

# **Behaviour of saw-mill Taxus s.r.o. in the period of the global crisis**

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Bachelor Thesis  
2010



**Tomas Bata University in Zlín**  
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Fakulta humanitních studií  
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## **ZADÁNÍ BAKALÁŘSKÉ PRÁCE**

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Téma práce: **Chování Pily TAXUS s.r.o. v době globální krize**

Zásady pro vypracování:

**Definujte problém který je cílem práce.**  
**Charakterizujte firmu Taxus a odvětví.**  
**Nalezněte a analyzujte rizika v období krize a před ním.**  
**Popište a zhodnoťte protikrizové opatření firmy.**  
**Na základě SWOT analýzy navrhnete možný rozvoj firmy.**

Rozsah práce:

Rozsah příloh:

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**Synek, M. a kol. Ekonomika a řízení podniku. 2. dotisk 1. vyd. Praha: VŠE Praha, 1995**

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**Zuzák, R. Krize podniku a její kreativní řešení. 1. vyd. Praha: CZU v Praze, PEF, 2005**

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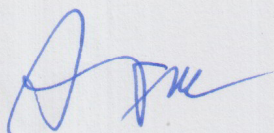
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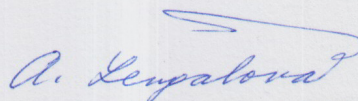
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## **ABSTRAKT**

Bakalářská práce se zabývá chováním malého podniku v době globální krize. Účelem této práce je podat komplexní pohled na věc. První kapitola se zabývá krizí jako takovou. Krize je definována nejprve obecně a následně ukázána skze důležité makroekonomické ukazatele. Pro ucelenost celé práce je popsáno jak konkrétně se hypoteční krize dotknula dřevozpracující firmy v České Republice. Dále jsou popsány dopady krize na chování zákazníků. Na změněné chování zákazníků reaguje firma protikrizovými opatřeními, která jsou popsána a zhodnocena ve čtvrté kapitole. Na základě S.W.O.T. analýzy je nastíněn možný rozvoj firmy.

Klíčová slova: malá firma, globální krize, protikrizová opatření, ekonomická krize, dřevozpracující průmysl, pila

## **ABSTRACT**

The bachelor thesis is focused on behaviour of the small company in the period of the global crisis. Aim of this work is to give complex picture. First chapter is focused on crisis as such. The crisis is defined first in general and then shown via important macroeconomic indicators. It is further described how particularly the mortgage crisis touched wood-processing industry in the Czech Republic. Changes in customer's behaviour caused by the crisis are mentioned. In response to changed behaviour of customers company applied several anti-crisis measures which are described and evaluated in fourth chapter. Further possible development of company is sketched on the basis of S.W.O.T analysis.

Keywords: small business, global crisis, anti-crisis measures, economic crisis, wood industry, saw-mill

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## INTRODUCTION

From all sides we hear about global economic crisis, about financial crisis today. There is always something in the news which is somehow related to this topic. Every day we are bombarded by macroeconomic data, statistics from private sector and numbers from stock market. But how has the global crisis affected companies actually?

We can read about difficulties that global crisis causes to large international companies. But how do small and middle-sized businesses deal with the crisis? The importance of small and middle size businesses in the Czech Republic is maybe higher than we think.

According to SME Union the Czech Republic (Union of small and middle sized businesses in CR) *“small and middle sized businesses produce 33% of GDP and employ 62% of economically active people. Small and middle sized businesses represent 99,8 % in total number of businesses registered in CR. In numbers of trade balance small and middle businesses have 35% share on export and 50% share on import”*.<sup>1</sup> Has the economic crisis affected this key sector of economy and how?

This bachelor thesis is focused on the impact of the global economic crisis on PILA TAXUS s.r.o. It is a company fulfilling the definition of small business. *“Within the category of small and medium enterprises are small enterprises defined as the enterprises which employ fewer than 50 persons and whose annual turnover or annual balance sheet do not exceed 10 million EUR in total.”*<sup>2</sup>

Aim of this work is to analyze how a small company behaves in the period of the global crisis. This work will systematically characterize wood industry and the crisis in the branch. Key threats in sector and their influence on a particular company will be described. Work also focuses on anti-crisis measures and cost cutting taken by the company. The outputs of the bachelor thesis are three simple points.

- 1) How did the global crisis influenced the sawmill TAXUS s.r.o.?
- 2) How successful were the anti-crisis measures taken by the company?
- 3) What opportunities of the further development company has?

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<sup>1</sup> "SME Union Czech Republic : unie malých a středních podniků ČR." SME Union Czech Republic : unie malých a středních podniků ČR. <http://www.sme-union.cz/> (accessed April 28, 2010).

<sup>2</sup> "Definice maléhoho a středního podnikatele | CzechInvest." CzechInvest . <http://www.czechinvest.org/definice-msp> (accessed May 5, 2010).

Main goal of this bachelor thesis is to show the real point of view from inside of the company. This is achieved by close cooperation with the company management and financial department, discussing their experience from the sector and adding their own comments.

## 1 THE GLOBAL CRISIS

Although the global crisis as such is not the topic of this bachelor thesis it is crucial to mention some general features of the global crisis to provide complex point of view on behavior of TAXUS s.r.o.. Information in this chapter are listed from global to local and from general to concrete.

### 1.1 General features

The mortgage bubble burst in 2007 is considered as the main cause of economic crisis. Today nobody doubts that this was the triggering mechanism mortgage crisis. Shock wave caused by collapse on mortgage market in the U.S. has spread slowly at first. But the collapse of Lehman Brothers investment bank has indicated that it is a crisis of unusual proportions and indefinite duration. Today we know that the crisis has spread from the financial sector to the industry.

We can see that economy behaves like the linked containers in which no action can be left without a response and failure cannot remain isolated. This consistency is applicable both to the relationship between finance and industry as well as the B2C and B2B markets. By 2009 the crisis hit almost all sectors with speed and scale that probably nobody expected.

### 1.2 Definition of crisis

To set context for further discussion this chapter will briefly illustrate the crisis in the Czech environment. Based on encyclopedia definition of crisis the main macroeconomic indicators will be covered.

In encyclopedia we can read that *“Downward trend in the business cycle characterized by a **decline in production and employment**, which in turn causes the incomes and spending of households to decline. Even though not all households and businesses experience actual declines in income, their **expectations about the future become less certain** during a recession and cause them to delay making large purchases or investments.*

*In recessions, the decline in output can be traced to a reduction in purchases of durable household goods by consumers and of machinery and equipment by businesses, and a reduction in additions of goods to stocks or inventories. The greatest effect is probably on inventory; businesses stop adding to their inventories and become more willing to draw on*

*them to fill production orders. Inventory declines thus have a double impact on production volume.”*<sup>3</sup>

In existing theory appear inexhaustible amount of characteristics of economical crisis. One of the characteristics says that economic crisis arises in case that economic growth is in recession for period of four consecutive quarters.

### **1.3 Marks of crisis in the Czech economy**

According to definition of recession and crisis this subchapter point out particular values of macroeconomic indicators that signalize decline in **production, employment**. Also **manager's expectations** about future as important fundament indicator are included.

#### **1.3.1 GDP**

*“Gross domestic product is the monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.*

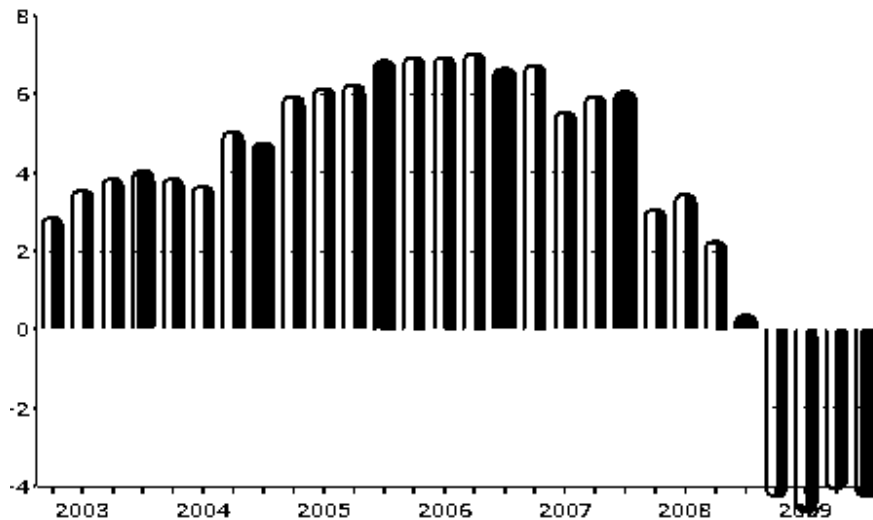
*GDP is commonly used as an indicator of the economic health of a country, as well as to gauge a country's standard of living. Critics of using GDP as an economic measure say the statistic does not take into account the underground economy - transactions that, for whatever reason, are not reported to the government. Others say that GDP is not intended to gauge material well-being, but serves as a measure of a nation's productivity, which is unrelated.”*<sup>4</sup>

Chart 1. displays quarterly development of GDP in the Czech Republic. According to the definition of crisis as period of four consecutive quarters in recession the crisis is clearly recognized between years 2008 and 2009.

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<sup>3</sup> "recession (economics) -- Britannica Online Encyclopedia." Encyclopedia - Britannica Online Encyclopedia. <http://www.britannica.com/EBchecked/topic/493467/recession> (accessed April 27, 2010).

<sup>4</sup> "Gross Domestic Product Definition (GDP)." Welcome to Investopedia.com. <http://www.investopedia.com/terms/g/gdp.asp> (accessed April 27, 2010).

Chart 1) *Quarterly development of GDP in Czech Republic*

Data source: ČSU

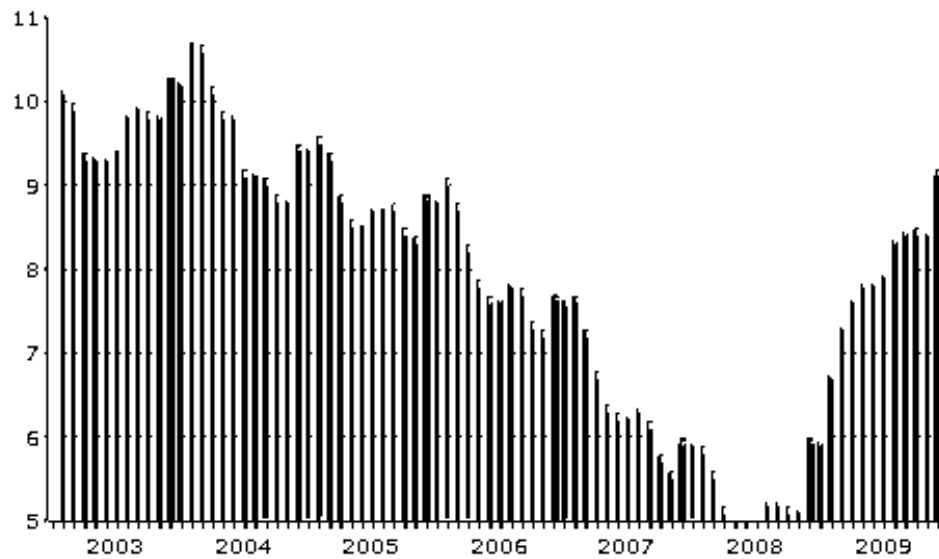
### 1.3.2 Unemployment

Since the second quarter 2004 GDP constantly grew. However since 2007 when the economy reached its peak and turned down radically the declension of production is with delay followed by rising unemployment rate between 2008 and 2009 (see chart. 2). Despite of high unemployment rate in the Czech Republic the numbers are still lower than the average of European Union. Comparison of values in December 2009 shows average EU unemployment rate at 9, 6 % while ČR reported only 8%.<sup>5</sup>

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<sup>5</sup> "Eurostat - Tables, Graphs and Maps Interface (TGM) table." Eurostat Home. <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&language=en&pcode=teilm020&tableSelection=1&plugin=1> (accessed April 27, 2010).

Chart 2) An unemployment rate in Czech Republic between 2003 and 2009



Data source: ČSU

### 1.3.3 Managers expectations

More than half of companies agree that they conceived impact of global economic recession. It results from survey of Ernst & Young that charts opinions of top managers from almost 900 world leading companies. 53 percent of companies feel lack of free capital in consequence of global crisis, which inhibit them from further expansion.

Czech Republic is not an exception. Whereas at first some Czech businessmen hoped that crisis will stay away from Czech economy and will not affect us, today 69 percent of them are convinced that Czech economy already found its bottom. In September 2009 only 52 percent of polled managers answered on this question positively. But most of them agree that crisis will pass away in two years. <sup>6</sup>

### 1.3.4 Summary

Three indicators described in previous paragraphs: production, employment and managers expectations proved that crisis affected Czech economy. Downturn has negatively affected the attitudes of entrepreneurs, management and the general public. Headlines were flooded with statements of managers and analysts like: "I've never come across such a recession. Struck us like lightning from the sky"

<sup>6</sup> "Firmy mají z krize respekt, ale už čekají konec - Aktuálně.cz." Aktuálně.cz - Víte, co se právě děje. <http://aktualne.centrum.cz/ekonomika/business-ve-svete/clanek.phtml?id=662152> (accessed April 27, 2010).

Simon Herman characterizes the current crisis as a sales crisis and impact of crisis on customer's behavior describes by these words: *"The current crisis, which started in 2007 and worsened in subsequent years, is a sales and revenue crisis, not a cost crisis. Sales volumes and revenues have dropped to a shocking extent in the ensuing period. In many markets customers are simply refusing to buy. The reason is not that their purchasing power has suddenly evaporated or that prices and costs are too high. Nor is the competition from low-wage countries or an unfavorable dollar exchange rate the main problem, which has been the case in former crises. Indeed, many factors such as declining prices for oil and raw materials have actually induced some relief on the cost and price front. The reason that both private and business customers are refusing to buy is that the fear of the future has them hoarding their money. "Cash is king" is true for companies and consumers alike. In contrast to earlier recessions, consumers' savings rates have gone up. Consumers are not using their savings to make up for lower incomes."*<sup>7</sup>

#### **1.4 Impact of the crisis on customers**

It is clear that the crisis caused lower demand on the wood market. To fight the crisis successfully it is also important to understand reasons why consumers refuse buy. If we understand motives of changed customer behavior we can respond them through the particular measures.

Simon Hermann recognizes six crucial general trends in customers behavior during the period of the economic crisis: fear of the future, unfavorable change in price elasticity, increased importance of hard value and cost benefits, compressed time preference, importance of financing and stress on safety.

- 1) Fear of future – The crisis and its unclear impact on economy was responsible for customer's fear of the future. The fear of the future directly affects customer's willingness to buy. This phenomenon is most evident on products of long consumption.<sup>9</sup>
- 2) Unfavorable change in price elasticity - *"Customers usually buy more of good when its price is lower, when their incomes are higher, when the prices of substitutes for good are higher, or when the prices of complements of the good are*

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<sup>7</sup> Simon, Hermann. *Beat the Crisis: 33 Quick Solutions for Your Company*. 1st Edition. ed. New York: Springer, 2009.1.



lower. The law of demand says that decline in prices of good rises the demanded quantity”<sup>8</sup> We see that in times of crisis demand react to price cuts less positively by only low rise of demand. In contrast to increases of price demand response in times of crisis much more negatively than at the time of stable economic growth. Moreover, there is a shift threshold in the price elasticity curve of demand, this means that to achieve price-elastic part of the curve we need to cut prices much more.<sup>9</sup>

- 3) Hard value and cost benefits take on greater importance during a crisis. When times are good, customers are more likely to indulge in items that are “nice to have,” but not really necessary. This phenomenon change in the crisis.<sup>9</sup>
- 4) Financing becomes more important - Method of financing and payment arrangements are becoming increasingly important in period of current global crisis which can be characterized as cash crisis. A number of customers do not have enough cash and deferred payments for goods can help them to alleviate the liquidity problems.<sup>9</sup>

These are general trends in customers behavior during the crisis. Anti-crisis measures that respond these key features can be successful. For example the general problem in the crisis is financing and lack of cash. This can be seen as an opportunity or competitive advantage for retailers and companies that can afford to be generous in this respect and can offer longer maturities. However, it should be mentioned that this is a double-edged weapon because of increased financial risk. This solution entails a potential risk of secondary insolvency and it is up to consideration of each company whether it is able to take the risk of this kind. Particular anti-crisis measures taken by TAXUS s.r.o. are further described and evaluated in chapter 4.

## 1.5 Impact of the crisis on the wood industry

The global economic crisis also affected timber industry. When an entire sector recorded a sharp drop of demand. This decline was also due to the suspension of exports. Due to oversupply, lumber prices are at very low levels.

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<sup>8</sup> Mankiw, N. Gregory. *Principles of Economics*. 5 ed. Mason, OH: South-Western College Pub, 2008.90.

<sup>9</sup> Simon, Hermann. *Beat the Crisis: 33 Quick Solutions for Your Company*. 1st Edition. ed. New York: Springer, 2009.21.

Ing. Příkazský in interview for *Truhlářské listy* sees the cause of the current problems of Czech wood industry in the state mortgage market, especially in America. It caused that in 2008 during the first seven months construction of family houses fell by 10.2% and flats by 30.8%. In America, lumber prices fell sharply, thus the import of lumber from the Europe is stopped. This resulted in oversupply of lumber and fall of prices on the European market. Hopes to improve by the end 2008 were nearly zero and even during the next year the stagnation is expected.<sup>10</sup>

The situation could be improved with the arrival of the season in the construction industry. Until then, lumber producers will have to cut mostly on warehouse. Some of them, due to high warehouse stocks are likely to be forced to process sawing reduction at least for a some time.

Ing. Pražan in interview for *Truhlářské listy* confirmed that a number of foreign companies considered reducing sawing on one shift due to high warehouse stocks at the end of 2007. So that they have not even more problems with sales. This situation should not lead to an increase in demand for timber, so that timber prices should stay at low levels. Against lumber producers will be higher prices of energy and oil, and also strengthening of the Czech currency against the euro.<sup>11</sup>

The research, published in the *Truhlářských listech* shows that except the sharp decline in demand for lumber there are several big problems of sawmill production in the Czech Republic. According to responding companies the biggest problems are: CZK / EUR, business contract terms, fluctuations in the current timber market, round wood prices versus the price of lumber, poor industrial structure, insufficient promotion of the use of Wood, legislation and government policy and the bad enforcement of active debts overdue.<sup>12</sup>

Here is a question how should companies respond to such a crisis? Main priority that has to be done during any kind of recession is obvious: Companies need to lower costs as much as possible. Most companies in recent years maintained a remarkable cost discipline. As

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<sup>10</sup> Čapka, Radomír. "Letošní pokles ve stavebnictví bude zřejmě větší, než se čekalo." *Truhlářské listy*, November 2009.36.

<sup>11</sup> Novák, František. "Výrobci stavebního řeziva se letos obávají hlavně male poptávky." *Truhlářské listy*, February 2008.39.

<sup>12</sup> Novák, František. "Malokapacitní pilařské provozy a jejich neutěšená situace na trhu." *Truhlářské listy*, February 2008.40.

one CEO expressed it, “We only hired an additional second employee when we needed a third one.” Enterprises made tremendous progress in the field of automation. Costs of many products are much lower than before. This is reflected for example in the ever decreasing prices of construction wood. As a result we can say that costs are very low. And cost range we can operate today is very tight and it is much harder to reduce costs today than it used to be.<sup>13</sup>

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<sup>13</sup> Simon, Hermann. *Beat the Crisis: 33 Quick Solutions for Your Company*. 1st Edition. ed. New York: Springer, 2009.2.

## **2 COMPANY CHARACTERISTICS**

Sawmill TAXUS s.r.o. is a small company established 1992, specialized on hardwood production. Company has two affiliates in Baška in Moravian-Silesian region and in Loučany in Olomouc region. With current 8 employees company produces 1500 cubic meters of kiln dried mostly unedged hard and soft wood. With kiln dryers of total capacity 250 cubic meters and Artiglio – band-saw technology Taxus company has no more than 2 competitors of this size in Moravian-Silesian region.

### **2.1 Company philosophy**

Company goal is to offer clients reasonably priced wood of high quality. Company philosophy is close relationship with its clients. Almost 18 years of experience is assurance to customers that cutting and drying are processed with patience and precision that guarantee high standard and eliminates hidden defect. Key factor of individual attitude to client is supported by advantaged payment conditions as longer term of expiration or better price policy for regular customers.

Company business is focused rather on quality than quantity, rather a hundred small customers who buy few logs with high added value than one large purchaser who demand four truck-loads a month but with small added value.

After 18 years of successful business Taxus s.r.o. is proud of past development and hundreds of satisfied customers and business partners and is ready to strive in future. Crucial point is responsible use of resources where company implied policy that only timber wood from legal cut is traded and further processed.

### **2.2 Company history**

Taxus company was originally established by two partners former lumberjacks in 1992 a few years after the Velvet revolution as trading company. Little starting capital and lack of technology limited the area of business on round timber wood trading. In trading company focused on softwood for the most part on spruce and pine wood. Company operated mostly on local basis in Beskydy region, where company wood-storage yard and office was situated in Kunčičky u Bašky. In this period two partners Jiří Švarc and Michal Novák the company owners were also the only employees.

In 1993 after a year of successful wood trading company leased and later bought band-saw. Production focused on construction and furniture wood, decking, flooring and pallets when majority was spruce and pine wood. Following strategic decision was purchasing forest technology particularly forest harvester, tractors and necessary equipment. By this investments company enlarged field of activity on logging, trading and manufacturing timber. Taxus offered logging, ground skidding and reforestation when field of activity covered whole country. To cover all commissions company also hired subcontractors in logging area. Between 1993 and 1998 company has up to 15 employees in forest branch, 8 employees in wood production.

Because of high requirement on organization, in 1998 company stopped forest activities and for future decided to be focused only on wood manufacturing and trade. Company invested to kiln dryers and storage hall for dried wood. Company main field was softwood especially pine and spruce wood. Wood production focused on furniture wood, decking, flooring and pallets. Taxus preferred large company customers as TON bentwood furniture or FALCON Mimoň. The company production consists mainly of mass production for those large customers. In this period sawmill Taxus s.r.o. was pushed out from decking and flooring market by cheap competition from Eastern Europe especially from Lithuania, Latvia and other former countries of SSSR. Also easy entry to branch caused dynamic growth of local competition, what caused lower sales of construction softwood. In consequence of which company switch to hardwood production where competition was not that strong.

Between 2000 and 2005 Taxus focused on hardwood production company added to its product assortment oak, beech, ash, maple, alder and aspen wood. Company supplied edged, kiln dried oak wood to west European flooring manufacturers when volume of supplies got over 100 cubic meters per month when demand was much higher and company needed to increase production by new technology. This led to large investments to kiln dryers, new band-saw technology and larger production hall in this period. Steadily reinforcing crown to euro has strong impact on company business – with strong crown the production became for west European customers too expensive and supplies have been stopped.

Because of foregoing problems company switch from mass production on to custom production for small local furniture and construction manufacturers. By this company diversified commissions from few large customers to large amount of small and middle

customers – which was important step. With this step also company philosophy changed from mass production where most important value was quantity to custom production focused on quality and close relationship with customers. Most of that production was required dried in contrast with mass production where dried only small percentage of production. In reaction company invested into fire-room technology that made drying process much cheaper and effective. Production of dried wood changed also storage requirements so that the Company built a new hall. Because of high requirements on process effectiveness and quality of woodcut Company bought new band-saw technology Artiglio.

With strong competition in region and upcoming crisis company which all together caused lower revenues company acquire second subsidiary near Olomouc to extend field of activity and keep level of revenues.

Company entered global crisis in period of company expansion with status of strong player on local market. By the year 2007 company had 2 distribution depots and large field of customers when competing with strong competition of wood trading companies company enlarged assortment by hardwood briquettes. Company focused on production of oak due to good experience and cut-technology advantage when oak wood production represented 40 percent of production.

## **2.3 Production process**

### **2.3.1 Operating**

Process of production starts with sorting and operating timber wood on timber-yard where timber is assorted according to quality and diameter. Assorted timber is cut to required length with respect to planned program to 2, 2,5 3, and 4 meters length.

### **2.3.2 Cutting**

Process then continue by cutting round timber on band-saw where company produces edged logs which are cut from prism and un-edged logs produced directly from round timber. Edged logs produced for flooring and decking are cut 29 millimeters thick and exact required width. Un-edged logs for custom furniture producers are produced 29, 35 and 53 millimeters thick in width due to timber diameter. In this production step also fitches are produced – these are packed by hoop-iron and sold as firewood.

### **2.3.3 Drying**

After cutting both edged and un-edged logs go to kiln-driers where are dried to less than 12 percent humidity. This process lasts according to outside conditions from one week in case of 26 millimeters thick soft wood to 3 months in case of 55 millimeters thick oak wood. Company knows that the length and accurate process of drying is crucial for final quality because of what company use for this purpose automated kiln-driers. Because of the length of drying process and need dry different woods separately and produce wood constantly company has 6 separated kiln-dryers of total capacity 250 cubic meters. In this part of production process a saw-dust the waste of cutting is used for heating of kiln-dryers.

## **2.4 Timber assortment**

Company offer consist of softwood represented by pine, spruce and larch. Softwood is produced 4 meters long. Softwood is produced in un-edged form 26,33 or 55 millimeters thick for use in furniture industry or in form of squared logs for use in construction in lower quality.

Assortment of hardwood consists of oak, beech, cooper beech, ash and alder. Hardwood is produced in lengths 2, 2,5 , 3 and 4 meters and thickness of 26,33 and 55 millimeters. All hardwood is produced dried un-edged for use in furniture industry.

### **3 IMPACT OF CRISIS ON TAXUS S.R.O.**

With upcoming global economic crisis lot of companies were pushed to change their behavior. Global crisis compelled companies to use resources more responsibly and operate much more effectively. Crisis caused deficit of cash in companies and limited companies expenditures. Increasing unemployment rate changed household earnings that became evident on preferences. Changes in customers preferences strongly influenced sawmill TAXUS in form of lower demand for wood especially on markedly more expensive hardwood that the company's production is focused on.

#### **3.1 Customers**

##### **3.1.1 Customers characteristics**

As before crisis most of company's production was on demand of a few large customers as TON - bentwood chairs of FRAVENA - oak wood floorings, with upcoming crisis large companies reduced production which became evident on lowered demand and company focused product portfolio more on small companies. At present most customers are small companies with up to 10 employees, small sole traders but also construction companies and lumber wood trading companies as Javholtz s.r.o. with 250 employees in the Czech Republic. Most customers run a business within 30 kilometer radius from sawmill, and customers distant more than 30 kilometers are rather exceptional than usual. This phenomenon is caused by high density of competitors in region. Over 90 percent of production is meant for joinery and carpentry manufacturing, remaining 10 percent of production is construction wood and firewood.

##### **3.1.2 Influence of crisis on customers**

Due to crisis customers behavior has changed radically. Most of clients are producers of custom furnishing, doors, window sills, stairs etc. Because production of custom furnishing is closely attached to households it reflected absence of free cash and limited spending of household in crisis. Generally demand on custom furniture decreased rapidly, when household replaced custom furniture by reasonably priced mass-produced furniture. This phenomenon became evident on changed preferences, some customers replaced wood by cheaper material as plywood and expensive woods like oak, if possible, were compensated by cheaper ash. Same situation appeared when cheaper spruce and pine softwood became more popular than more expensive hardwood.



Impact of crisis on company customers is clear. While before crisis customers bought large volume of wood on store by now customers purchase material accurately for a particular order and minimize material on store according to tendency not to block cash in material. Shortages of working capital in these small companies worsen ability to pay. Because of that companies negotiates longer terms of expiration on bills. Also requirements on quality of wood increased when manufacturers require perfect quality to minimize waste of material. Other often observed feature is tendency to negotiate lower prices which is normal estate but enhanced by economic crisis.

### 3.2 Suppliers

Bid of timber wood, as initial input of sawmill production, is limited. Import timber wood from more than 200 kilometers does not pay off any more because of increasing price of timber haulage. Because of that sawmill is entirely dependent on Czech timber production. In Czech Republic biggest owners of woodland are Lesy České Republiky, Vojenské lesy, local councils and private proprietors. Among problems of state owned woodlands (LČR, Vojenské lesy) appertain non-transparency in tender assignment likewise final distribution of timber. Behalf of that sawmill is dependent on large timber harvesting companies and trading companies that cooperate with LČR and Vojenské lesy.

Other possible suppliers are small timber harvesting companies. Problem of that cooperation is that small suppliers because of low volume of harvested wood do not offer to off take only a wood of certain quality and if sawmill buy material from them usually is pushed to buy whole not sorted wood with variant quality from III.B to I. class. Problem for sawmill focused on production of furniture lumber, where only wood to II.B quality is required as input, is apparent and company need to trade the lower quality wood itself or run alternative production of construction wood where quality requirements on wood is not that high. Obvious benefit is that small producers are more approachable than state owned LČR and Vojenské lesy. Disadvantage of these small suppliers are that they cannot provide constant supplies and timber is supplied more spasmodically. Because of that sawmill need to hunt for timber among many small suppliers - which is by management understood as complication.

With incoming economical crisis pressure on timber wood on market appeared. LČR with monopoly position on market refused lowered prices of timber and instead of lowering prices according to market they reduced production so that bid of timber on market fall

rapidly what helped LČR to keep prices on before-crisis levels. Crisis changed behavior of suppliers also in attitude to payment terms. Before crisis most suppliers offered revolving credit to their customers whereas fear of crisis caused that suppliers are more careful on offering revolving credit and also terms of expiration and size of debt changed.

### 3.3 Competition

Period before crisis was in token of accrument of competition. This was caused also by decrease in prices of band-saws and their mobile versions - which significantly lowered capital requirements for entering the sector. With upcoming crisis small sawmills reduced production as there was not enough demand on market. Large sawmill companies that were dependent on export and demand from west Europe get in serious troubles because their production systems were not that flexible as small companies. Another gasper for big sawmills was fact they had much more employees which means fix costs. In consequence of crisis some of these large companies bankrupted which is for sawmill TAXUS as their competitor a good thing. The bad thing about this process was that after bankrupting companies sold out stores in bankrupting proceedings and wood priced 50 percent of market price find got on the market. This wood was during nontransparent bankrupting proceedings sold to wood traders and now forms a serious problem even though the problem has a short period character when this wood will disappear from market during one year.

Dramatical increase of competition is observed from international wood traders and sawmills that kept selling stores and moved production to Eastern Europe because of lower production costs. Thanks to lower production costs and better input prices it is for Czech sawmill hard to compete within price. Serious competitions are traders who import lumber from Romania, Latvia, Lithuania, Estonia, Russia and Ukraine.

Economic crisis pressed on household to reduce spending. By that final customers prefer mass-produced furniture from global producers like IKEA and they use joineries only for atypical furniture. Also cheaper plastic windows are preferred in crisis more than more expensive windows made of wood. Also tendency to save is obvious on usage of chipboard instead of wood. All these factors lowered demand for wood from side of joineries.

### **3.4 Hypothesis**

The global economic crisis was truly global in the sense that it affected almost companies of all sizes and in all geographic locations, from a Fortune 500 company in America to a small saw mill in the Czech Republic. The saw mill took certain measures described in chapter 4) to combat the crisis. Fortunately, the steps it took were effective because company unlike some competitors in region has not gone bankrupt and still continues production.

## 4 ANTI-CRISIS MEASURES

### 4.1 New technology

Company invested to new technology in 2005 in reaction to boom of export to western countries of EU. Decision was made under pressure of investition to old cutting technology that was in need of heavy repair and expensive maintainance of old and outserving. technology in future. When capacity of previous technology ranged around 15 cubic meters in comparation to curren 30-50 cubic meters – according to cutting program. Also increase of cutting quality figured an important improvement. New technology downsized requirements on human workforce which in consequence represents significant cut of fix costs. Better labour protection, dust nuisance and obstreperousness come with new technology too.

Because of high requirement on investment company financed new technology by bank loan. When crisis come in 2007 company paid back only half of bank credit due to that positive cash flow during following thre years was crucial. New technology increased productivity and money saved on cost side by lowered number of human workforce were during crisis used for bank repayments. By the year 2010 company succesfully paid bank loan back. This investment is by management evaluated positively even though bank loans required high sales and positive cashflow to generate cash for monthly repayments. Overall management is with investment satisfied thanks to saves on cost side. that significantly lowered cost on cubic meter and hereby increased profit.

### 4.2 Reducing number of employees

Each cost category is necessary in times of crisis to be observed carefully and it is important to keep a realistic idea of the potential of reducing costs in the context of extreme drops in sales and revenue. This potential is currently often very limited. In recent years, flattened the purchase price to such an extent that today left not much space for further reductions. Manufacturing processes have been optimized so that there is only a very narrow scope for further improvement.<sup>14</sup>

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<sup>14</sup> Simon, Hermann. *Beat the Crisis: 33 Quick Solutions for Your Company*. 1st Edition. ed. New York: Springer, 2009.53

Moreover, improvement in this area requires considerable investments in automation for example. These investments are not realistic in period of global crisis, but luckily TAXUS s.r.o. purchased this new technology just before crisis.

For businesses that were badly hit by the crisis, it may be difficult to avoid reducing labor costs. Ultimately, the reduction in labor costs is the only way to achieve a sufficiently large cost savings that would offset the decline in sales. Many companies are forced to lay off massively or to close the entire plant. Scale of options for anti-crisis measures is wide but cost cutting has to be the top priority in the crisis. The key is to lower costs intelligently and flexibly, thus minimizing negative long-term repercussions.<sup>15</sup>

In crisis when need to cut costs appeared and TAXUS s.r.o. needed to act immediately company reduced number of employees. This radical step was preceded by limiting overwork when management wanted to keep employees in case of reviving demand, knowing the cost of fluctuation. This came also as answer to lowered demand when company has no sales and onstore production was not sufferable in long term horizon.

In first step of this *zugzwang* were new, unskilled and part time workers discharged. Because of deteriorative situation on market company in second step was pushed to stop production for three months. Due to that company kept only three key employees when company activity consist only of selling out the stores. After this three months company started production and employed back number of employees required for production process. This step is by management evaluated positively when it helped to survive and by radical cuts on cost side improved outlook to future. This step was supported also by its immediate influence on cash flow and new technology that has no such a requirements on human resources.

### **4.3 Change in timber assortment**

Crucial problem in period of economic crisis is drop of demand while supply remains on beforecrisis levels, also TAXUS company had to deal with this figure. Before crisis 60% of company production was hardwood intended for export mainly in form of edged logs for floorings and remaining 40 % represented joinery and carpentry wood production. Before crisis company exported approximately 100 cubic meters per month when on the

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<sup>15</sup> Simon, Hermann. *Beat the Crisis: 33 Quick Solutions for Your Company*. 1st Edition. ed. New York: Springer, 2009.53.

other hand in crisis there was no demand at all. Also because of cheap wood for floorings imported from China.

In reaction to drop of demand company changed timber assortment and entirely focused on local market and small customers. Current assortment consists by 90% of carpentry and joinery wood while remaining 10% represents construction wood and plywood. This instant reaction and reorientation on different market with higher profit margin potential on cubic meter but lower volume helped to keep positive cash flow in period when foreign demand collapsed. This step is by company management evaluated as vital decision that helped to generate cash and survive crisis.

#### **4.4 New subsidiary**

Consecutive revenues declension, threat of negative cash flow and full stock warehouse made company thinking how to turn stock to cash. Obvious solution to this question was to increase sales volume. Because of strong competition in region company decided to start subsidiary in form of distribution depot near Olomouc. Finally company bought warehouse in Loučany – a village 20 kilometers far from Olomouc center.

New subsidiary boosted sales by 30% while this figure became evident on positive cash flow during period of bank repayments for new technology. Disadvantage of new subsidiary was lower profit margin on cubic meter in comparison with wood sold in Baška. This was caused by pressure on price and competition so that prices had to be kept on the same price level as in Baška – headquarter of TAXUS company but average costs on cubic meter were higher due to transport costs. By now the company has already repaid all bank loans and is not anymore pushed to generate cash at the cost of smaller profit margin. Current situation on market leads management to decision that company will focus on sortiment with high profit margin potential which will be supported by cost cutting measures in production proces. Company management is strongly convinced that prices have to be kept on competitive level. For this reason the company is going to close subsidiary in Olomouc.

The decision of setting a new subsidiary in Olomouc is by company management evaluated very positively. This evaluation is supported by low initial capital on subsidiary and succesful marketing in new region which caused that in four months subsidiary generated sales equal to its purchase costs. Subsidiary helped company to generate cash in difficult times when positive cash flow was required due to bank loan repayments, but now when

strategy changed and sales in subsidiary do not offer high profit margin potential (it is impossible to increase prices due to strong competition) and due to that subsidiary will be closed.

#### **4.5 Change in active debts policy**

An enterprise should shorten the billing cycle, because there are bound funds. Any extension of the cycle worsens the solvency of the company and vice versa, reducing it improves. Enterprise can work with more equity. The Client is seeking to extend the deadline for payment of the supplier inputs and vice versa when the contractor is trying to shorten this period. Company may become insolvent due to overdue receivables.<sup>16</sup>

##### **4.5.1 Payment morale statistics**

The negative impact of economic crisis on the financial situation of enterprises is undeniable. Immediately it is reflected in the reduction of production, suspension of payments and debt growth. As is clear from the survey recently made by the Economic Chamber of the Czech Republic (February 24, 2009) over 75% of firms confirmed that their customers pay later than had been agreed.<sup>17</sup>

From survey also emerged that only 24.8 percent of companies do not have problems with the payment of its liabilities or debts, for nearly 30 percent of companies debts represent thousands crowns, more than half of companies (54.1%) debts represent a hundred thousand crowns and every tenth company (11.9 percent) stated a million volumes debts. Almost every second company (47.6 percent) pay their invoices late, or requesting a postponement of payment because of financial difficulties caused by the impact of economic crisis.

Where do Economic Chamber see sollution to current situation? Its president Petr Kuzel said: "It is for us displeasing surprise that the payment morale worsened so, and also shows that many firms today face a real existential problems caused by a dramatic drop in output and

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<sup>16</sup> Zuzák, Roman . "Řízení cash flow a nákladů." In *Krizové řízení podniku* . Praha: Professional publishing, 2004. 92.

<sup>17</sup> "Hospodářská krize a pokles zakázek zhoršují finanční situaci podniků, roste počet odkladů a prodlení při platbách faktů." Hospodářská komora České Republiky. [www.komora.cz/zpravodajstvi-a-media/aktuality-4/vsechny-aktuality/hospodarska-krize-a-pokles-zakazek-zhorsuji-financni-situaci-podniku-roste-pocet-odkladu-a-prodleni-pri-platbach-faktur.aspx](http://www.komora.cz/zpravodajstvi-a-media/aktuality-4/vsechny-aktuality/hospodarska-krize-a-pokles-zakazek-zhorsuji-financni-situaci-podniku-roste-pocet-odkladu-a-prodleni-pri-platbach-faktur.aspx) (accessed January 21, 2010).

The current period of financial and economic crisis, in relation to particular borrowers, is characterized by sharp deterioration in their financial situation. Secondary insolvency of the companies that cannot meet its commitments is becoming more commonplace. Many borrowers are due to crisis significantly faster close to the border of insolvency, compared to the period before the crisis. In light of the negative long-term forecasts of further development of the crisis, some entrepreneurs decided to stop doing business and announce liquidation. This is evident the most on construction companies.

#### **4.5.2 New payment terms policy**

Because unpaid debts from business connections caused company serious problems TAXUS s.r.o. decided for new active debts policy. Company applied very strict and simple policy. Application of this policy was possible also thanks to radical change in customers scale when company focused on small local carpentries and stopped supplies to large foreign companies. This policy meant that all payments from customers were required in cash, invoices were payable immediately. Invoices with longer due to date are still provided only to the stable and proven customers. This policy might bring some loss of customers on the other hand, the company got rid of the unavailable debts after the due date. This step is by company management viewed very positively. Certainty obtained in this step for the company has much greater significance than the decline in customer numbers.

#### **4.6 Stopped investment spending**

Growth is one of the manifestations of normal business activity. Most companies tend to increase their wealth and scope of their activities. Investing in new technologies and the expansion of production. Investment expenditure is very uncertain in terms of future business activity. Each investment can become a trap for the company's insolvency and may cause an acute crisis.<sup>18</sup>

Due to a sharp drop in sales the company had stopped all capital expenditures that were planned in the pursuit of positive cash flow. Before the crisis, the company planned to buy

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<sup>18</sup> Zuzák, Roman . "Řízení cash flow a nákladů." In *Krizové řízení podniku* . Praha: Professional publishing, 2004. 94.



own truck transport, which would reduce the cost of selling timber to the branch. Further planned investment was the acquisition of front loaders which would simplify and speed up the handling with round timber. Also purchase a new forklift truck was part of investment plans. A crisis, however, did not allow to carry out these investment projects. Rather than purchase a new forklift company conducted an overhaul of the old one. Instead of buying own truck company decided to use contract transportation.

## 5 SWOT ANALYSIS OF TAXUS S.R.O.

The core of this method is to evaluate the various factors which are somehow important for the business. These are divided into four groups, ie. factors which express a strong and weaknesses and factors which reflect the opportunities and threats of the organization. Analysis of interactions between factors of strengths and weaknesses of the organization on the one hand against the threats and opportunities on the other hand, gives us the complex information about the company.

Analyzing the various components of SWOT analysis, we get good information about the organization how are the weaknesses and whether were in crisis significant. Then it is necessary to minimize weaknesses that have a bad influence in the crisis as much as possible on the other hand it is necessary to use the strengths of the company to survive financial crisis with the least damage and the minimum impact. At the same time we need in the times of crisis to care about potential threats to our company, but in times of crisis is a problem mainly due to the total collapse of the market and lack of funds in the company. Of course most of the opportunities of the company is develop or face a problem in some way.<sup>19</sup> In this case, the SWOT analysis is generally applied to the company as a whole.

### Strenghts

- convenient location
- quality production
- advanced cutting technology
- kiln dryers capacity
- long tradition
- premium service
- long experience
- wide range of production
- flexible manufacturing
- vast store
- competitive prices of products
- stable customers
- good relation with suppliers

**Weaknesses**

- opening hours
- marketing
- payment terms
- HR
- websites
- product portfolio, assortment

**Opportunities**

- extend the range of (exotic woods)
- extension of opening hours
- associated production of firewood
- the single currency
- streamlining production
- hunger for wood
- building boom

**Threats**

- growing competition
- expensive timber
- state monopoly on the timber market
- corruption
- change in trend
- increasing crown
- growth in input prices
- changes in legislation
- loss of reputation
- liquidation sales of timber
- lumber imports from Eastern Europe
- crisis in construction sector

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<sup>19</sup> Vejdělek, Jiří . *Jak zlepšit podnikové plánování*. Praha: Grada, 1999.

Among the strengths of the company belong its location. The company is located close to the town Frýdek-Místek, the company is perfectly accessible, located near the express road no.56, this is the main thoroughfare from Ostrava, Frydek Mistek over to Frýdlant nad Ostravicí and further to Slovakia. The advantage is proximity to the Slovakian border when the firm is easily accessible for Slovak customer. Due to euro currency in Slovakia it is often cheaper to buy in CZK. This location is very convenient also for the seasonal sale of firewood, when the area is a popular recreation area.

The company is based on a very high quality wood. Very important parameters are the cutting accuracy and good drying. The strength of the company is that it can offer customers the quality of which competition often neglected due to cost reductions. This is particularly true in the drying process when the competition often speeds the drying process and this later became evident by cracking timber. The strength of the company is that customers are accustomed to this high quality and prefer to pay more for quality workmanship than to risk their material defects of badly treated lumber.

In 2005 the company purchased a new band-saw ARTIGLIO. This technology dramatically reduced the cost cutting and increased production capacity of the company. This technology also contributed to the quality of sawing. Along with the economic importance of new technologies this investment also simplified and streamlined work and further improved dust and noise conditions in operation. New technology has also reduced demand on number staff. This technology is one of the main competitive advantages because the company is one of the two companies in the region possessing such technology.

Large warehouse and a wide assortment of timber belongs among company's strengths. The company offers both hard and soft wood in the most common sizes and grades of construction lumber to furniture production. Large warehouse allows company to hold high stocks of all the assortment which means the possibility of immediate delivery and large quantities of dried lumber. This is another of the competitive advantages of the company. Minor sawmill enterprises in the vicinity are either focused on a narrow range of timber or, conversely, have a wide selection of wood kinds but are lagging vast stores.

Thanks to new technology the company can keep the price of timber at low levels with quite a decent profit on a cubic meter. Prices are not the best on the market but still belongs to the lower on the market and attract customers. The company is determined to continue in moderate pricing and refuse to participate in price wars.

Among the weaknesses of the firm are especially opening hours, poor promotion and marketing and human resources. The company has office hours from 7 am to 3 pm. The company is aware that by this loses potential customers. Currently the company is not considering extending opening hours and also because this change would require additional staff which is not acceptable for the company in the times of crisis. The company is aware that it doesn't use modern methods of promotion and at this time the company is considering the best ways to touch potential customers in the region. The company has a very poor website which certainly does not help the market position. The company is aware of the strict payment terms that applies, and realizes that this behavior might discourage a particular customer group. Cash payments are for the company a safe bet that the company does not intend to give up. In time of crisis, the company believes the saying "Cash is King".

Other weaknesses of the company is human resources management. The company can not effectively use human resources. In manufacturing, there is downtime, and work is poorly organized. Assignment of staff is low, and morale is rated poorly. These problems result from poor control and the unstable system of remuneration. Control over the personnel are performing the owners themselves. Because they are often on the road control is not always sufficient. In the past, this problem was solved by an employee who has been progressively reviewed and oversaw the work. Due to the uncertain future the company plans to ride out the crisis by dismissal of employees, suspension of production and sale of warehouse stocks. Due to that the problem is temporary and HR issue will rise up again with resuming production in future.

Among the greatest opportunities for the company we count the continued boom in construction, which is directly connected to sawmill production. Another opportunity is to widen the range of exotic woods, which recently recorded a boom. In times of crisis, these exotic plants that are more expensive than conventional trees experienced a drop in demand. the trade in exotic timber remains an interesting opportunity where the company could capitalize on its contacts in the industry. The continuing trend towards the use of wood and a hunger for wood would be an opportunity for the company. As an opportunity to perceive the company can also buy cheap timber from Eastern Europe and reorient themselves in a position of wood trader.

Business Risks include the rapid growth of competition. This is due to low intensity on entry into the industry. Another very important threat is the state's monopoly on the supply

of logs. This arrangement on the market very negatively affect the price of roundwood. Roundwood is overpriced and for small customer poorly accessible because of non-transparent selection procedures. Also, inflow of cheap timber from abroad, mainly from Eastern Europe is a major threat for the company. Sawmill production located in these countries has a much lower cost of production inputs (human resources, raw materials, energy) and the final prices cannot be competed.

## CONCLUSION

Sawmill Taxus s.r.o. was significantly influenced by the global crisis. Just before the crisis company faced the drop of foreign demand. In this period export represented over 60% of production. This drop was caused by strong Czech currency and cheap Chinese production. Because of that company changed customer's portfolio and focused more on the local market.

Behaviour of customers during the global crisis changed a lot. Simon Hermann says that the general trends in customers behaviour during period of global crisis are these: Fear of Future, Unfavourable change in price Elasticity, Compressed time preference, Problems with financing, Stress on safety.

We can observe the same on customers of Taxus s.r.o.. Customers stopped buying material on store because of unsure future. Outstanding receivables overdue became a serious problem. Lack of money changed customers' preferences and cheap wood became more popular. Some customers replaced wood by cheaper alternatives. The company also faced strong pressure from customers on prices. Customers placed great emphasis on quality in order to avoid waste of material.

Drop of revenues by 30% caused that the company faced the challenge of survival itself. Company management realized that only cost cutting is not sufficient enough in such an extreme situation. Anti-crisis measures taken by the company covered all the three profit drivers according to Peter Drucker. The profit drivers are price, sales volume and costs.

The company introduced these anti-crisis measures: purchase of new cutting technology, new subsidiary, reduction of employees, change in timber assortment, focus on local market, radical change on payment terms and stop of investment spending.

In general all the anti-crisis measures were by the company management evaluated as successful and helped them survive the crisis. Immediate respond to crisis in form of anti-crisis measures is concerned to be the most important feature. Company management admits that survival of company during the global crisis was also matter of chance. If crisis had appeared a year earlier company would have got into a serious problem with paying back the bank loan. Good timing and responsible cash flow policy in times before the crisis appeared played the very important role in surviving the crisis.

Internal swot analysis has shown company's strengths. Crucial strengths are location, quality, technology, service, vast store, flexible manufacturing and wide range of production. Weaknesses revealed from the swot analysis are opening hours, HR, low

marketing and payment terms. Opportunities based on external origin are: exotic wood trade, firewood production, building boom, unified currency and revived demand. Company fears these threats the most: growing competition, expensive timber, state monopoly on timber market, corruption in state tenders, change in trend, increasing Czech crown, changes in legislation, loss of reputation, foreign capital, liquidation sales of lumber, lumber imported from Eastern Europe, crisis in construction sector.

Matching the results of internal and external analysis we can see possibilities for company's further development. One of them is to participate on wood trade. Trade with cheap wood from Eastern Europe seems reasonable. Company would use its strength of vast stores and turn the threat of cheap lumber from Eastern Europe into opportunity of cheap input. Company has stable customers and lower input prices would boost the profit. Although we cannot say that the crisis is now behind us, we can say that so far the company has withstood the test of the crisis. **Anti-crisis measures taken by the company were successful and helped the company survive the crisis.**



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