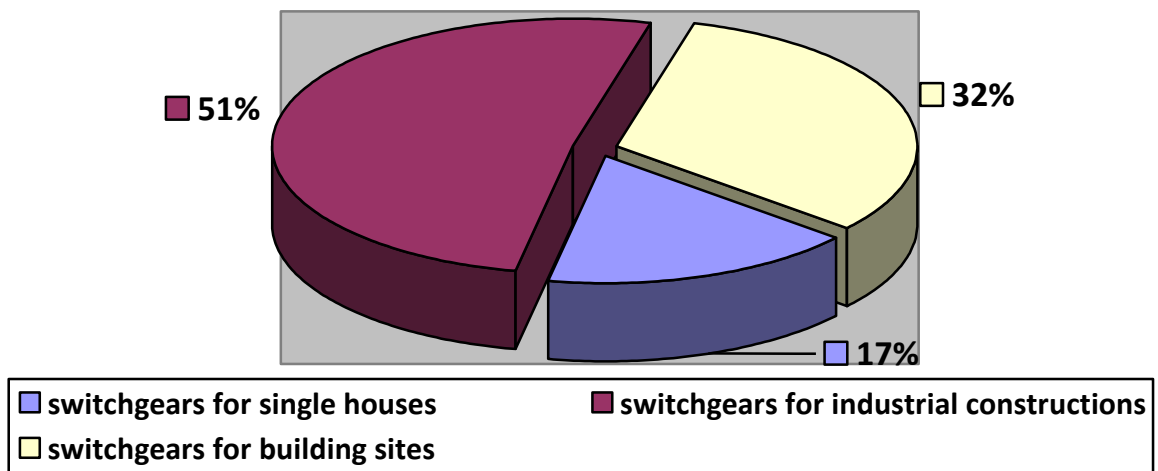


Figure 16 Share on revenues from sale of hard goods [25]

The majority of revenues is obtained by sales of hard goods, such as switchgears for single houses, industrial constructions and building sites at the rate of 80 % compared to services, which reach 20 % of total revenues. The bearing product among products portfolio is switchgear for industrial constructions, the second most contributive item is switchgear for building sites and last one, but not the least important, switchgear is designed for usage in single houses. For further analysis of selected products competing on the market, it is suitable to use BCG matrix, one of the tool of strategic marketing planning.

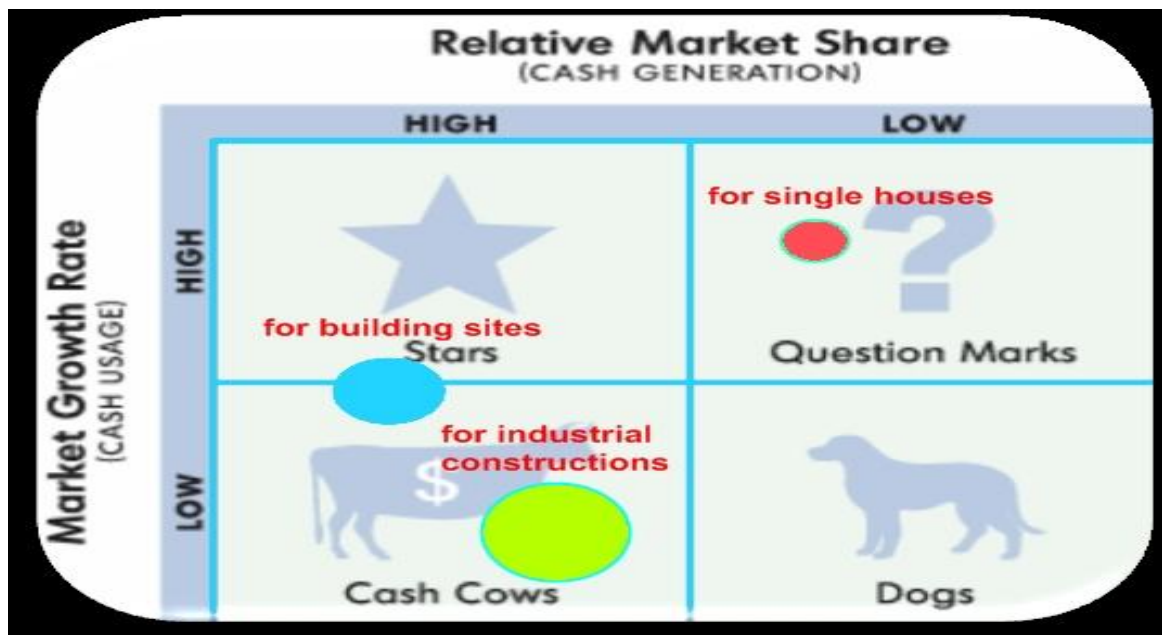


Figure 17 BCG Matrix for switchgears product line [my own creation]

Switchgears for **industrial constructions** are the most generating **cash item** from the whole portfolio and possess' relatively large market share. There is no need of high marketing promotion investments and company should retain current costs, which are probably lower than competition's.

Switchgears designed for **building sites** are located on the border **between stars and cash cows**. Product is with a high market share and relatively high market growth rate a perspective issue to be funded, innovated and then squeezed as a cash cow. This type of switchgear is for the company a long-term financial source and it generates profit.

For **single houses** designed switchgears are **question marks**, they are in the highly developing market but they need a lot of cash funding to catch up the growth and there is low market share. This product could be financed from cash received from cash cows, but there is no certainty they will step up to stars.

8.5 Product life cycle

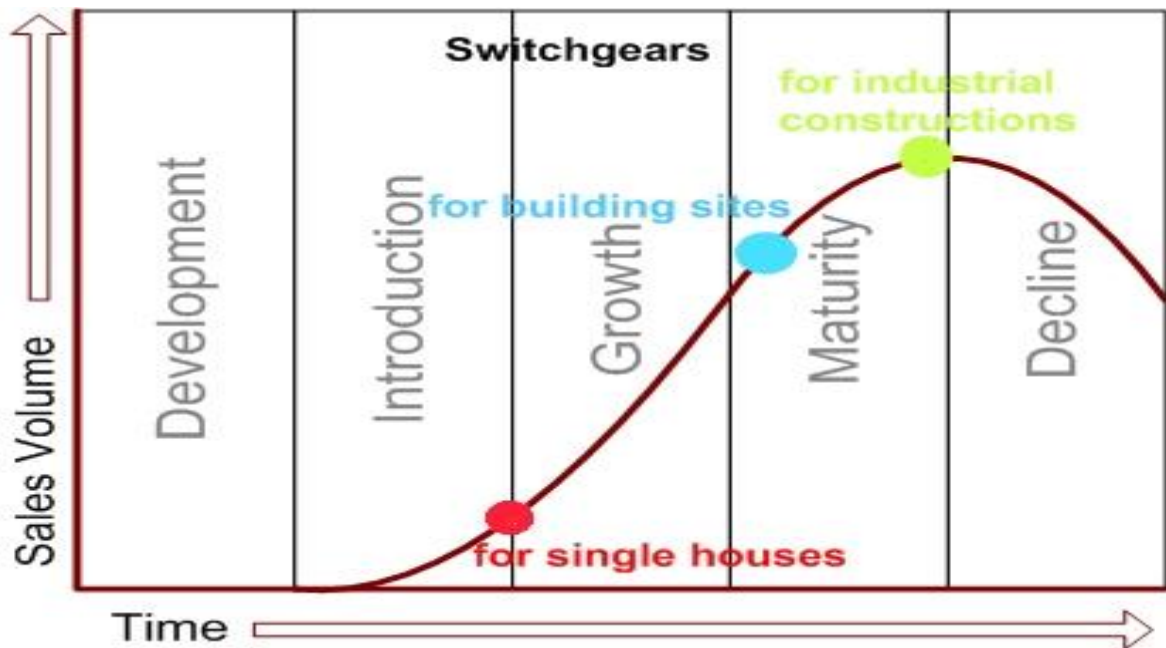


Figure 18 Product life cycle - various types of switchgears [my own creation]

Housing switchgears are placed in an introduction stage of life cycle. This stage is characteristic for overcapacity, high production costs in manufacturing and distribution processes. There are usually only few competitors and the product generates low profits at high prices and margins. Overall strategy should be increasing market share (R&D and engineering are key functions). It requires attention, because this stage is connected with high risk.

Switchgears designed for **building sites and industrial constructions** are situated in maturity stage of PLC. Manufacturing and distribution reach optimum capacity, there are required lower labor skills and mass channels occur. Price competitions are quite common. Price for the product is falling down, and lower profits, margins and dealer margins are usual here. Optimal overall strategy consists of having competitive costs. It is believed to be the best time to increase market share in this stage.

From the analyses above, it is obvious that revenues from industrial distribution boxes are sources for financing marketing promotion, development of household switchgears and innovation of distribution boxes designed for building sites to become one day a bearing item from portfolio. At the same time, the company could cut excessive costs of its cash generating product.

8.6 SWOT Analysis

SWOT analysis is a tool for auditing an organization and its environment. It is the first stage of planning and helps marketers and managers to focus on key issues. SWOT stands for **strengths, weaknesses, opportunities, and threats**. Strengths and weaknesses are **internal** factors. Opportunities and threats are **external** factors.

Table 3 SWOT analysis – external and internal factors [my own creation]

Internal	
Strengths	Weaknesses
<ol style="list-style-type: none"> 1. Qualified and experienced staff 2. Certificate STN EN ISO standard 9001:2000 – implemented management quality system 3. Increasing of labor productivity in a long run 4. Location in the most developed region of Slovakia, closeness to highway D1 5. Business contacts to foreign investment firm 6. Well-managed ERP system 	<ol style="list-style-type: none"> 1. Lack of foreign languages knowledge 2. No innovation program implemented 3. Lack of warehousing space 4. Lack of high-power publicity
External	
Opportunities	Threats
<ol style="list-style-type: none"> 1. East European market 2. Increasing brand awareness in and outside the region 3. Construction of new nuclear power plant 4. Storage capacity expansion with growing revenues 5. Competitiveness and innovation framework programme financed by European Investment Fund 	<ol style="list-style-type: none"> 1. Low interest in studying electrical engineering 2. Migration of qualified workers to the West 3. Financial insolvency of wholesale customers 4. New competitors from more developed European and Asian countries 5. Labor code changes in favor of employees 6. Production closely oriented only on distribution boards

Between **strengths** of the company Relm belongs its experienced and qualified staff. They are regularly trained for all their activities. There are required certificates that certain em-

employees have to have. Possession of the certificate STN EN ISO standard 9001:2000 is crucial and necessary in such tough competitive fight in region. It makes better impression on potential customers that company is using this wide-spread management quality system. Next important positive fact is that labor productivity is increasing, which causes the revenues go up and it could be used to firm's overall expansion. Location close to highway D1, which is crossing West Slovakia from south to north and connecting Slovakia with Czech Republic, Poland, Austria and Hungary, is unquestionable advantage, especially for industry using transport services so much. Company's competitiveness is supported with contacts to large companies abroad that are willing to cooperate with Slovak companies and invest often. The firm has been using an enterprise resource planning software POHODA for 3 years. The software is a complex accounting and economic software designed for SMEs which enables user to manage invoices, inventory, taxes, supply chains, sales and marketing, human resources and many other functions. It works on a database SQL basis.

Among the most substantial **weaknesses** belongs the level of foreign language knowledge, what is problem when considering offers for cooperation with companies mainly from the West. When comparing the firm with competitors relatively as the same size as company is, there is apparently much less stockroom than rivals have.

Opportunities for the company may be evolving of the East European market. Trading condition is language knowledge, crucial factor for business nowadays. Great opportunity may arise from building a new power plant in West Slovakia. There will be administrative buildings constructed, and it is a perfect chance to get significant order.

European Union is currently financing innovation programme designed for SMEs called European Investment Fund, which supports innovation activities (including eco-innovation), provides better access to finance and delivers business support services in the regions. [19]

Major **threat** of the company consists in lower and lower interest in studying electrical engineering, many graduates emigrate in hope for better terms of payment or higher living standards and an average employee is getting older. After entering European Union, trade and business barriers inside Europe broke down, which could be for the company opportunity in form of market opening as well as threat in term of new competition arrival. Nowadays, financial crisis may influence solvency of wholesale customers.

9 EXTERNAL ANALYSIS OF THE COMPANY

9.1 PEST Analysis

9.1.1 Political factors

Politics of Slovakia takes place in a framework of a parliamentary representative democratic republic, with a multi-party system. Legislative power is vested in the parliament and it can be exerted in some cases also by the government or directly by citizens. Executive power is exerted by the government led by the Prime Minister. The Judiciary is independent of the executive and the legislature. The President is the head of the state.

The Constitution of the Slovak Republic was ratified 1 September 1992, and became effective 1 October 1992 (some parts 1 January 1993). It was amended in September 1998 to allow direct election of the president and again in February 2001 due to EU admission requirements. The civil law system is based on Austro-Hungarian codes. The legal code was modified to comply with the obligations of Organization on Security and Cooperation in Europe and to expunge the Marxist-Leninist legal theory. Slovakia accepts the compulsory International Court of Justice jurisdiction with reservations.

Slovakia's sole constitutional and legislative body is the 150-seat unicameral National Council of the Slovak Republic. Delegates are elected for 4-year terms on the basis of proportional representation.

The National Council considers and approves the Constitution, constitutional statutes and other legal acts. It also approves the state budget. It elects some officials specified by law as well as the candidates for the position of a Justice of the Constitutional Court of the Slovak Republic and the Prosecutor General. Prior to their ratification, the parliament should approve all important international treaties. Moreover, it gives consent for dispatching of military forces outside of Slovakia's territory and for the presence of foreign military forces on the territory of the Slovak Republic.

Slovakia is member of CERN, European Audiovisual Observatory, EU, Interpol, NATO, OECD, UN, UNESCO, Visegrád Group, WHO, WTO and many others. [11]

Trade Unions

The Confederation of Trade Unions of the Slovak Republic (KOZ SR) is a national trade union center in Slovakia.

In March, 1990 the Czechoslovak Confederation of Trade unions (CSKOS) was formed from the remains of the Central Council of Trade Unions (URO). Within months, as the separation of the two states developed, the party was divided into the Bohemian-Moravian Chamber (CMK CSKOS) and the KOZ SR.

The KOZ SR is affiliated with the International Trade Union Confederation, and the European Trade Union Confederation, as well as having observer status at the Trade Union Advisory Committee to the OECD. [12]

9.1.2 Economic factors

Slovakia is rapidly becoming a developed country. Slovakia has been an EU member state since 2004 and Euro currency has been adopted in January 2009. Its capital, Bratislava, is the largest financial centre in Slovakia. Unemployment has fallen considerably, although long-term unemployment remains stubbornly high. In year 2009 unemployment rate reached 12,1 %. In the long term, improving education outcomes, including reducing the impact of socioeconomic background on outcomes, will be essential to sustain high economic growth and social cohesion. [13]

Solid domestic demand boosted economic growth to 4.1% in 2002. Strong export growth, in turn, pushed economic growth to a still-strong 4.2% in 2003 and 5.4% in 2004, despite a downturn in household consumption. Multiple reasons entailed a GDP growth of 6% in 2005. Headline consumer price inflation dropped from 26% in 1993 to an average rate of 7.5% in 2004, though this was boosted by hikes in subsidized utilities prices ahead of Slovakia's accession to the European Union. In July 2005, the inflation rate dropped to 2.0% and is projected at less than 3% in 2005 and 2.5% in 2006. In 2007, Slovakia reached the highest economic growth (10,6%) among the members of OECD and the third highest in the EU (just behind Estonia and Latvia). In 2008 GDP growth was 6,4%, but in 2009 GDP declined at rate 6,1%. The country has had difficulties addressing regional imbalances in wealth and employment. GDP per capita ranges from 180% of EU average in Bratislava to only 60% in Eastern Slovakia in 2008. [14]

Foreign direct investment and trade

Foreign direct investment (FDI) in Slovakia accounted for much of the growth in the period 2000-2008. Cheap and skilled labor, low taxes, a 19% flat tax for corporations and individuals, no dividend taxes, a relatively liberal labor code and a favorable geographical location are Slovakia's main advantages for foreign investors. The main points of economic reform remain untouched even after the 2006 elections. FDI inflow cumulatively reached \$39.4 billion in 2008; the total inflow of FDI in 2008 was \$1.39 billion.

Origin of foreign investment 1996-2005 – the Netherlands 24.3%; Germany 19.7%, Austria 14.1%; Italy 7.5%, United States 4.0%. Top investors by companies: Deutsche Telekom (Germany), Neusiedler (Austria), Gaz de France (France), Gazprom (Russia), U.S.Steel (U.S.), MOL (Hungary), ENEL (Italy), E.ON (Germany)... Foreign investment sectors - industry 38.4%; banking and insurance 22.2%; wholesale and retail trade 13.1%; production of electricity, gas and water 10.5%; transport and telecommunications 9.2%.

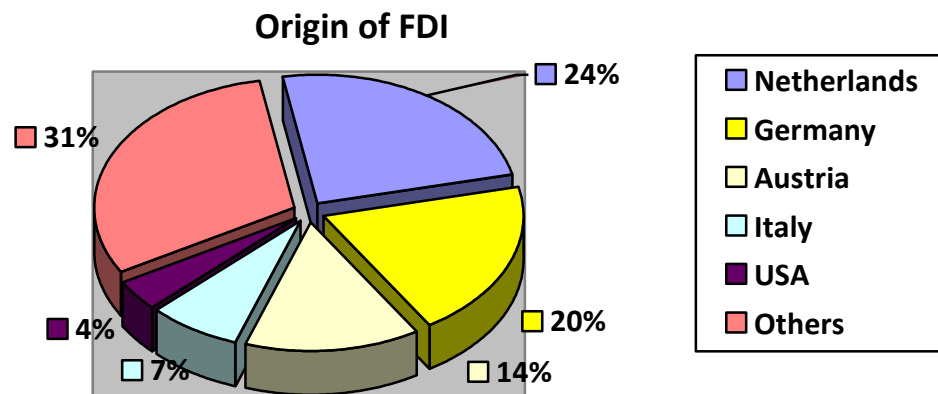


Figure 19 Origin of foreign investments [15]

Germany is Slovakia's largest trading partner, purchasing 20.2% of Slovakia's exports and supplying 19.7% of its imports in 2008. Other major partners include the Czech Republic (13% of Slovakia's exports and 11.3% of Slovakia's imports), Italy (5.9% and 3.7%), Russia (3.8% and 10.2%), Austria (5.7% and 2.9%), Hungary (6.2% and 4.9%), Poland (6.6% and 3.9%) and France (6.8% and 4.0%). Slovakia imports nearly all of its oil and gas from Russia and its export markets are primarily OECD and EU countries. More than 85.1% of its trade is with EU members and with OECD countries (86.2%). Slovakia's exports to the

United States made up 1.7% of its overall exports in 2008 (\$1.21 billion), while imports from the U.S. accounted for 1.2% of its total purchases abroad (\$847.24 million). [15]

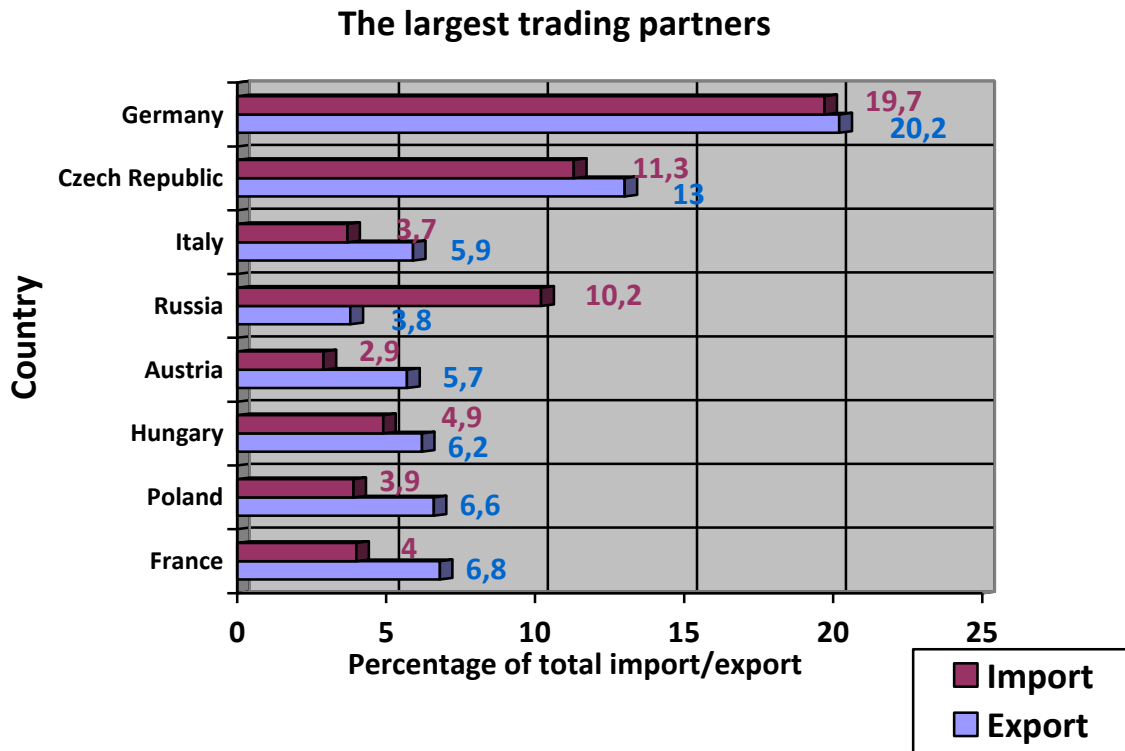


Figure 20 The largest trading partners of Slovakia [15]

9.1.3 Social factors

The majority of the 5.4 million inhabitants of Slovakia are Slovak (85.5%). Hungarians are the largest ethnic minority (9.7%) and are concentrated in the southern and eastern regions of Slovakia. Other ethnic groups include Roma (1.7%), Czechs, Ruthenian, Ukrainians, Germans, Poles, and Jews (about 2,300 remain of the estimated pre-WWII population of 120,000). The official state language is Slovak, and Hungarian is widely spoken in the southern regions.

The Slovak constitution guarantees freedom of religion. The majority of Slovak citizens (69%) practice Roman Catholicism; the second-largest group consider themselves atheists (13%). About 6.9% are Protestants, and 0.9% are Orthodox. There are 5,000 Muslims in Slovakia. [13]

Despite its modern European economy and society, Slovakia has a significant rural element. About 45% of Slovaks live in villages with fewer than 5,000 inhabitants, and 14% in villages with fewer than 1,000. [15]

9.1.4 Technological factors

Industry

Slovakia was partly industrialized in the 19th century, but became an industrialized country in the second half of the 20th century. The Communist government emphasized heavy and arms industry. After Velvet Revolution and independence from Czechoslovakia in 1993 it somewhat declined; today, main sectors are manufacturing, electro-technical, chemical, petrol, steel, textile and food processing industries. In recent years the car-making industry is on the rise, with car plants built in Bratislava, Trnava and Žilina. Other important industrial towns are Trenčín, Prešov and Košice. [16]

Energy

Fossil fuels, particularly oil and gas, are imported. In 2004, the most important source of energy was from nuclear power plants (55.7%), located in Jaslovské Bohunice and Mochovce. Another source of energy was from hydroelectric plants (13.9%), with the main one being the Gabčíkovo Dam on the Danube and other on the Váh, Slaná, the Orava and the Hornád rivers; other sources were coal (10.9%), natural gas (7.9%), and oil (2.4%). In 2005 Slovakia consumed 24.93 billion kWh of electricity. [17]

The plans for a new reactor at Bohunice (V3) were announced in April 2008 for 1000-1600 MWe, probably using Western technology to enable MOX use. In December 2008, Czech utility CEZ was announced as the 49% joint venture partner, with state-owned Javys holding 51%. The formal joint venture agreement was signed in May 2009. Financing is to be finalised in 2011 and construction is planned to start in 2013, the expected cost being €3.32 billion (for a 1200 MWe unit). An 18-month feasibility study (due to be completed by the end of 2010) will be followed by a call for tenders. Areva and Westinghouse are considered the main contenders. [18]

Transport

Road transport

The road network in Slovakia is composed of 42,696 km roads (except highways and expressways), of which 3,341 km were first-class roads, 3,734 km second-class roads, 10,401 km third-class roads and 25,220 km local roads in 2000. As of December 2007, there were 368 km of highways and 135 km of expressways. [14]

Rail transport

The railway network includes as of 2006 3,662 km of railways, of which 3,512 km were in standard gauge (1435 mm), 100 km in broad gauge (1520 mm) and 50 km in narrow gauge (1000 or 750 mm). There are significant links from Bratislava to the Czech Republic, Austria and Hungary and the most important line in the country is from Bratislava to Košice via Žilina. [14]

Water transport

The main Slovak waterway is the Danube, with 172 km. Other navigable rivers are lower parts of Váh, and few kilometers of Bodrog. Main ports are located in Bratislava and Komárno. [14]

9.2 Porter's Five Forces

9.2.1 Rivalry among existing firms

This force describes the intensity of competition between existing players (companies) in an industry.

After political and economic reversal in 1989, number of competing economic subjects has risen significantly. To be successful in such highly competitive environment is a difficult issue. Electro-technical industry in West Slovakia and surroundings such as Moravia, Northwest Hungary, South Poland is quite saturated with producers of switchgears, switchboards and electrical components and accessories.

Factors that increase intensity of rivalry are following: a large number of firms; slow market growth; high fixed costs and high exit barriers, because of specific assets, which cannot be easily sold to other buyers.

The most serious competitors are:

Eltec, a.s. - Company was established in 1949 and privatized in 1991. It is located in city Piešťany, Slovak Republic, only 21 kilometers from Nové Mesto nad Váhom. The firm specializes in manufacturing electrical switchgear for industrial and residential use and electrical control panels for industry; wholesale and retail trade in electrical parts and components, for industrial and residential construction and for maintenance; advisory services and help in solving the problems in electrical engineering.

Eltec employs 66 employees, sales in 2009 reached 1,5 mil. EUR. It has also international customer base such as companies from Ukraine, Kazakhstan,...Its operating facilities are of following area: 1900 square meters of manufacturing rooms and halls, 300 square meters of retail stores and 200 square meters of offices. [21]

Rittal, s.r.o. is a subsidiary of Rittal Schaltschränke GmbH Wien, which employs over 12000 employees all over the world. It is located in capital of Slovak Republic – Bratislava. Company is oriented on production of enclosure systems, electronic packaging, system climate control, power distribution, IT solutions and communication systems for households as well as industrial field. Subsidiary possesses a large warehouse with 1400 square meters with multilevel storage. [22]

TVD - Technická výroba, a.s. was established in December 1989. The company's headquarters are located in Slavičín, Czech Republic, complete with office, manufacturing and storage facilities. TVD currently employs more than 200 trained and skilled employees.

Internal organizational structure of the company is formed by several independent manufacturing divisions:

- CNC sheet metal processing (manufacture of steel sheet cabinets for switchboard, telecommunications cabinets, wall mounted hydrants, cases for gas seals)
- metal production
- rubber processing
- plastics moulding
- powder coating [23]

Spálovský, a.s. - The company has been established under the business name Antonín Spálovský EL-SERVIS in 1990 in Kroměříž, Czech Republic. The main intention was to specialize in development, manufacturing and selling of low-voltage switching equipments and devices. In the course of time, the production assortment has increased to all types of low-voltage switchboards.[24]

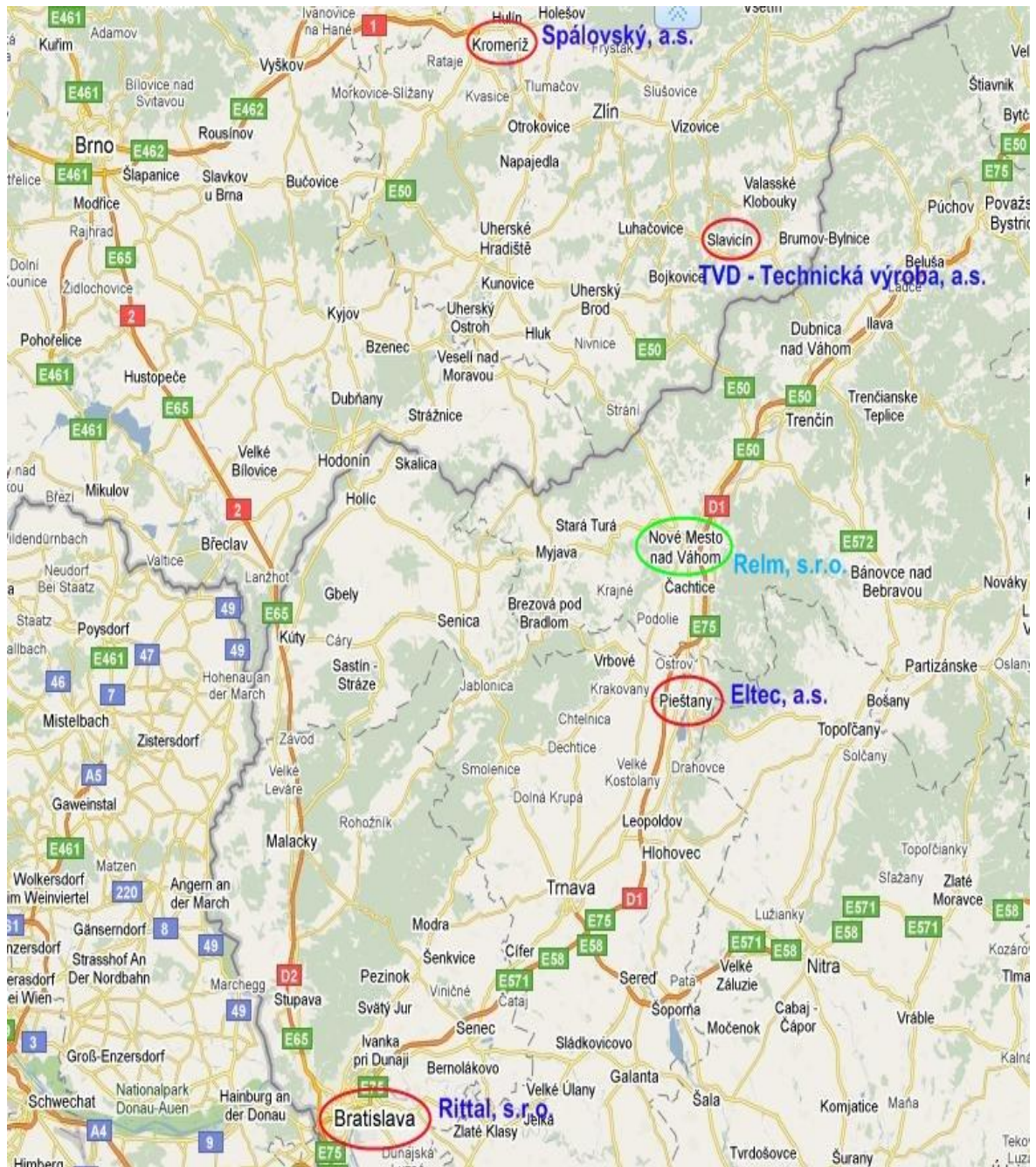


Figure 21 Map of the location of the main rivals in West Slovakia and Moravia [my own creation]

Existing rivalry is at **high** level according to analysis above.

9.2.2 Threat of new entrants

Electro-technical industry specialized in producing switchgears, distribution boards, components, circuit breakers, accessories, cables and so on is characteristic with higher re-

quirements on newcomers than in other industries, such as agriculture, building industry or food industry.

This industry is typical for high fixed costs and initial investments, such as various types of industrial machines used for assembly- bending machine, tightening machine, etc. Moreover, producer needs some place for manufacturing – machine rooms, assembly halls, while all of them have to be perfectly clean and tidy.

What is more, satisfied customers in this sector are more likely to come back and buy from their ‚favorite‘ producer. According to company’s internal sources, up to 80% of satisfied customers buy their products again.

In addition, there is scarcity of important source for this industry, which is qualified expert staff. All technical staff members have to be electro-technically educated, experienced and with required certificates. People educated in electro-technical field are scarce resources in Slovakia nowadays.

The West Slovak market is currently saturated with producers of electronic components such as Branson, Emerson, Hella, Manz, UMC and many others, what could discourage potential new entrants from entering the market or industry.

After evaluation all of these factors, it is obvious that threat of new entrants is really **low** because barriers to entry are high.

9.2.3 Threat of substitutes

A threat from substitutes exists if there are alternative products with lower prices of better performance parameters for the same purpose.

Substitute products for switchgears and distribution boards are not known yet; there might be some invention in near future, but original substitute has not been discovered up to this day. Therefore threat of substitutes is **close to zero** nowadays.

9.2.4 Bargaining power of buyers

It determines how much customers can impose pressure on margins and volumes.

Factors increasing bargaining power of customers:

- Industry is operating with high fixed costs

- Customers often buy large volumes
- Customers are price-sensitive

Factors decreasing bargaining power of customers:

- The product cannot be replaced with substitutes
- Customers could not produce the product themselves without huge investment
- Product is usually of strategic importance for the customer
- Buyers do not know about production costs of the product

Based on evaluation listed above, it can be said that there is **moderate** bargaining power of buyers; they will probably go to competitor if you offer them products for unacceptable prices, however they will not be able to switch to alternative product or manufacture the product on their own.

Some of the most significant customers of the company and places of installation are listed below:

- Siemens – Bratislava, Slovak Republic
- Zentiva – Hlohovec, Slovak Republic
- Volkswagen – Bratislava, Slovak Republic
- Slovnaft - Bratislava, Slovak Republic
- Luck – Ukraine
- Vyshay – Hungary
- Ufavita – Russia
- Zentiva – Kazaň, Russia
- Sotesk – Moscow, Russia
- Aerosoli – Kursk, Russia [25]

9.2.5 Bargaining power of suppliers

The most significant suppliers in an industry in region are:

- OEZ Slovakia s.r.o.
- Schneider Electric Slovakia s.r.o.
- Moeller Electric s.r.o.
- Schrack Energietechnik s.r.o.
- Siemens s.r.o.

- ABB s.r.o.
- Many others

Only the company Relm has contracts with over 30 suppliers. Furthermore, the buying industry has several barriers to entry and switching costs from one supplier to another are not high. [20]

It can be deduced that bargaining power of suppliers is rather **low**, because there are lot of firms offering the same or similar products and company should able to choose the most suitable and reasonable offers of cooperation.

Deeper supplier analysis will be conducted in the next chapter.

9.3 Supplier analysis

It has been demonstrated that supplier evaluation systems have a positive impact on the buyer-supplier relationship, and buyer-supplier relationships ultimately have a positive impact on financial performance (Carr and Pearson, 1999). The most effective suppliers are those who offer products or services that match - or exceed - the needs of your business. So when you are looking for suppliers, it's best to be sure of your business needs and what you want to achieve by buying, rather than simply paying for what suppliers want to sell you.

The template designed for Microsoft Excel will be used here. It was made to help managers and specialists analyze their current and potential suppliers. By weighting the criteria that are important to an organization, manager can calculate a weighted average score for each supplier and compare the effectiveness of different suppliers.

Analysis will be conducted for the eight most significant suppliers according the value of received invoices for goods in year 2009.

	A	B	C	D	E	F	G	H	
1		RELM, s.r.o.		List data		Importance	Score		
2		Supplier Analysis Scorecard				High	1		
3						Medium	2		
4						Low	3		
5							4		
6							5		
9	General supplier information								
10	Vendor name:		Schneider Electric Slovakia, s r.o.						
11	Address:		Borekova 10, Bratislava 821 06						
12	How many years have we done business with this partner?		11						
13	Is there a formal supplier contract?		Yes						
14	Key contract terms:								
20	General supplier description								
21	90% of supplies- operating material		10% of supplies- further sale						
32	Item supplied		Importance to operations		Supplier criteria		Weighting	Score	Weighted average score
33	Switchgear		High		Price		20%	3,00	0,60
34					Number of years in business		10%	5,00	0,50
35					Reputation within the industry		10%	4,00	0,40
36					Management and culture		5%	4,00	0,20
37					Product quality		30%	5,00	1,50
38					Post-sales service and support		5%	3,00	0,15
39					On-time delivery		15%	4,00	0,60
40					Flexibility		5%	3,00	0,15
41					Other		0%		0,00
42					Total		100%		4,10

Figure 22 Schneider Electric Slovakia – supplier analysis [my own creation]

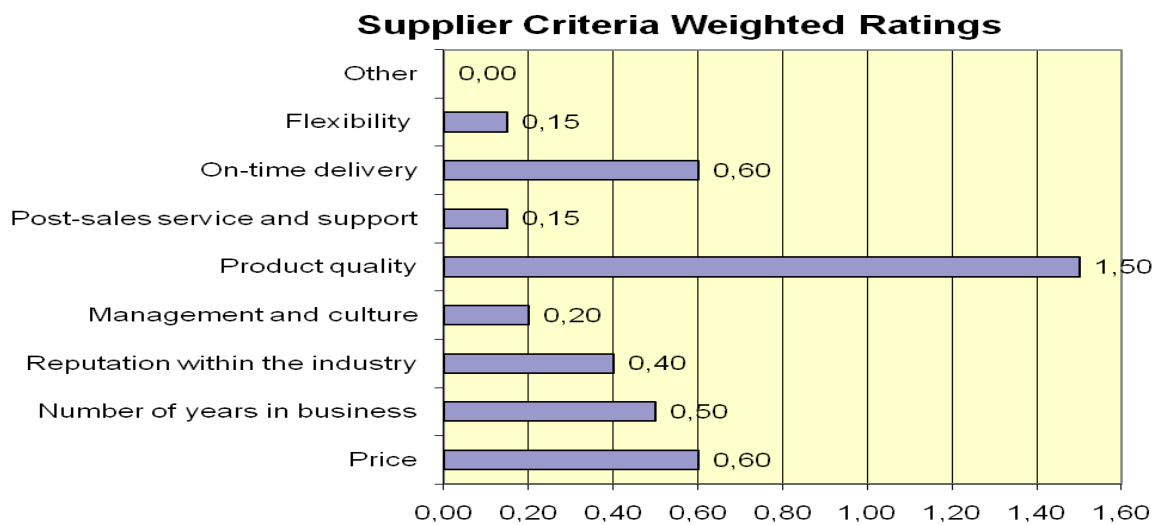


Figure 23 Schneider Electric Slovakia – supplier weighted score chart [my own creation]

A	B	C	D	E	F	G	H
1	RELM, s.r.o.			<u>List data</u>	<u>Importance</u>	<u>Score</u>	
2	Supplier Analysis Scorecard				High	1	
3					Medium	2	
4					Low	3	
5						4	
6						5	
9	General supplier information						
10	Vendor name:			ANMIMA s.r.o.			
11	Address:			Dolné Rudiny 15, Žilina 01001			
12	How many years have we done business with this partner?			7			
13	Is there a formal supplier contract?			Yes			
14	Key contract terms:						
20	General supplier description						
21	10% of supplies- operating material			90% of supplies- further sale			
32	Item supplied		Importance to operations	Supplier criteria	Weighting	Score	Weighted average score
33	Electro-installation material		Low	Price	35%	4,00	1,40
34	Lighting devices			Number of years in business	5%	3,00	0,15
35	Lightning conductors			Reputation within the industry	15%	3,00	0,45
36	Wires		Medium	Management and culture	5%	3,00	0,15
37				Product quality	15%	3,00	0,45
38				Post-sales service and support	15%	4,00	0,60
39				On-time delivery	5%	3,00	0,15
40				Flexibility	5%	2,00	0,10
41				Other	0%		0,00
42				Total	100%		3,45

Figure 24 Anmima – supplier analysis [my own creation]

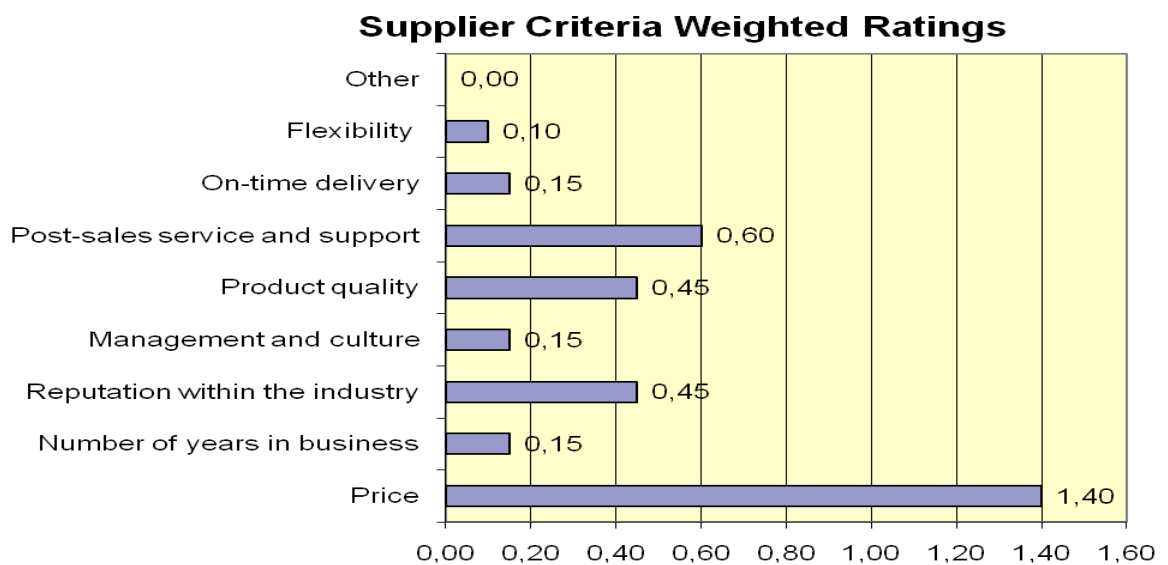


Figure 25 Anmima – supplier weighted score chart [my own creation]

A	B	C	D	E	F	G	H
1	RELM, s.r.o.		List data		Importance	Score	
2	Supplier Analysis Scorecard				High	1	
3					Medium	2	
4					Low	3	
5						4	
6						5	
9	General supplier information						
10	Vendor name:	ABB, s. r. o.					
11	Address:	Dúbravská cesta 2, Bratislava 841 04					
12	How many years have we done business with this partner?	9,5					
13	Is there a formal supplier contract?	Yes					
14	Key contract terms:						
20	General supplier description						
21	70% of supplies- operating material	30% of supplies- further sale					
32	Item supplied	Importance to operations	Supplier criteria	Weighting	Score	Weighted average score	
33	Switchgear	High	Price	25%	2,00	0,50	
34	Power switch		Number of years in business	10%	5,00	0,50	
35			Reputation within the industry	10%	5,00	0,50	
36			Management and culture	5%	4,00	0,20	
37			Product quality	25%	5,00	1,25	
38			Post-sales service and support	5%	4,00	0,20	
39			On-time delivery	15%	3,00	0,45	
40			Flexibility	5%	2,00	0,10	
41			Other	0%		0,00	
42			Total	100%		3,70	

Figure 26 ABB – supplier analysis [my own creation]

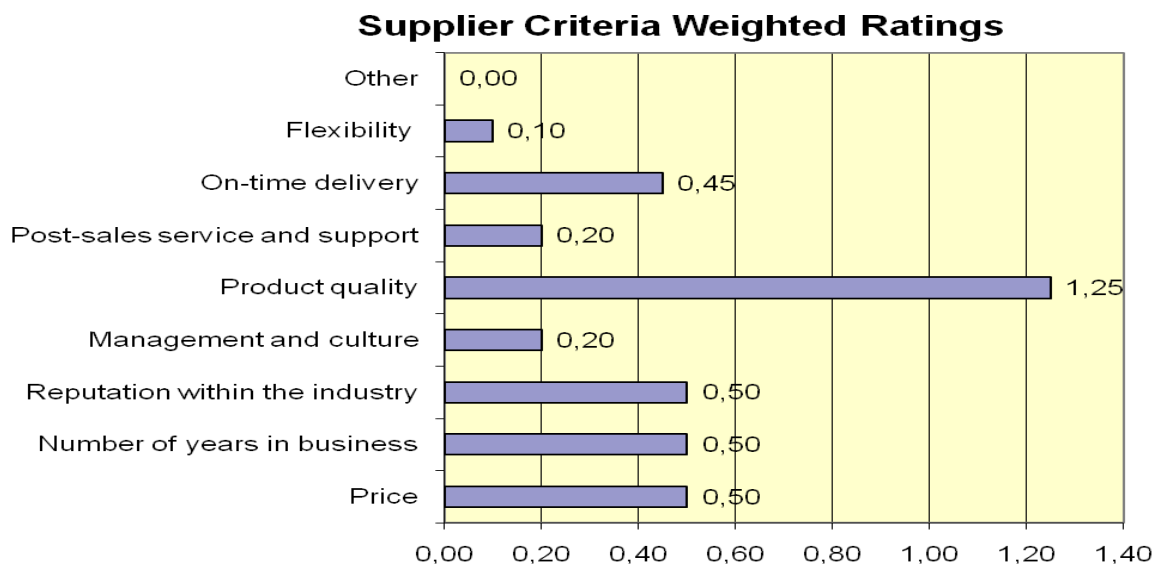


Figure 27 ABB – supplier weighted score chart [my own creation]

	A	B	C	D	E	F	G	H	
1		RELM, s.r.o.		List data		Importance	Score		
2		Supplier Analysis Scorecard				High	1		
3						Medium	2		
4						Low	3		
5							4		
6							5		
9	General supplier information								
10	Vendor name:		HENSEL s.r.o.						
11	Address:		Benkova 12, Nové Mesto nad Váhom 91501						
12	How many years have we done business with this partner?		15						
13	Is there a formal supplier contract?		Yes						
14	Key contract terms:								
20	General supplier description								
21	100% of supplies- further sale								
32	Item supplied		Importance to operations		Supplier criteria		Weighting	Score	Weighted average score
33	Switchboard frame				Price		35%	5,00	1,75
34					Number of years in business		5%	5,00	0,25
35					Reputation within the industry		15%	4,00	0,60
36					Management and culture		5%	3,00	0,15
37					Product quality		15%	4,00	0,60
38					Post-sales service and support		15%	3,00	0,45
39					On-time delivery		5%	4,00	0,20
40					Flexibility		5%	2,00	0,10
41					Other		0%		0,00
42					Total		100%		4,10

Figure 28 Hensel – supplier analysis [my own creation]

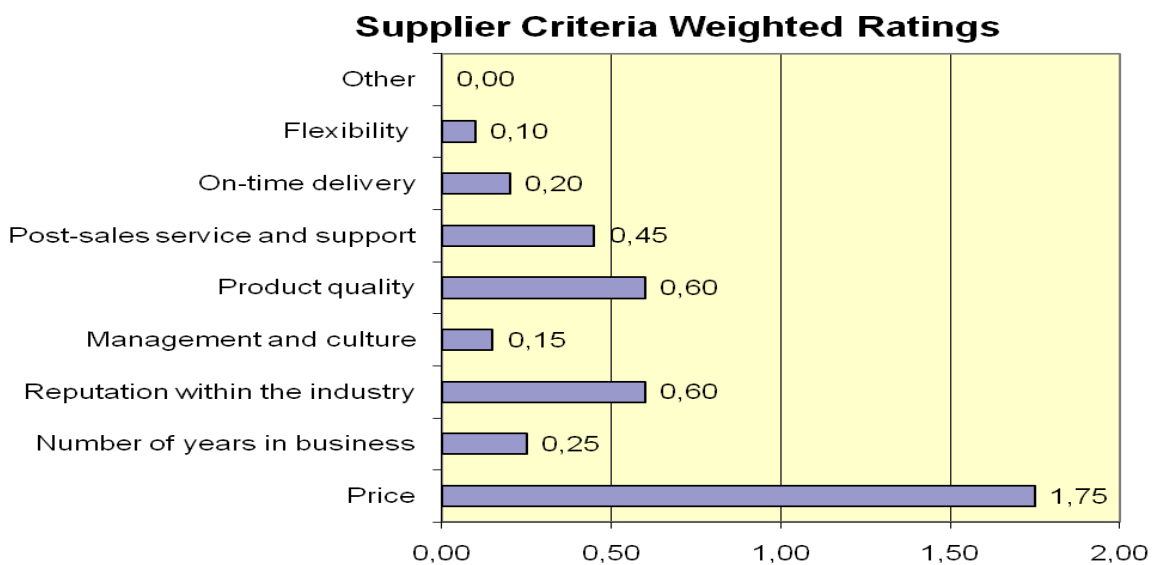


Figure 29 Hensel – supplier weighted score chart [my own creation]

A	B	C	D	E	F	G	H					
1	RELM, s.r.o.			List data	Importance	Score						
2	Supplier Analysis Scorecard				High	1						
3					Medium	2						
4					Low	3						
5						4						
6						5						
9	General supplier information											
10	Vendor name:			ELEKTRIS s.r.o.								
11	Address:			Elektrárenská 1, Bratislava 83104								
12	How many years have we done business with this partner?			5								
13	Is there a formal supplier contract?			Yes								
14	Key contract terms:											
20	General supplier description											
21	100% of supplies- operating material											
32	Item supplied		Importance to operations		Supplier criteria		Weighting		Score		Weighted average score	
33	Cable terminals		High		Price		15%		4,00		0,60	
34					Number of years in business		10%		2,00		0,20	
35					Reputation within the industry		10%		3,00		0,30	
36					Management and culture		5%		3,00		0,15	
37					Product quality		30%		4,00		1,20	
38					Post-sales service and support		10%		2,00		0,20	
39					On-time delivery		15%		2,00		0,30	
40					Flexibility		5%		2,00		0,10	
41					Other		0%				0,00	
42					Total		100%				3,05	

Figure 30 Elektris – supplier analysis [my own creation]

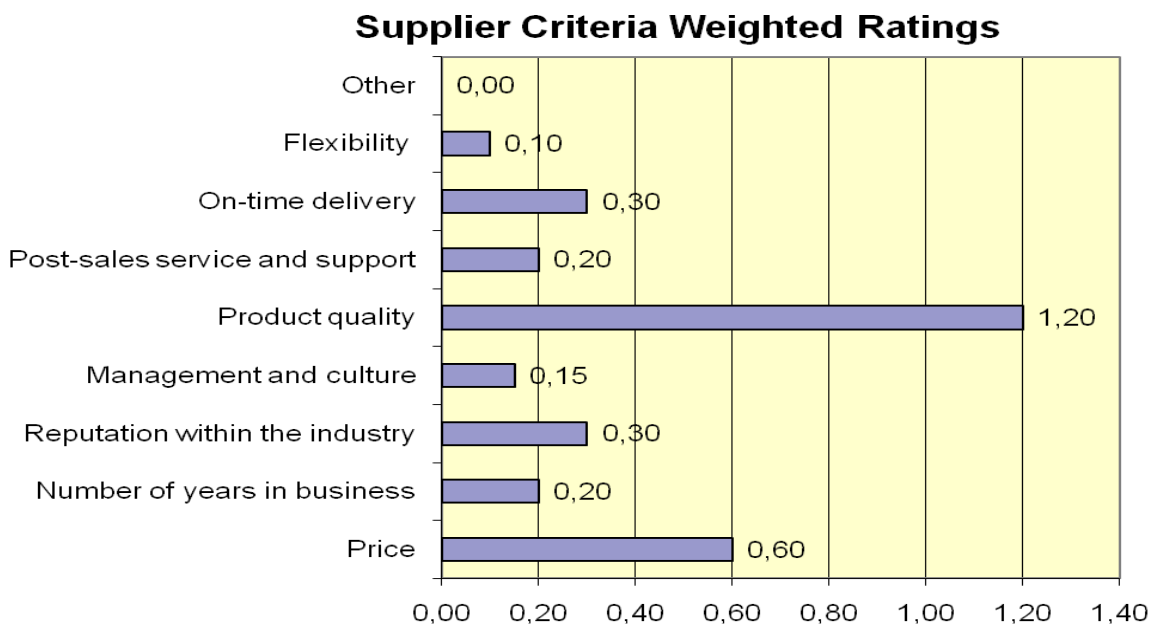


Figure 31 Elektris – supplier weighted score chart [my own creation]

A	B	C	D	E	F	G	H
1	RELM, s.r.o.			List data	Importance	Score	
2	Supplier Analysis Scorecard				High	1	
3					Medium	2	
4					Low	3	
5						4	
6						5	
9	General supplier information						
10	Vendor name:			Moeller Electric s.r.o.,			
11	Address:			Drieňová 1/B, Bratislava 82101			
12	How many years have we done business with this partner?			11,5			
13	Is there a formal supplier contract?			Yes			
14	Key contract terms:						
20	General supplier description						
21	70% of supplies- operating material			30% of supplies- further sale			
32	Item supplied		Importance to operations	Supplier criteria	Weighting	Score	Weighted average score
33	Operating material		High	Price	25%	2,00	0,50
34				Number of years in business	15%	3,00	0,45
35				Reputation within the industry	5%	4,00	0,20
36				Management and culture	5%	3,00	0,15
37				Product quality	25%	2,00	0,50
38				Post-sales service and support	5%	3,00	0,15
39				On-time delivery	15%	3,00	0,45
40				Flexibility	5%	3,00	0,15
41				Other	0%		0,00
42				Total	100%		2,55

Figure 32 Moeller Electric – supplier analysis [my own creation]

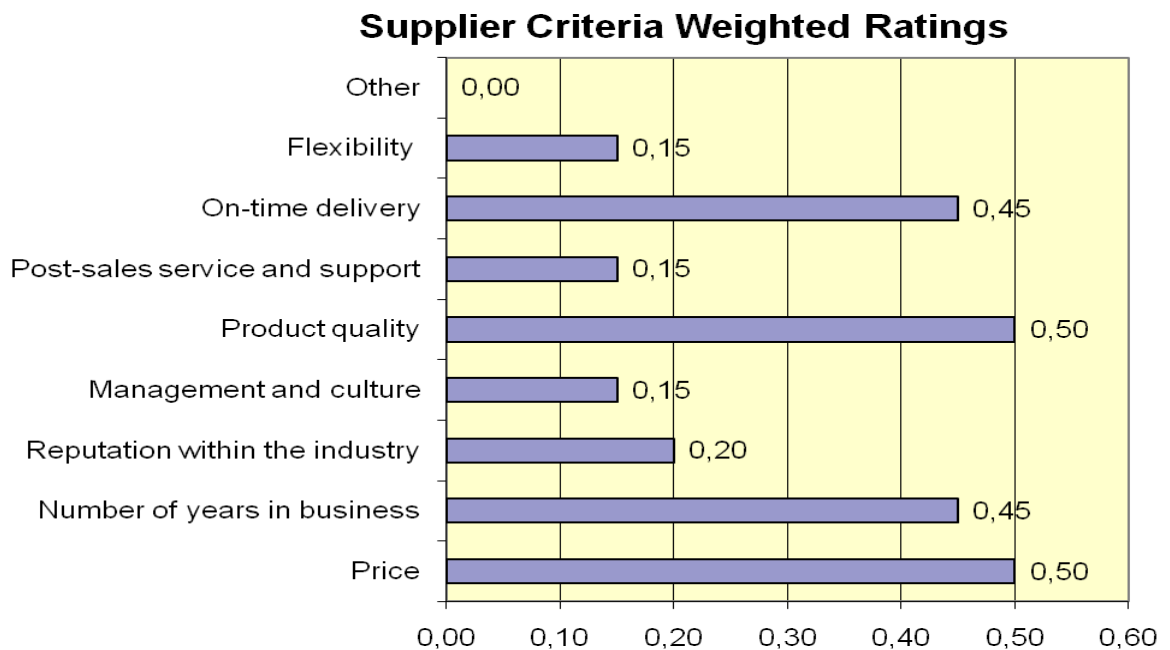


Figure 33 Moeller Electric – supplier weighted score chart [my own creation]

A	B	C	D	E	F	G	H		
1	REL M, s.r.o.			List data	Importance	Score			
2	Supplier Analysis Scorecard				High	1			
3					Medium	2			
4					Low	3			
5						4			
6						5			
9	General supplier information								
10	Vendor name:			Raja Electric					
11	Address:								
12	How many years have we done business with this partner?			4					
13	Is there a formal supplier contract?			Yes					
14	Key contract terms:								
20	General supplier description								
21	technical documentation for switchgear mounting at building site								
32	Item supplied		Importance to operations		Supplier criteria		Weighting	Score	Weighted average score
33					Price		10%	4,00	0,40
34					Number of years in business		15%	2,00	0,30
35					Reputation within the industry		5%	3,00	0,15
36					Management and culture		10%	2,00	0,20
37					Product quality		25%	3,00	0,75
38					Post-sales service and support		5%	1,00	0,05
39					On-time delivery		20%	4,00	0,80
40					Flexibility		10%	2,00	0,20
41					Other		0%		0,00
42					Total		100%		2,85

Figure 34 Raja Electric – supplier analysis [my own creation]

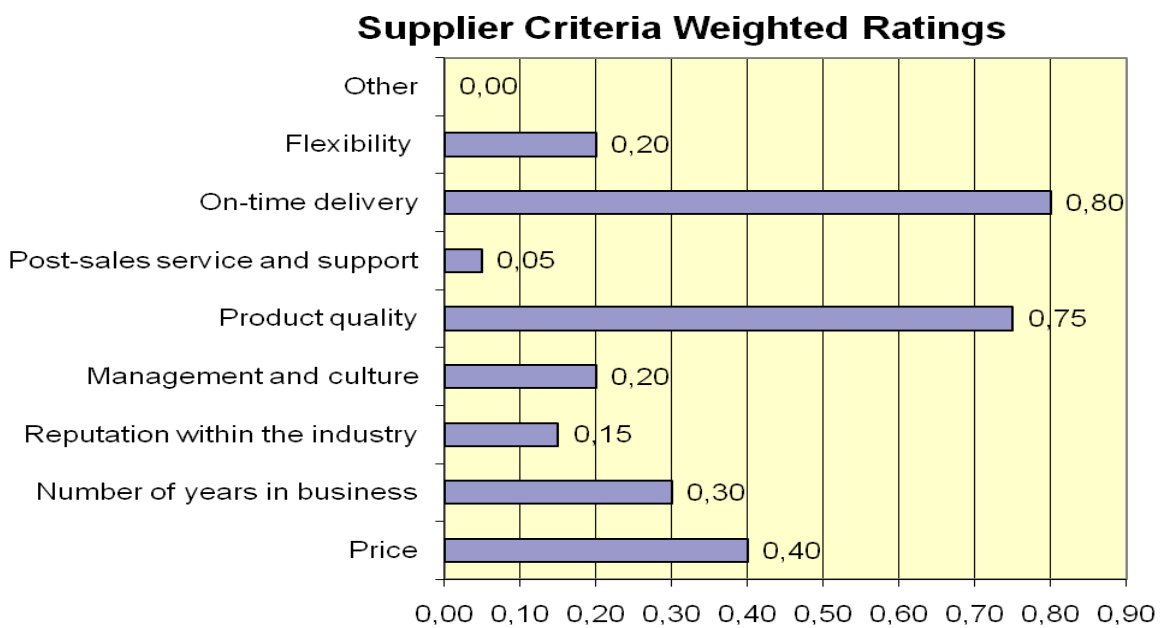


Figure 35 Raja Electric – supplier weighted score chart [my own creation]

A	B	C	D	E	F	G	H		
1	RELM, s.r.o.			List data	Importance	Score			
2	Supplier Analysis Scorecard				High	1			
3					Medium	2			
4					Low	3			
5						4			
6						5			
9	General supplier information								
10	Vendor name:		DOSS-SK, s.r.o.						
11	Address:		Mierová 1, Hlohovec 92001						
12	How many years have we done business with this partner?		3						
13	Is there a formal supplier contract?		Yes						
14	Key contract terms:								
20	General supplier description								
21	100% of supplies- further sale								
32	Item supplied		Importance to operations		Supplier criteria		Weighting	Score	Weighted average score
33	Electro-technical goods				Price		35%	2,00	0,70
34					Number of years in business		5%	3,00	0,15
35					Reputation within the industry		15%	2,00	0,30
36					Management and culture		5%	4,00	0,20
37					Product quality		20%	3,00	0,60
38					Post-sales service and support		10%	4,00	0,40
39					On-time delivery		10%	2,00	0,20
40					Flexibility		0%	3,00	0,00
41					Other		0%		0,00
42					Total		100%		2,55

Figure 36 DOSS-SK – supplier analysis [my own creation]

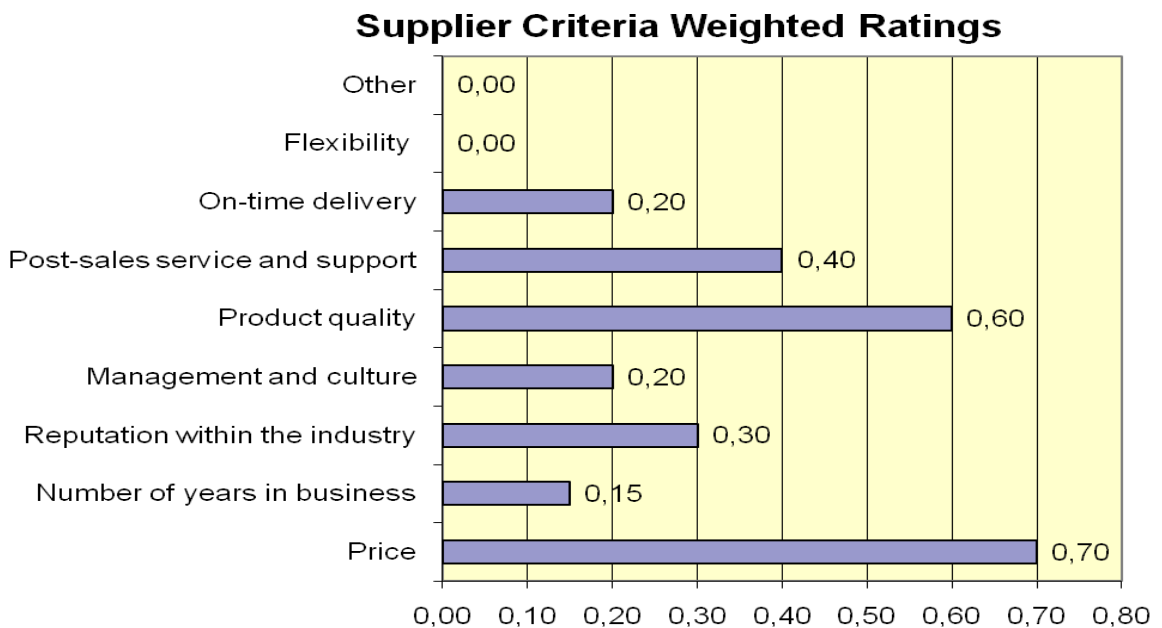


Figure 37 DOSS-SK – supplier weighted score chart [my own creation]

Evaluation criteria for supplier analysis were chosen among the most significant factors that affect supplier selection process.

In the next step, weighting of total 100 % was allocated to individual criteria based on its significance to company's activities.

After that allocation, score within the range 1 to 5 (1 is the worst, 5 means the best) was assigned to criteria.

Lastly, weighted average score was calculated for each criterion and also total score, which could gain value from 1 – the lowest possible score, through 3 – average supplier up to 5 – the best performance. Chart output was generated as the part of the total result.

According to analysis made, the company should aim its attention at performance of suppliers that have not reached average or above average score. There were three such supplying companies- Moeller Electric, Raja Electric and DOSS-SK. It is necessary to analyze such insufficient performance. The most frequent problems seem to be the poor product quality, belated or early delivery and high price.

In case of:

- High price; more favorable prices or, perhaps, bulk discounts could be negotiated.
- Inaccurate delivery; JIT inventory strategy should be implemented, because early and late deliveries introduce waste in the form of excess cost into the supply chain; early deliveries contribute to excess inventory holding costs, whereas late deliveries may contribute to production stoppages costs and loss of goodwill.
- Low product quality; inform supplier about quality of products that are delivered.

... Or reconsider replacing current supplier by another one.

10 RECOMMENDATIONS

Several sectional analyses were done, e.g. supplier selection and evaluation process, which can be crucial to small or medium enterprises that are narrowly focused on production, distribution and sale of products from one industry and which are dealing with a lot of suppliers. Based on theoretical and analytical information, I have formulated following recommendations.

10.1 Supplier selection and continuous evaluation

Supplier selection is widely considered to be one of the most important responsibilities of the purchasing function of management. An organization's suppliers directly affect the price, quality, delivery reliability, and availability of its products- all of which have a profound impact on customer satisfaction. Closely related to supplier selection is the ongoing management and evaluation of the supply base once the supplier has been chosen.

Management of the company should understand the difference between a **strategic supplier**, who provides goods or services that are essential to its business - such as high-value raw materials - and **non-strategic suppliers** who provide low-value supplies such as office stationery. Therefore, it is necessary to spend time on research. Don't try to save time by buying from the first supplier you find that may be suitable. Asking people or other businesses around with first-hand experience of suppliers can give the company useful advice.

It's always worth making sure that supplier has sufficiently strong cash flow to deliver what you want, when you need it. A **credit check** will also help reassure you that they won't go out of business when you need them most.

Keep an eye out for **purchasing department** or **purchasing agents** and their activities involving price negotiation with suppliers. Nowadays, it happens a lot that exactly these departments control the key factor of company's survival in a tough competition. Under supervision of this, excessive costs of low quality supplies, late deliveries and other costs caused by suppliers selection based on profit margin, that buying agents receive from suppliers in order to select them, will be cut down. Thus dependent purchasing department under control of executive director should be established and number of independent purchasing agents should be reduced.

10.2 New marketing conception and promotion

Another issue is product orientation. The enterprise should aim its marketing strategy at perspective switchgears for single houses, what is currently a high growing market. It should also try to innovate and promote switchgears for building sites, e.g. leaflets in stores with building material, billboards in regional capitals, offer more complex solutions such as sale and installation of distribution boards plus sale of lighting equipment plus sale of cable system all designed for concrete sites, in order to prolong its life cycle. There is also an option for gaining grant from European Investment Fund for innovation of such products.

10.3 Storage facilities extension

Lack of warehousing space is obvious when comparing with competitors. Additional space would be useful for storage of finished goods and there could be established sales warehouse, which would extend current salesroom and customers would be able to see almost the whole range of products live.

Such problem could be solved by capacity extension, when the company would buy old warehouse building few meters from its current location or current warehouse reconstruction- the warehouse would be reconstructed and additional building would be built and joined.

10.4 Improvement of foreign language skills

Problems that arise from language knowledge of employees would be solved, if language courses, especially English and German, were organized and led by an external language teacher. Such step would increase company's ability to gain contracts and cooperate with companies abroad, not only in Eastern and Central Europe.

10.5 Support and acquisition of qualified workforce

In SWOT analysis, threat in human resources appeared. Company employs highly qualified staff; however, there is lower and lower interest in studying electrical engineering, also many graduates leave here and average age of employees is increasing. There is a threat that in near future there will be lack of work force in this field.

Solution to this could be retraining of current well-known employee and sequential promotion to job position with higher wage or better working conditions. To the former place of this employee, new job applicant would be applied.

Perspective applicants for contract work could be found and hired by asking contractors who are doing similar work if they can recommend some additional associates to work for the firm.

Another, more effective and simpler solution in searching for qualified work force would be restructuring of the company web site. A great deal of information should be posted on the web site that shares perspectives, such as success stories, product development insights and customer feedback. Making the "positions available" link a prominent part of enterprise's navigation system will cause that people who are attracted by what they read will be easily able to contact HR department and it will indicate their interest in company. This step would enable qualified workers from wider territory who do not know about the available employment in such company or are considering change of the working place.

Way of acquiring exceptional graduates consists in cooperation with universities, e.g. Slovak University of Technology in Bratislava or University of Žilina. Information about job vacancies in the company should be sent to educational institutions and eventually an offer for scholarships for the best students.

CONCLUSION

Topic of my bachelor thesis was Competitiveness analysis of the company Relm, s.r.o. During processing of this analysis I have used information obtained from company materials, their internal sources but also from the websites and literature. Goals including gathering information about company, electro-technical industry and market offering such products in order to find out the most significant limitations that restrain the company from unique performance were successfully met. At the end, appropriate recommendations for supporting current competitive position were formulated.

Conducted analyses have revealed relatively stable position on the market; however some limitations that negatively affect firm competitiveness. These are deficient language knowledge that was found out among employees and shortage of qualified work force on the labor market. Next important fact appeared while BCG and PLC analyses were being done - some products have reached or are close to the top of their life cycle. When comparing area of storage facilities with competitors, production and sales volume, there was discovered shortness of stockroom. Supplier analysis revealed three questionable suppliers by the aid of specific evaluation.

From the results several recommendations come out. According to analyses, I consider following proposals as the most significant:

- ✓ HR department should be well prepared for retraining current employees and searching for new ones in case of their retirement, because lack of specialists on the labor market is noticeable. Website and important contacts are the right tools for it.
- ✓ Reconstruction of warehouse or additional building would solve the problem of storing finished goods and insufficient salesroom.
- ✓ Three suppliers seem to be inefficient and cooperation with them should be either terminated or try to negotiate more suitable trading terms.

I recommend analyzing suppliers regularly and more deeply to control one of the crucial factors for company's existence.

Authorized employees were acquainted with results and recommendations of the analysis and they identified with almost all of them, what makes a solid base for their consecutive implementation.

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LIST OF ABBREVIATIONS

BCG	The Boston Consulting Group
CERN	The European Organization for Nuclear Research
CIP	Competitiveness and Innovation Framework Programme
CNC	Computerized Numerical Control
ERP	Enterprise resource planning
GDP	Gross domestic product
HR	Human resources
ISO	International Organization for Standardization
IT	Information technology
JIT	Just-in-time
KOZ SR	Confederation of Trade Unions of the Slovak Republic
NATO	The North Atlantic Treaty Organization
OECD	Organisation for Economic Co-operation and Development
PEST	Political, Economic, Social, and Technological analysis
PLC	Product life cycle
R&D	Research and Development
SMEs	Small and medium enterprises
SWOT	Strengths, Weaknesses, Opportunities, Threats
UN	United Nations
UNESCO	The United Nations Educational, Scientific and Cultural Organization
WHO	World Health Organization
WTO	World Trade Organization

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APPENDICES

P I Company leaflet A.

P II Company leaflet B.

APPENDIX P I: COMPANY LEAFLET A.

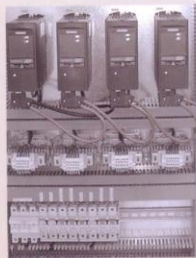


Komplexné riešenia a dodávky
elektrotechnických častí



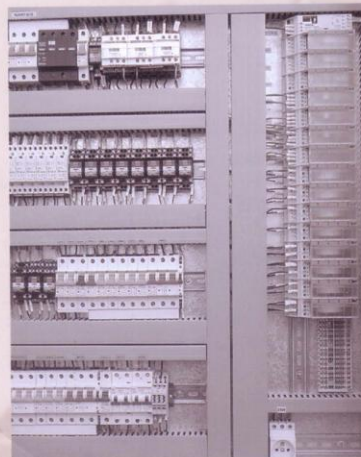
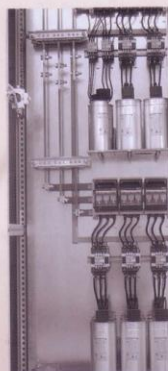
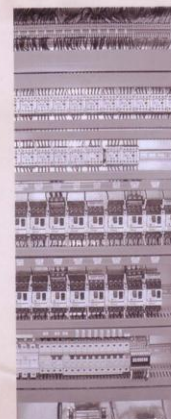
☐☐☐ Svet plný energie

APPENDIX P II: COMPANY LEAFLET B.



Výroba rozvádzačov NN

Dosahujeme excelentné výkony vo všetkých našich aktivitách. Vedeeme pracovný proces k zvyšovaniu produktivity a rýchleho rozvíjania našich produktov. Na poli spoľahlivosti technológií a kvality dodávaných riešení Vám ponúkame stabilitu a garančné záruky.



- ▼ Priemyselné
- ▼ Kompenzačné rozvádzače
- ▼ Staveniskové
- ▼ Elektromerové
- ▼ Domové, bytové
- ▼ Zásuvkové rozvodnice