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Table of Contents

Mariam ABDOVÁ

Sources of Renewable Energy Available in India8

Barbara BIZOŇ

Ethical Aspects of Neuromarketing 14

Jaroslava BUČKOVÁ

The Competency Profile of Manager in the Knowledge 22

Peter CSÉRI

Euromarketing and the Current Demographic Situation in the European Union..... 33

Karel ČERVENÝ

Creative Class – the Elite of Today´s World 44

Andrej ČIKEL

Trends in Supply Chain Relationships in Automotive Industry after the Global
Economic and Financial Crisis 52

Pavína DALÍKOVÁ – Marie DUSPIVOVÁ

Process of Human Resource Management in Small and Medium-Sized Enterpri-
ses 61

Lenka DROBCOVÁ

Logistics Performance and Its Changes during Present Global Financial and Eco-
nomic Crisis 71

Šárka FINDOVÁ – Josef KOŠTÁLEK

Elimination of Production Losses 81

Gabriel GRÖBER

IBC 2013, RAI Center, Amsterdam – Marketing Management and Social Aspects
in Actual Innovation Process of Electronic Media 88

Petra GUNDOVÁ

Financial Analysis in the Context of Increasing Competitiveness 93

Lilla HARGITAI

Innovative Marketing for Small and Middle Size Enterprises 100

Lukáš HARVÁNEK

Chinese Economy Expansion and Its Energy Policy Implications in the Era of
Global Financial Crisis 106

Tatiana HLUŠKOVÁ

Cross-Border Cooperation and Alliances (the Example of the Kysuce Region) 117

Veronika HRDLIČKOVÁ New Trends in Retail Marketing	124
Anna HRNČIAROVÁ TURČIAKOVÁ The Phenomenon of Private Labels	133
Andrea JINDROVÁ – Ludmila DÖMEOVÁ Quality of the Rural Tourism Services in the Czech Republic	141
Martin JUREK The Determinants of Venture Capital and Private Equity as a Tool to Improve Economy´s Competitiveness	148
Šárka KLIČKOVÁ The Innovative Marketing of Starbucks and its Appeal on Young Consumer in the European Union	164
Pavel KNOTEK Trade and Capital Imbalances in EMU – Implications for Banking System	178
Josef KOŠŤÁLEK Modern Trends in Logistics	193
Michaela KRESCANKOVÁ Seniors´ Shopping Decisions and Their Satisfaction with Retail Stores	200
Jana KUBIKOVA The Benefits of Using CRM in the Tourism Industry	213
Olga KUBOVÁ Economic Control in Management of Spa Enterprise	220
Igor KUKLIŠ The Current Croatian Economy and Tourism	230
Klaudia LINDTNEROVÁ Promoting the Growth and Competitiveness of the African Agribusiness and Agro-Industry	241
Eva LITAVCOVÁ – Sylvia JENČOVÁ Analytical View of the International Movement of Manpower in Slovakia	250
Monika MAJERNÍKOVÁ Models of Financial Crises and the Position of Securitization as a Part of the Third Generation of the Models of Crises in the Current Global Financial Crisis	262
Miroslava MAKAROVÁ Perspectives of Obtaining External Corporate Financing in the EU and Sources of Trade Finance	270

Hana MATOUŠKOVÁ – Karel LACINA

Services and Tourism Industry in Global Environment 277

Sebastian MEITZ

Lotteries Performance in Times of Financial Crisis 284

Ota MELCHER

The Drivers of the Effective Exchange Rate Appreciation before and after the
Crisis – the Case of the Czech Crown 289

Ingrid MELICHEROVÁ – Beáta BEDNÁROVÁ

Management of Receivables in Content of Increasing Company Competitiveness.... 302

Martina MUCHOVÁ

The Process Approach as a Quality Management Principle 311

Katarzyna NEGACZ – Anna PARA

Innovativeness of Polish Tourism Companies 321

Romana OLEXOVÁ

Services and Social Media : Methodology of Evaluating Slovak Market Subjects
in the Services Area from the View Point of Social Media Utilization 333

Ľubica ONDRAŠIKOVÁ

EuroVelo Network – Cycle Tourism Destination in Europe 338

Barbora PAHOLKOVÁ – Peter PAJONK

Marketing of Technological News in the Field of Robotics 350

Peter PALKO – Marta ŠILHÁROVÁ

Significance of SEO in Marketing Strategy 358

Alexander PECHERSKY

Multiculturalism in Management of Foreign Companies 366

Klaudia PLAŽYK

Woman – a Significant Player on the Luxury Product Market? Women´s Attitude
Toward Luxury Products and Brands 371

Zuzana SILNÁ

Theory and Practice of the EU Anti-dumping Policy on the Example of a Specific
Case 381

Jana SITÁŠOVÁ

The Role of Salesforce in the Era of Electronic Commerce 390

Gabriela SOPKOVÁ

Four Asian Tigers – Yesterday and Nowadays 397

Mária ŠÁŠIKOVÁ

Exploration of the Importance of Lovemarks Concept among Slovak and Czech Customers – Results of Survey 403

Marta ŠILHÁROVÁ – Peter PALKO

Advantages of Applying Modern Marketing Methods 413

Lenka ŠIMOROVÁ

Building Corporate Design in Slovak Automotive Industry – Example of Kia Motors Corporation 419

Simona ŠKORVAGOVÁ

Environmental Sustainability as a Source of Competitive Advantage : Implications for Marketing Strategy 431

Marian TOMAN

The Aspects of Use of Geographic Information System GIS as an Innovative Form of Marketing 440

Peter ZÁMEČNÍK

The Significance of E-Commerce as a Distribution Channel in the Area of B2C 449

Sources of Renewable Energy Available in India

Mariam Abdová¹

Abstract

India has abundant resources of renewable energy, and it has one of the largest programs in the world for developing renewable energy products and systems. In fact, it is the only country in the world with an exclusive ministry for renewable energy development, the Ministry of New and Renewable Energy (MNRE). Since its formation, the Ministry has launched one of the world's largest and most ambitious programs on renewable energy. This paper analyses the potential of usage of renewable energy sources available in India. Its significant untapped renewable energy resources can play a main role as an important contributor to alleviating power shortages.

Key words

Renewable energy, solar energy, hydro power, wind energy, biomass energy

JEL Classification: F43, O13, Q29, Q42

Introduction

India is currently one of the fastest growing emerging economies of the world. Rapid economic growth is necessarily accompanied by increased energy consumption in all sectors of the economy and thus there is a need for additional power. India is one of the fastest growing countries in terms of energy consumption. Currently, it is the fifth largest consumer in the world, and by 2030 it should move up to the third place. The future energy use in India therefore has important implications – at the national level in terms of environmental impacts of energy use and at the global level in terms of geopolitics of energy supply and greenhouse gas emissions related to the combustion of fossil fuels.

Today, India belongs to large consumers of fossil fuel such as coal, crude oil etc. The rapid increase in use of non-renewable energies has created problems of demand and supply. The country has had a negative energy balance for decades, which has resulted in the need to purchase energy from outside the country to fulfill the energy needs of the entire country.

The source diversification strategy strong relies on deploying energy from renewable sources that are attractive due to their abundant supply and non-polluting nature. Based on various promotional efforts put in place by the Ministry of New and Renewable Energy, significant progress is being made in power generation from renewable energy sources. Thanks to its location and geography, India enjoys abundant potential to all of the renewable energies. The country is blessed with an abundance of sunlight, water and biomass. India has the world's largest programme for renewable energy.

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Renewable energy plays an important role not only in terms of India's plan to add new capacity but also to increase energy security, address environmental concerns, and lead the massive market for renewable energy. Author presents topic and aims of the paper.

1 Solar energy

As India is located between the Tropic of Cancer and the Equator, its average annual temperature ranges from 25 °C to 27.5 °C. The amount of solar energy received by India in only few minutes is more than it can consume in a whole year. India is located in the solar belt of the world which makes India to be one of the richest countries in terms of clean and natural solar potential. The sunniest parts are situated in the south-east coast, from Calcutta to Madras.

Solar energy can be used as a solar heating and as a solar electricity. The advantage of solar power plant is option for electrification also in areas situated in disadvantageous locations where other resources are neither available nor exploitable. Application of solar energy in India is done through photovoltaic cells placed on the rooftop of houses or commercial buildings, and collectors such as mirrors or parabolic dishes that can move and track the sun throughout the day are also used.

Photovoltaic cells have a low efficiency factor, yet power generation systems using photovoltaic materials have the advantage of having no moving parts. Photovoltaic cells find applications in individual home rooftop systems, community street lights, community water pumping, and areas where the terrain makes it difficult to access the power grid. As more cells can be added to homes and businesses, rooftop power energy supplies energy to a growing community. The efficiency of solar photovoltaic cells with single crystal silicon is about 13 % - 17 %. High efficiency cells with concentrators are being manufactured which can operate with low sunlight intensities.

Advantages of solar energy systems in India:Text of the paper, methodology, research results:

- long lasting energy sources with possibility to be used in remote areas where it is too expensive to extend the electricity power grid
- cost effective solutions to energy problems in places with no mains electricity
- silent and non-polluting
- no moving parts mean requirement of little maintenance during lifespan and long lifetime
- no need of large scale installations
- solar energy is infinite source of energy

India has an expanding solar energy sector consisting of 9 solar cell manufactures, 22 photovoltaic module manufactures, and 50 photovoltaic systems manufacturers. Therefore, technology resources exist in country and a growing market would lead to job growth in country. (Meisen, 2006)

Most recently, India has unveiled plans to build an "ultra mega" 4 GW solar power plant. This huge project is the first project of this scale anywhere in the world. The plant's proposed capacity is around three times India's current total solar power pro-

duction. According to reports, the Ministry of New and Renewable Energy has outlined a plan to produce large amounts of solar power in the desert regions in the next ten years.

Solar power should not be mistaken for a cure-all. However, it is a valuable technology and increasingly competitive with traditional energy sources. Moreover, its advantages are undeniable.

2 Hydro power

Hydro power is a renewable energy resource and it refers to the energy produced from water. Water evaporates from the Earth's surface, forms clouds, precipitates back to earth, and flows toward the ocean. The movement of water as it flows downstream and the force of falling water is used to run water turbines to generate energy.

A hydroelectric power plant consists of a high dam that is built across a large river to create a reservoir, and a station where the process of energy conversion to electricity takes place. The first step in the generation of energy in a hydropower plant is the collection of run-off of seasonal rain and snow in lakes, streams and rivers, during the hydrological cycle. Consequently, rainfall can be a good indicator to investors looking for a location to implement or build a new hydroelectric power plant in India.

The dominant annual rainfall is located on the north-eastern part of India: Arunachal Pradesh, Assam, Nagaland, Manipur and Mizoram, and also on the west coast between Mumbai (Bombay) and Mahe.

India utilizes twelve primary hydroelectric power plants: Bihar (3), Punjab, Uttaranchal, Karnataka, Uttar Pradesh, Sikkim, Jammu & Kashmir, Gujarat, and Andhra Pradesh (2). (Meisen, 2006)

Taking into consideration the annual rainfall of Bangalore in the central south, most of the rainfall occurs from May to November. Good water management and storage allows for continuous electrical generation throughout the year.

Advantages of hydro power in India:

- once a dam is built, electricity can be produced at a constant rate,
- contribution to the generation of electricity for many years,
- no green house gases, no pollution,
- quick start up and shut down mean vital flexibility in responding to wide fluctuations in demand across seasons and at different times of the day,
- less than 25 MW is in the small hydro designation,
- potential of about 15.000 MW of small hydro power projects,
- aggregate capacity of 14.305,47 MW for projects up to 25 MW capacity,
- 5.415 potential sites have been identified,
- mature and reliable technology,
- two types of technology used: high-head and low-head systems.

3 Wind energy

India today ranks fifth amongst the wind-energy-producing countries of the world after USA, China, Germany and Spain. Wind energy dominates India's renewable energy industry, accounting for 70 % of installed potential. (Sargsyan, Bhatia, Banerjee, Raghunathan, Soni, 2010) Its estimated potential is around 49.130 MW at 50 m above ground level and 102.788 MW at 80 m above ground level.

The ten machines near Okha in the province of Gujarat were some of the first wind turbines installed in India. These 15-meter Vestas wind turbines overlook the Arabian Sea.

A wind turbine is a rotating machine which converts the wind kinetic energy into mechanical energy. An area where a number of wind electric generators are installed is known as a wind farm. There are also limitations concerning a wind farm. Wind machines must be located where strong, dependable winds are available most of the time. As energy from wind machines is considered intermittent, utility companies can use it for only part of their total energy needs and electricity from wind farms must have a back-up supply from another source.

The essential requirements for establishment of a wind farm for optimal exploitation of the wind are the following:

- high wind resource at particular site
- adequate land availability
- suitable terrain and good soil condition
- maintenance access to site
- suitable power grid nearby
- techno-economic selection of specific turbines
- scientifically prepared layout.

Advantages of wind power in India:

- one of the most environment friendly, clean and safe energy resources
- the lowest gestation period as compared to conventional energy
- equipment erection and commissioning involve only a few months
- no fuel consumption, hence low operating costs
- low maintenance costs
- the capital cost comparable with conventional power plants - between 4.5 crores to 5.5 crores, depending on the site and the wind electric generator selected for installation.

Wind energy technology is currently making a significant contribution to the electric power generation in India. In today's world, where a greener source of energy is the need of the hour, wind energy is a promising resource, waiting to be harnessed to its true potential. The development of offshore wind farms, which have both a better energy density and lesser interference with the local systems, is a definite step forward in realisation of the wind potential.

4 Biomass energy

Biomass has always been an important energy source for the country considering the benefits it offers. It includes solid biomass, biogas, liquid biofuels, and municipal waste. Biomass may be used in a number of ways to produce energy. The most common methods are combustion, gasification, fermentation, anaerobic digestion.

India is very rich in biomass. It has a huge potential of 19.500 MW (3.500 MW from bagassebased cogeneration and 16.000 MW from surplus biomass). Currently, India has 537 MW commissioned and 536 MW under construction. The facts reinforce the idea of a commitment by India to develop these resources of power production.

Biomass fuels are mostly used in rural households for cooking and water heating, as well as by traditional and artisan industries. To states with potential for biomass production belong Andhra Pradesh (200 MW), Bihar (200 MW), Gujarat (200 MW), Karnataka (300 MW), Maharashtra (1 000 MW), Punjab (150 MW), Tamil Nadu (350 MW), Uttar Pradesh (1 000 MW). (Meisen, 2006)

The current availability of biomass in India is estimated at about 500 millions metric tones per year. Studies sponsored by the Ministry of New and Renewable Energy has estimated surplus biomass availability at about 120 – 150 million metric tones per annum covering agricultural and forestry residues corresponding to a potential of about 18,000 MW. This apart, about 5000 MW additional power could be generated through bagasse based cogeneration in the country's 550 sugar mills, if these sugar mills were to adopt technically and economically optimal levels of cogeneration for extracting power from the bagasse produced by them. (Ministry Of New And Renewable Energy of India, 2013)

About 32 % of the total primary energy use in the country is still derived from biomass and more than 70 % of the country's population depends upon it for its energy needs. Most biomass energy in India is derived from owned sources like farm trees or cattle, or is collected by households from common property lands. The biomass energy consumption is primarily limited to meet cooking needs of households and traditional industries and services in rural areas.

In India, the development of the biomass industry has been unfortunately limited to only a few states, such as Andhra Pradesh and Tamil Nadu. Significant potential exists also in other areas, such as in economically underdeveloped states like Uttar Pradesh for developing biomass that is a win-win strategy, as it can both reduce the electricity shortage and provide farmers with reliable additional sources of income.

Conclusion

Growth in net electricity consumption is expected to be most rapid among the emerging economies of the world, including India. The projected growth in net electricity consumption for emerging market economies is driven in large part by gross domestic product and population growth assumption.

Increasing gross domestic product of India is driving the demand for additional electrical energy. It is one of the countries most involved in developing the use of re-

newable energies. India has vast resources of renewable energy in solar, small hydro, wind and biomass that can contribute significantly to the country's growing energy demand and the need to strengthen India's energy security. The deployment of renewable energy, products, and services in India is driven by the need to decrease dependence on energy imports, to sustain accelerated development of renewable energy system and devices, to expand cost-effective energy supply, to provide normative consumption levels to all section of the population across the country, and to switch fuels through new and renewable energy system.

In this paper, potential of India in terms of usage of renewable energy sources is reviewed. To the key drivers for renewable energy use belong: the demand-supply gap, a large untapped potential, concern for the environment, pressure on high-emission industry sectors from their shareholders, and a viable solution for rural electrification.

Countries all over the world have recognised the economic, social, and environmental benefits of renewable energy and are enacting tax incentives and other policy measures favourable to renewable technologies. India, as the only country in the world, has the ministry dedicated to the development of renewable energies, the Ministry of New and Renewable Energy. The Ministry is responsible for renewable energy technologies promotion, their research and development, and is focused on nation-wide resource assessment, setting up of commercial projects, renovation and modernisation.

Based on the analysis of the country's potential in terms of renewable resources, it would be appropriate for India to focus all efforts and investments to accelerate the introduction of these sustainable energy sources.

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Ethical Aspects of Neuromarketing

Barbara Bizoń¹

Abstract

Nowadays it is difficult to escape from brands which dominated the market and have become the part of people's awareness. Universal consumerism makes corporations create new sales techniques which are supposed to convince more and more consumers to purchase their goods and services. Marketers wish they discovered what determine the decision making process. Neuromarketing create possibility to answering this question. Innovative marketing uses techniques which have never been used before besides medical purpose. This innovative approach poses many questions connected with ethical aspects of using those techniques.

Key words

Neuromarketing, innovative marketing, consumer, brain, brand

JEL Classification: M31

Introduction

For thousands of years the human nature has been a subject of interest to many researchers from different scientific disciplines, such as philosophy, psychology, and medicine. So far, there has been no success in finding a specific answer to questions about how we learn about the world and make decisions. We perceive the surrounding world in a very subjective way, because the stimuli received by our senses create an image that does not exist, objectively, in the brain. Sensory experiences are very subjective in all cases, such as sense of smell, taste, touch, hearing and vision. They create so-called „states” in the brain that are characterized by individuality. Scientists still think of the brain as a mystery that is yet to be solved. It is well known that one in 10 million neural connections in the brain connects it with the outside world, whereas in the organ exist about 100 billion internal connections. Things from the environment that reach our brain are only a small percent of the signals received from other areas. Understanding the relationship between the states of the brain and the inner world determining the decision making is a difficult task. The decision making process is extremely difficult to learn because there is no way to see how it really works. The winning process dominates the other alternatives making them unnoticeable. Nowadays, the means allowing snooping into how the brain works are pretty primitive, however they are the most reliable methods of cognition.

Making decisions means thousands of simultaneous reactions. Researchers try to discover how the brain works, and thus determine the factors working behind decision-making. The field of this research also attracts the attention of business people whose

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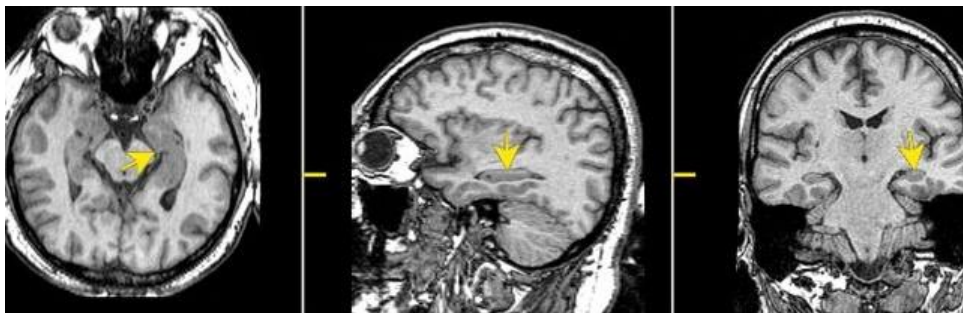
aim is completely different – focused on manipulating people. Medicine gave purpose to neuromarketing, which now is part of innovative marketing.

This study will try to explain the development of neuromarketing. I will discuss the methods of brain research, then present the motives of action of scientists and marketers. In the final section I will present the ethical aspects of neuromarketing research.

1 The origins of neuromarketing

The very first experiment conducted with the use of magnetic resonance imaging was carried out on behalf of the Coca-Cola and Pepsi companies. The medical device was adjusted to meet the criteria of research. It was supposed to find out how the brain reacts to the brand, if the brand can influence taste experience. The subjects were given drinks and at the same time shown images of a specific brand as well as drinks of an unknown brand. The brain monitoring was carried out while a subject knew the drink and while they did not. This experiment showed significant differences between those two states of mind. In a situation where the brain was unaware of the drink's brand it stimulated the brain's area of taste. When it knew the brand it stimulated the area of memory. The experiment showed the superiority of brand over taste. It shows how deeply it is embedded in the brain, although the answer to why it happens this way was not found. The area responsible for this is the hippocampus (Graph. 1).

Fig. 1 Hippocampus



Source: <http://normartmark.blox.pl/html/1310721,262146,169.html?4>

Neuromarketing is very difficult to define. It combines psychology and unique research methods for neuroscience. Its creator is professor Gerry Zaltman. Neuromarketing uses measuring tools from psychophysiological research and knowledge about human behaviour in the process of optimization of marketing stimuli. In other words, a consumer makes his or her decision unknowingly and then rationally justifies it. This decision is made emotionally, not rationally. The knowledge and familiarity with the stimuli helps the individual in the decision process, since they can more accurately estimate the results.. Another definition says neuromarketing is a science about how

people use their brains to make decisions; a science which uses new utilities to see what happens in consumers' heads. The innovation is the use of tools previously used only for medical purposes. The term "new utilities" means the use of devices in a different discipline, creating a new field of science which is neuromarketing. Till now marketing communications was thought an art, not a science. The majority of operational measures was random, not well-thought-out management strategy. New achievements in a field of marketing made communication a challenge that can be mastered through the use of neuromarketing techniques.

There has been a rapid development of neuromarketing since 2002; this fact confirms the constantly growing number of training companies dealing with this issue. The largest corporations such as Coca-Cola, McDonalds, Procter & Gamble, General Motors and Nestle ordered this type of practice. Research involved products and advertising campaigns. McDonalds, as a pioneer in the use of neural techniques, aimed to create a fragrance that will trigger positive stimuli and is associated only with this brand. The smell was to be "imprinted" in the brain of the consumer as well as the brand McDonalds.

The use of neurotechniques raises much controversy. Neuromarketing as a tool to know consumer response to specific stimuli should lead to improved sales techniques. The opponents of this approach say openly that it is a method leading to manipulate people. Depriving the consumer of decision-making without interfering with his subconscious.

2 Neuromarketing research tools

Traditional consumer research relating to products or adverts needs to take additional error margin into account. During a research, people responding to the questions do not always do it sincerely, giving a distorted picture of reality.

As has been presented in this paper, the decision making process takes place in the subconscious, and the consumer is usually unaware of this fact, believing that he has taken a conscious decision. In the end, a classic research methods can not predict consumer behavior. Neuromarketing is a direct examination of consumers' psychophysiological responses, thereby reducing the possibility of deliberate interference with the outcome.

The source of knowledge about the brain is medicine. It deals with the observations, invasive, and non-invasive research. The latter type of research can examine the anatomy of the brain without damaging it. These methods include ultrasound, X-ray computed tomography (CT scan) and magnetic resonance imaging (MRI). These tools provide information about the structure of the brain, not its functions.

Computed tomography is based on taking pictures in cross sections, which the computer puts in three-dimensional images. The camera x-rays the skull at multiple angles, and within five seconds creates a 3D image. Its disadvantage is that it poorly differentiates soft tissue.

Magnetic resonance is a tomography based on the measurement of magnetic resonance for the nuclei of hydrogen atoms contained in the molecules of water. Proton

in the hydrogen atom, for a moment, can absorb radio waves in a strong magnetic field, without manifesting harmful ionizing radiation. There are many variations of this technique, in different ways illustrating the distribution of tissues containing water and other molecules with a large number of hydrogen atoms in different proportions. This allows the precise measurement of anatomical structures of the brain, and in newer imaging scanners, propagation of fluid in the tissues of the brain (tensor diffusion imaging), and thus the functional connections between different areas. MRI provides a clear contrast between tissues of different types, visualizing the pathology in the brain structure.

More precise information on the functions of the brain can be achieved by direct observation of the electrical activity of the cerebral cortex using electrodes placed on its surface. This can include methods such as electrocardiography and ECoG. New techniques in optical imaging of cerebral cortex activity and multiple electrode measurements of the activity of selected neurons belong to the same category of invasive tests requiring access to the cerebral cortex.

Non-invasive observation of electrical activity using electroencephalography (EEG) and magnetoencephalography (MEG) shows only the average activation of large groups of neurons. Reactions to stimuli can be studied using event-related potentials (ERP), which requires an additional signal averaging.

For the latest non-invasive methods for indirect assessment of brain activity during work there is functional magnetic resonance imaging (fMRI), positron emission tomography (PET) and single photon emission computed tomography (SPECT).

The principle of operation of functional magnetic resonance imaging (fMRI) is based on the oxygen in hemoglobin. The brain during intense work uses oxygen carried by hemoglobin, consuming it at a rate 10 times higher than the rest of the body. After releasing the oxygen hemoglobin acquires magnetic properties. Using the techniques of magnetic resonance imaging it is possible to observe places in which oxygen is released. During this process the neurons work intensively. Visible signal depends on the oxidation state of hemoglobin in the blood and is called a BOLD signal. We do not quite understand the processes responsible for the formation of this signal. Interpretation of the results requires the participation of an interdisciplinary team. The advantage of fMRI is the exact location (1-5 mm of active areas of the brain) and the possibility to observe the activity in the time scale of a few seconds. It is possible to identify specific areas of the brain involved in processing a particular type of information.

Positron tomography utilizes the phenomenon of consuming about 25% of glucose available in the body by a working brain. Adding quickly decaying radioactive tracers (decay time from a minute to several hours) it can be tracked where the concentration of radioactive substances is and how fast it is moving. The result of radioactive decay is the formation of positrons which, when they decay, produce a signal seen with gamma cameras. It is a highly sensitive method that lets measure the level of many neurotransmitters, healing substances, narcotics and metabolic products in different regions of the brain. Different isotopes allow us to study a variety of metabolic processes. This allows testing glucose consumption during experiments on cognitive tasks.

Single photon emission computed tomography (SPECT) allows visualization of cerebral blood flow and its metabolism. In this method, the radioactive isotope is attached

ched to the carrier at the same time having an affinity to cells in the brain, the possibility of overcoming the blood-brain barrier and to accumulate in proportion to the metabolism of a given area. Detectors in a special camera connected to a computer record the emitted gamma radiation. SPECT is a related technique with similar properties to PET.

Electroencephalography examines the electrical activity of the brain. The signals are very weak - the measured electrical potentials are 5-200 mV, frequency up to 100 Hz (recently there have been attempts to take account of much higher frequencies, but it is not technically simple yet). It is used by placing one to 256 electrodes on the skull. For better contact a gel is usually applied on the electrodes. In recent years, techniques of researching subliminal reactions, generating commands by using imagination and thoughts (Brain-Computer Interfaces, BCI), and the use of EEG signals to relax are widely adhibited.

Anatomical and functional methods provide us with a lot of information, but a full understanding requires the development of mathematical models that integrate all of the known facts. A branch of science that deals with this area is called computational cognitive neuroscience. Specific models of cognitive and affective functions are created, based on the network of neurons in the brain. Neurocognitive information technology tries to simplify the models of cognitive thinking, problem solving, attention, language, behaviour control and awareness, and convert them into practical algorithms to enable artificial systems to carry out similar functions. However, we do not know most of the details of the processes taking place in the brain. there are many competing hypotheses. Despite the enormous complexity of the brain there is hope of understanding the functioning and behavior prediction based on computer models.

3 Scientists versus marketers

Conditions which neuromarketing researchers are guided by are quite different than the ones of marketers. From the researchers` point of view, they also carry this type of research to learn about the brain. What kind of incentives affects a specific reaction or decision making. There is no direct correlation between a specific area of the brain, and a complex process such as the act of purchase. Scientists have proved already that the decisions are not made rationally, but emotionally. The next step is its justification. Scientists investigate what kind of stimuli stimulates certain brain areas, also how it affects the accompanying emotions. The desire to know the thought processes has been an object of interest to researchers ever since, but the current methods are not sufficient enough to know all the details. However, the possessed knowledge is good enough to be able to use it in an area such as innovative marketing. Neuromarketing often equals manipulation. For the supporters of these practices they are two separate concepts, while opponents consider them to be synonyms Neuromarketing provides knowledge which so far could not be obtained using traditional marketing research. Large corporations outsource research for companies specializing in this field to explore:

- the degree of consumer loyalty to the brand,
- how they respond to advertising campaigns run by them,

- what kind of stimuli the consumers respond to in the form of the act of purchase,
- what incentives can strengthen the company's position in the minds of consumers.

In addition, neuromarketing is seen as a tool that allows you to get rid of all the irrational factors from the sphere of marketing and above all concentrate on the scientific level only. This kind of innovative marketing promises direct access to the mind of the customer by using the techniques previously used only in medicine. This way it is possible to have an insight on how the brain responds to advertising or product packaging. This opens new possibilities of adjusting products to the needs of consumers. Manufacturers hope to learn their customers' subconscious needs and thereby increase sales of their products. It is not possible to make a consumption-oriented robot out of a human, however corporations seek to increase consumer loyalty to their brands, and even addiction to them. Neuromarketing can become a tool to influence the brain for commercial purposes.

In the world of consumption, manufacturers are willing to resort to methods that use manipulation just to increase sales of their products and to strengthen their market position. The desire to explore the mechanisms involved in the human brain's work is connected with the ability to create new sales techniques, and thus increase profits. The scientists are guided by other motives - they want to learn the principle of the decision-making process, because this knowledge is a challenge for them, and may help in treating psychoneurological illnesses.

4 Neuromarketing - ethical risks

Neuromarketing is an interdisciplinary science, which brings together the elements of psychology, marketing and neurotechnics. Teams conducting this type of research engage experts from various fields, especially medicine, psychology, computer science, marketing or robotics. Their mission is to work out obtained results of research and come up with appropriate conclusions. Large companies have high hopes for this method, that is why they spare no expenses on the development of innovative marketing. However, this practice has its moral implications. Specialists tempted to make a high salary will start jobs in private companies. The greatest loss are capable scientists from the field of medical science, because their potential will not be used in studies of new methods of treatment.

The world nowadays is based on consumption, which is also a threat to humanity. The companies having a huge networks of fast food restaurants, use different methods to strengthen their position in the market and increase sales. Mc Donald's was the first company to introduce toy kits with food for children. This practice caused that children willingly wanted to eat at this restaurant. McDonalds brand became a part of their consciousness. A study was conducted on children in France. They were given fries to assess. In both sets there were Mc Donald's fries, except that one set was not indicated with a brand whereas the other was stamped with a logo. The vast majority of children stated that the fries with a Mc Donald's logo tasted much better. This study has shown how easy it is to "imprint" a brand in the kid's brain. The same company carried out a neuromarketing research for the creation of an odor that would

be sprayed in restaurants. This fragrance was designed to be associated only with their brand and produce positive associations encouraging the purchase. Research has long shown the negative effects of an excessive use of fast food restaurants. In the era of lifestyle diseases such as obesity and diabetes, the ways of the Mc Donalds concern are not ethical. Strengthening the brand at the cost of human diseases. Neuromarketing in this context contributes indirectly to the spread of civilization diseases.

Studies on the blood flow to the reward system, which is located in the brain are designed to deprive the consumer of a choice before making a purchase. Immediate reactions are a major topic of interest in neuromarketing because such reactions can be easily controlled. These practices are on the verge of manipulation because the product that is being offered to the consumer does not change whatsoever; the only thing that changes is the approach to the customer.

Consumer associations strongly oppose neuromarketing. Their position on this issue clearly emphasizes that these practices are not ethical, contradict the efforts of corporate social responsibility. Treating the consumer as a shopping robot shows a lack of moral principles in business. People have a right to independence, and such actions are an attack on their freedom to make choices. Manufacturers would love to find a solution with the help of neuromarketing on how to design a Pavlovian reflex associated with purchasing. This is a very vulgar and offensive approach of the business people, focused on increasing profits.

Neuromarketing is a powerful tool to use not only in a seller-buyer relation. This method can also be used in other areas of social life. One is the election of representatives of the state. In the era of democracy, electoral campaigns run quite extensively, sometimes violently. Then the "product" becomes candidates fighting for positions in the state. Surveys of voters about the candidates are part of it. The neurotechnics can in this case be used to create a public image of the candidate. By creating an election campaign, as well as advertising videos can be loaded with relevant emotions that will be recalled during the elections. This example shows how using neuromarketing in different areas can make it a profitable item.

Conclusion

Neuromarketing and manipulation are separated by a very thin line, which sometimes is crossed and sometimes widens. Depending on the circumstances in which neurotechniques will be used they are so perceived. Unfortunately, consumers in this clash have no way of defense. It is up to the legislators to protect the consumers' interests. However, these regulations should not affect the possibility of scientific development. Neuromarketing is a taboo subject among the largest producers, in the scientific world it is an. Sumarization of benefits, generalization and final evaluation of research results and so on.

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The Competency Profile of Manager in the Knowledge

Jaroslava Bučková¹

Abstract

Knowledge has become the key resource. The most important property is now intellectual property, not physical property. And it is the hearts and minds of people, rather than traditional labour that are essential to growth and prosperity. Workers at all levels in the 21st century knowledge society will need to be lifelong learners, adapting continuously to changed opportunities, work practices, business models and forms of economic and social organisation. The aim of this paper is to highlight managerial competencies, which play an important role for the success of the organization. Competencies reveal differences between average and excellent managers.

Key words

competency, knowledge society, manager, organisation.

JEL Classification: M12

Introduction

More often an opinion occurs that the key to success in a competitive global economy becomes effective use of knowledge, skills and creativity of people - building the knowledge society. The answer to the needs of the knowledge society is the creation of new disciplines - knowledge management. It is the mutual exchange of knowledge which supports the active involvement of subjects in a knowledge society. The main actors of the knowledge society are people becoming able to create and use new knowledge effectively, deliberately and continuously. Expectations are even more sophisticated practices in human resources management, how their knowledge management process. They place increasing pressure on the competencies of managers and their managerial skills. The basis of today's prospering organization is adequate quality employment potential, i.e. a sufficient number of employees in suitable structure, but also their talent, knowledge and skills. The quality of staff, supported by its strategic approaches, attitudes, modes of behavior are essential for creating and developing strengths and competitive advantages. Organizational development expects managed forming of a corporate culture, respectively its possible changes, which can be realized for example model of core competencies, which combines three levels:

- strategic level,
- level of management and development of people,
- level of result for the customer.

This model allows specifying exactly measurable variables and thus evaluating the development of corporate culture. The necessity is to keep the clearly defined core competencies and their impact on all these levels, as well as support the whole pro-

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cess with quality internal and external communications. Key role in the strategic development of the organization represents the management competencies. Competency approach (Kubeš, 2004):

- concentrates on the behavior of managers, what they really do, not only on description, what they should do or what they say that, they do,
- highlights in the behavior what is significant and leads managers in challenging situations to achieve success, it means that follows the Pareto rule 80/20,
- is directly linked to the efficiency of not only single, but the whole department or organization.

1 Knowledge society

The emergence of the knowledge society, building on the pervasive influence of modern information and communication technologies, is bringing about a fundamental reshaping of the global economy. Its significance goes well beyond the hyping of the Internet. What is underway is a transformation of our economy and society. Knowledge has always been a factor of production, and a driver of economic and social development. Earlier economies depended, for example, on knowledge about how to farm, how to build and how to manufacture. However, the capacity to manipulate, store and transmit large quantities of information cheaply has increased at a staggering rate over recent years.

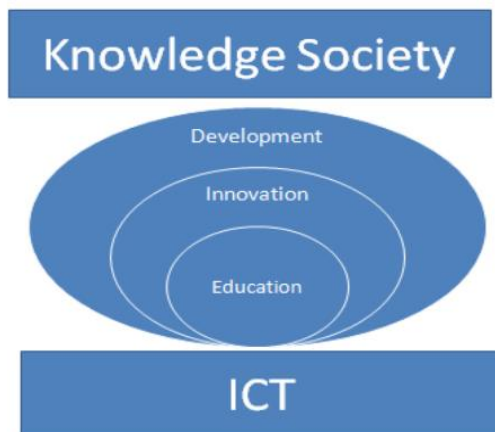
The digitisation of information and the associated pervasiveness of the Internet are facilitating a new intensity in the application of knowledge to economic activity, to the extent that it has become the predominant factor in the creation of wealth. As much as 70 to 80 percent of economic growth is now said to be due to new and better knowledge. Information and communication technologies (ICTs) are also facilitating a rapid globalisation of economic activity. In an increasingly global economy, where knowledge about how to excel competitively and information about who excels are both more readily available, the effective creation, use and dissemination of knowledge is increasingly the key to success, and thus to sustainable economic and social development that benefits us all (Ghis, 2009). Innovation, which fuels new job creation and economic growth, is quickly becoming the key factor in global competitiveness. Innovation fundamentally means coming up with new ideas about how to do things better or faster. It is about making a product or offering a service that no one had thought of before. And it is about putting new ideas to work in enterprise and having a skilled work force that can use those new ideas. It is a further feature of the knowledge economy that it increasingly relies on the diffusion and use of information and knowledge, as well as its creation.

The success of enterprises, and of national economies, becomes increasingly dependent on the information infrastructure that is necessary for the gathering and utilisation of knowledge (Ghis, 2009). The importance of broadband telecommunications infrastructure in this context must be recognised as no less significant than the importance of electricity to 20th century industrial development.

A knowledge-based society refers to the type of society that is needed to compete and succeed in the changing economic and political dynamics of the modern

world. It refers to societies that are well educated, and who therefore rely on the knowledge of their citizens to drive the innovation, entrepreneurship and dynamism of that society's economy (Ghis, 2009). Knowledge Societies are identified as societies based on the creation, dissemination and utilization of information and knowledge, how it is showed in figure 1. It is a society with an economy in which knowledge is acquired, created, disseminated and applied to enhance economic and social development.

Fig. 1 The Knowledge Society Pillars



Source: GHIS, L. M. 2009. *The Knowledge Society*. India: Aranuchala Press, 2009, p. 49. ISBN 978-8189658144.

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2 Competencies of managers

People are for achieving and maintaining long-term competitive advantages the most important factor. Pfeffer (Kubeš, 2004) in his survey showed that companies with highly motivated employees consistently achieve better results than the competition. Their motivation is the result of the way, how they are managing. Therefore quality of management affects the success or failure of an organization with the highest share. Competencies are essentially a relatively complex term and among the experts there is considerable heterogeneity in what they include in this term. Woodruff says (Kubeš, 2004) that the term competencies is used as an umbrella under which you can fit eve-

anything that can directly or indirectly related to job performance. Generally, all authors agree that competency is the ability, respectively ability to behave in a certain way. To understand the concept of competency has contributed significantly Boyatzis, because he emphasized the difference between what we do to achieve the result, and how to behave in order to achieve the result. Woodruff competence defined as: the set of behaviour of staff, which it need for its work to fulfil the required tasks competently. If the worker is competent, i.e. reaches the desired results, it means that three conditions are fulfilled:

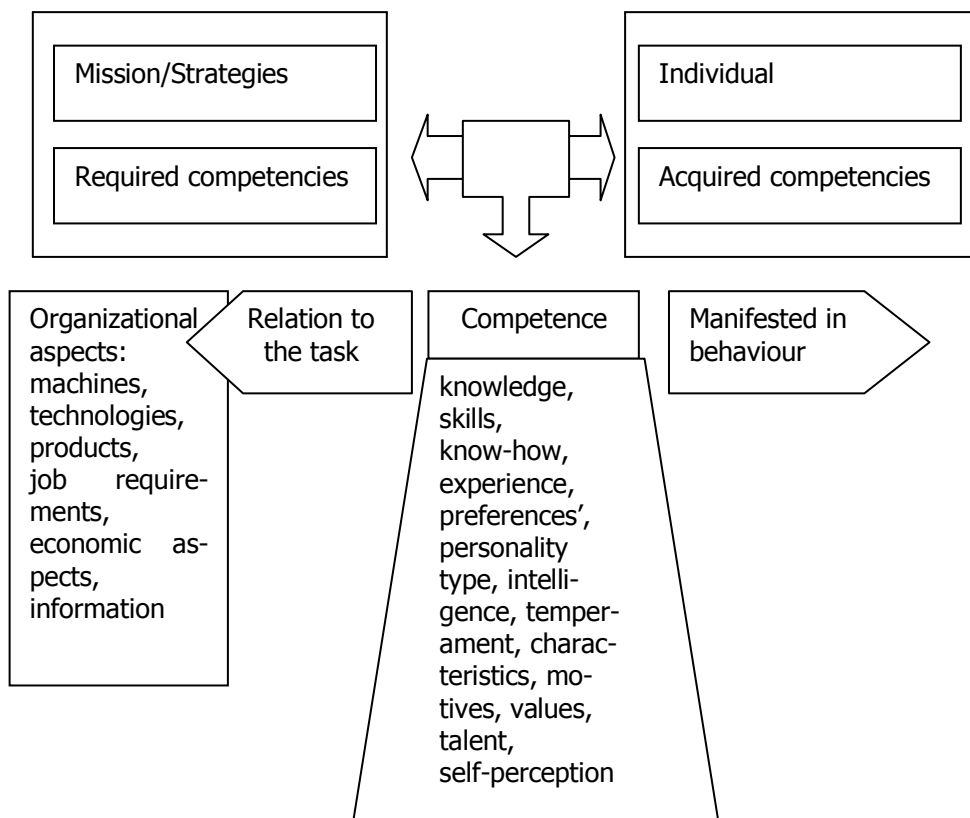
- is internally equipped with characteristics, abilities, knowledge, skills and experience, which he needs for such behavior,
- is motivated to use such behavior, i.e. he sees in this desired behavior the value,
- has the opportunity to apply desired behavior in the working environment.

All three conditions must be fulfilled simultaneously to achieve the competent manager. From a practical point of view it makes sense to talk about responsibility only in relation to a specific job, position or function. When we know, which requirements demand the position on the worker, we can identify the required competency. Then can be the level of these competencies of managers or candidates for this job measured. In the graph 1 is shown location competency in the work context. The strategic aims of the organization, the resulting mission and tasks require of employees a set of competencies, without which it is not possible to carry out the mission. Because the organizations operate in a dynamic environment, requirements for competencies (their type and level) have changed over time.

In managerial work there is no clear consensus to which skills should a manager have to do his job well. Efficiency is the manager's job is assessed by a huge number of aspects and the selection of criteria is much broader than in the work of specialists. In the evaluation of the manager work enter general criteria: customer satisfaction, shareholder satisfaction... as well as specific criteria: e.g. stocks must never exceed the norm ... There is no precise specification of who can become a manager and what education needs. In practice, there are many examples of excellent managers without formal management education and vice versa. Therefore, the authors started looking for competencies that are not tied to a specific job or task, or they would guarantee good performance in many professions and be able to differentiate above average from average workers. These competencies are referred to as generic competencies such as ability to solve problems is a typical generic skill (needed in any type of organization). This generic competence but will be in different organizations represented by different behavior, for example in the enterprise, where is the predominant customer contact will be demonstrating the ability to listen to customers, compare the views and take opinion - emphasis is placed on interpersonal skills. In the company, which deals mainly with technical issues, the focus will be primarily on analytical skills (work with facts, proposing alternative solutions, etc.).

For relationship between competencies and jobs (professions) is appropriate to use the term job competencies, respectively professional competencies. We can certainly say that key competencies are in the general and also in the professional education, therefore form the basis for the development of professional competencies.

Graph 1 The concept of competence by Harzallah and Vernadat (2002)



Source: KUBEŠ, M. a kol. 2004. *Manažerské kompetence*. Praha : Grada Publishing, 2004, p. 125. ISBN 80-247-0698-9.

The issue of competencies in relation to the performance of work activities, respectively professional competencies deals with several authors (Kazanková 2002, Kubeš, Spillerová, Kurnický 2004, Plamínek, Fišer 2005, Armstrong 2007, Hroník 2006, 2007, Koubek 2007, Barták 2008, Kocianová 2010, Bartoňková 2010, Tureckiová 2004, 2010 and others). Professional competence and its individual components interwoven can be classified according to various typologies. J. and M. Prokopenko Kubr (1996) characterize the competence of the manager as his ability to perform a specific function or set of functions and thus achieve a certain level of performance. As the basic components of management competencies are considered - knowledge, character traits, attitudes, skills, experience, technical competencies and competencies in dealing with people. Area of conduct and behavior represents all components related to work with individuals and groups, either within the organization or outside. Tureckiová M. (2004) shows the structure of managerial professional competencies of D. Katz, which is based on classification levels (lines) of management:

- technical skills,
- focus on the practical use of the skills, acquired knowledge, methods and procedures of work,
- human competencies,

- levels of skills required for working with people and working to achieve the desired results "through people" and
- conceptual ability.

It is based on understanding the organization as a whole, in understanding of its components and connections, and focus on long-term goals of the organization. This view depends on the managers' positions (top, middle, first line). The resulting profile is generated as a combination of these categories in varying proportions depending on the position. Goleman, Boyatzis and McKee analyzed more than 500 competency models of various organizations and created three general categories:

- net technical skills - accounting, business planning, budgeting,
- cognitive skills - information retrieval, analytical thinking, ways of learning,
- characteristics of emotional intelligence - self-awareness, creating and maintaining relationships.

According to these authors, 80-90% of competencies that distinguish average and above-average managers fall into field of emotional intelligence. Competencies associated with emotional intelligence are shown in table 1 (Kubeš, 2004).

Tab. 1 Competencies associated with emotional intelligence

Self-perception emotional self-perception, exact self-assessment, self-confidence.	Social-perception empathy, organizational-perception, services.
Self-management self-control, transparency, adaptability, initiative, optimism.	Relationship management inspiration, influence, development the others catalyst for change, conflict management cooperation and team achievement of aims

Source: KUBEŠ, M. a kol. 2004. *Manažérské kompetence*. Praha : Grada Publishing, 2004, p. 79. ISBN 80-247-0698-9.

2.1 Requirements for managerial competencies in 21st century

Gradually will be in all positions and hierarchical levels of companies increasingly important competencies. At the level of top management it will be strategic thinking, change management and relationship building. By other managers will be expected: greater flexibility, the ability to implement change, interpersonal skills, innovation,

taking responsibility, teamwork and readiness to work internationally. Entrepreneur of today's modern age should possess characteristics that guarantee

success such as: assertiveness, responsibility, humanity, honesty, decisiveness, flexibility, elasticity, creativity, leadership, ability to analyze, control, emergency. According the latest approaches we can divide them into three basic dimensions (Porvazník, 2001):

- Expertise (gained through the study, scientific investigation, their intelligence). It answers the question, what should entrepreneurs know.
- Practical skills (practical skills gained exercises, practice their own skill, self-awareness). It answers the question, what an entrepreneur can do.
- Social maturity (personal and personality traits acquired through education, self-education, studying and training). It answers the question, what should be an entrepreneur's attitude.

Porvazník (2001) reported in their study model (figure 2), built on the basis of these dimensions.

Fig. 2 Model approach of successful organizations

Model approach				
Owners	→	Social maturity	→	Professional ability → Practical skill
Managers	→	Professional ability	→	Social maturity → Practical skill
Staff	→	Practical skill	→	Professional ability → Social maturity

Source: PORVAZNÍK, J. 2001. Myslenie kompetentných, myslenie nekompetentných, efektívnosť versus kompetentnosť v podnikaní, trojuholník pilierov kompetentnosti. In: *Tvůrčí odkaz Tomáše Bati a současné podnikatelské metody*. Ostrava: Dům techniky, 2001, p. 429. ISBN 80-02-01424-3.

The firm to operate successfully, it should be observed that direction. Author expresses the belief that, in practice, this model can not be fulfilled completely, but its "regulatory significance has a huge impact on practice." (Porvazník, 2001) Every entrepreneur should try to at least get close to this model. Human resources development based on competencies will be used more frequently. Greater application of the competency approach to support such U.S. government programs - SCANS (Secretary's Commission on Achieving Necessary Skills) aiming to identify the necessary skills for young people to be successful graduates in the labour market. This program would be need in our country, as evidenced by the results of a survey of State Institute for Professional Education. It studied in at over 300 organizations, what features are missing our graduates. In their view, they are missing (Kubeš, 2004):

- the ability to tolerate stress and work under pressure,
- ability to communicate, liaise with partners,
- creativity (for some professions),
- empathy,

- assertiveness,
- ability to retraining related professions,
- loyalty to the employer,
- willingness to help beyond the stipulated working time,
- interpretation of the law,
- orientation in historical documents,
- the basics of psychology, ethics,
- logical thinking.

In the future, employers will focus on (Kubeš, 2004):

- known foreign languages,
- ability to use IT,
- ability to use information,
- adaptability and flexibility,
- willingness to learn,
- ability to work in a team,
- ability to make decisions,
- ability to solve problems,
- willingness to take responsibility,
- wider professional skills,
- oral and written expression,
- reading and understanding work instructions,
- interest in the job,
- coping with stressful situations.

Prokopenko realized research with the aim systematically to examine and compare the level of human resource management in Eastern and Western European companies. In conclusion, noted the alarming state of the competences of managers responsible for human resources management in eastern European companies (Kubeš, 2004). Although conditions have improved, there is still lagging domestic firms behind the Western European. One of the reasons is the fact that in the world are the practical needs of companies in the management and development of people support many research activities leading by scientific institutions, universities and management schools.

2.2 The competency model

The competency model describes a specific combination of knowledge, skills, abilities and other personality characteristics that are needed to effectively carry out the tasks in organizations. There are many types of competency models and depends on the intention of the company, what competency model arises. The creation a competency model is based on two bases (Hroník, 2007):

- Socio-psychological, which is based on the idea that the organization is composed of competent individuals who are through their skills enable achieve of the strategic objectives of the organization.
- Strategic, this is the reverse process, i.e. in the creation of Competence

- model, it is important to know the competencies of organization and on them derive individual competencies.

In describing professional competence of manager is advisable to use both approaches and link human factors with organizational context. Generally should be in the creation of a competency model utilized the following activities Kubeš (2004):

- Clarification of the objectives of the project - leads to the joint efforts of all stakeholders to work on the project targeted and consistent example. need to improve the quality of customer service and building long-term relationships with customers.
- Extent of the project and target group - based on the objectives, we identify a group of workers, which will be relating model, for example sales representatives.
- Select access - using the existing model, a modification of an existing model, creating a new a competency model. Other activities are especially important in modifying and creating new competency model.
- Creating a project team - people who will be responsible for the implementation and use of the model.
- Identification of the different levels of performance in a given position - define criteria for effective performance, we knew identify workers who serve above average, average and below-average performance.
- Data collection and analysis - pre-production model.
- Validation of a competency model - practical verification of such using 360° feedback.
- Preparation a competency model to use - implementation of a competence model to the management of human resources.

There are many approaches how to proceed in creation of a new competency model. Droppa (2012) states as one of the possible procedures for creating a new competency model using factor analysis. Problem resolution:

- Select the competencies for the job.
- Setting correlation matrices.
- Setting aggregated matrix.
- Calculation importance of balance of competencies.
- Modeling the job competencies.
- Choosing the most suitable candidate for the job.

In modifying an existing model is possible to compare the opinions of the managers with their superiors. Such an approach was used in one of the production and sales companies in the framework of integrated development program managers ADDA by using questionnaires were collected balance to key professional competencies for the work of the Regional Manager. Answered managers and their responses were compared with answers from their superiors.

The results showed that of ten competencies (searching information, concept creation, concept flexibility, managing interaction, development orientation, understanding the others, self-confidence, influence, performance orientation, target orientation) as important consider the two groups only 9 competencies. Competence - focus on performance, not considered necessary both groups of respondents. The reason is that the investigated company has a well-developed sales procedures, which workers

can not change and neither is it expected from them. Between managers and their superiors dominates consensus about which competencies are important to the job. Only in two cases the difference was greater (influence and understanding the others). In both cases, the importance of competencies was evaluated below by superiors. Supervisors considered the competency of influence to be more important for them, not for managers. Managers argued that the successful performance of their work depends on this competency. In discussing superiors understand how and where managers need to exercise influence and their opinions closer. In the case of competence understanding the others regional managers consider this competence as effective path to achieving long-term results. Superiors were strongly influenced by foreign owners (achieving business aims), and believed that moving this pressure to the lowest level ensures effective performance of tasks. Using by this method was clarified significance of individual competencies to create an effective competency model of regional managers.

Conclusion

Knowledge has value, but so too does knowledge about knowledge. Creating value is about creating new knowledge and capturing its value. The most important property is now intellectual property, not physical property. Human resource management by competences is currently considered as the most progressive system of personnel management in organizations. Because participate in it in varying degrees, all members of the organization, it has an integrating power.

Competency models contribute to a unified view of managers, employees and owners on what is for the future of the organization's most needed. Thanks oriented approach to business management competencies can:

- adopt the correct people in the right places,
- using more objective and fairer remuneration system,
- to examine own readiness for achieving strategic goals,
- purposely to worry about people development in line with its strategic objectives,
- to educate managers for future projects and plans,
- to optimize career development of employees.

Manager of 21st century knows what (the expertise) and how (knowledge of methods) should be made to further the effective functioning of the organization - and he also knows who he has in his efforts to unite and to whom its intention to acquire (personal and social competencies).

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Euromarketing and the Current Demographic Situation in the European Union

Peter Cséri¹

Abstract

There are a lot of opportunities to invest on the single market, but first entrepreneurs have to make a clear investment strategy based on marketing research. The only solution for them is called segmentation. Euro marketing assists businesses to progressively expand into new markets in other countries within the European Union. Companies which want to successfully satisfy their customer needs must pay attention to these differences in economic, demographic and cultural environment. Nowadays European Union has to deal with big unemployment, low productivity and problems with social cohesion. EU instruments, notably the single market will be mobilised to tackle bottlenecks and stimulate growth and innovation.

Key words

Segmentation, European Union, EuroMarketing, single market, demographic variables

JEL Classification: M19

Introduction

The main goal of the European Union since its creation is establishing and maintaining a single market. It guarantees the free movement of goods, capital, services, and people within the member states. European Union is also a customs union. This means that member states have removed customs barriers between themselves and introduced a common customs policy towards other countries. Free movement of capital is intended to permit movement of investments such as property purchases and buying of shares between countries. The free movement of services and of establishment allows self-employed persons to move between member states in order to provide services on a temporary or permanent basis. The free movement of people means EU citizens can move freely between member states to live, work, study or retire in another country.

1 Euromarketing

Euromarketing assists businesses to progressively expand into new markets in other countries within the European Union in consistent and cost effective manner. To take full advantage of the Single Market, firms need to be able to enter new geographical markets. This can result in failure, or perhaps very limited success, unless a systematic approach is taken.

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The objective of the single market was to allow the free movement of goods, services, people and capital by doing away with existing barriers to trade between the Member States. This policy was intended to bring competitiveness, to create jobs and to stimulate economic growth. The removal of border controls is being reflected in greater efficiency and lower costs for European business.

Single market benefits include:

- easier physical access to markets in other countries,
- lower costs due to the elimination on frontier controls and the simplification of administrative procedures,
- a greater opportunity to exploit comparative advantages,
- free competition and increased cross-border business.

Any organisation developing an European marketing strategy would be ill advised to ignore the fact, that the European nations and even regions, can still be very different from one to another. Our histories and cultural traditions have shaped habits and attitudes with their own distinct features.

Buyers in any market differ in their wants, resources, locations, buying attitudes and buying practices. Through market segmentation, companies divide large, heterogeneous markets into smaller segments that can be reached more effectively with products and services that match their unique needs.

Companies have to target consumers with similar characteristics, giving priority to those markets where they are most numerous, with the objective to capturing their attention and eventual loyalty through meeting the needs they have in common.

Successful EuroMarketers have to spend time and effort in defining the identity of their products and how to distinguish them from others. It sounds easy, but it is not. A good positioning strategy is the key to an effective EuroMarketing approach. Many market research agencies and some management consulting organisations are active in this sector of European research.

There is no single way to segment a market. An EuroMarketer has to try different segmentation variables to find the best way to view market structure.

The major variables:

- geographic: dividing the market into different geographical units, such as nations, regions, states, counties, cities or even neighbourhoods. A company may decide to operate in one or a few geographical areas or operate in all but pay attention to geographical differences in needs and wants,
- demographic: divides the market into segments based on variables such as age, gender, family size, family life cycle, income, occupation, education, religion, race, generation, and nationality. Demographic factors are the most popular bases for segmenting customer groups,
- psychographic: divides buyers into different segments based on social class, lifestyle, or personality characteristics. People in the same demographic group can have very different psychographic characteristics,
- behavioural variables: segmentation based on actual customer behaviour toward products. Some behavioralistic variables include brand loyalty, user status, readiness to buy. Behavioural segmentation has the advantage of using

variables that are closely related to the product itself. It is a fairly direct starting point for market segmentation.

There are many ways to segment a market, but not all segmentations are effective. To be useful, market segments must be:

- measurable: the size, purchasing power, and profiles of the segments can be measured,
- accessible: the market segments can be effectively reached and served,
- substantial: the market segments are large or profitable enough to serve. The segment should be the largest possible homogeneous group worth pursuing with tailored marketing program,
- differentiable: the segments are conceptually distinguishable and respond differently to different marketing mix elements and programs,
- actionable: effective programs can be designed for attracting and serving the segments.

2 Current demographic situation in European Union

One of the reason I have chosen to characterize this segmentation variable is that demographic variables are easier to measure than most other types of variables.

Last years have been very bad years for the European Union. The economic slowdown has gradually turned into recession.

The social situation is also deteriorating, especially in Member States in southern and eastern Europe. The long-term unemployment problem appears most concentrated in Spain and a few other Member States, affecting more severely specific groups, such as men, young people or low-skilled workers.

Wage developments have been subject of increasing attention throughout the crisis because of their importance for competitiveness, domestic demand, employment as well as social inequalities.

The crisis has not impacted uniformly across the whole population and has often led to an even worse situation for groups already at heightened risk, notably young adults.

Sometimes young people tend to be more often than other age groups over-qualified with respect to the educational requirements of their jobs, but also under-skilled and in need of further training to cope well with their duties.

The absence of tangible recovery has strongly increased the risks of long-term exclusion for the most heavily affected people.

Situations vary across countries, suggesting that people face specific barriers in different countries, which points to the need for further country-specific research.

3 Labour market situation

The average EU unemployment rate exceeded the 10 % mark earlier this year. Young people are particularly hard hit, with more than one in five active Europeans aged 15-24 being unemployed.

In addition to young people, non-nationals, the low-skilled and men are still the groups most affected by deteriorating labour market conditions. All these aspects contribute to the trend of increasing social polarisation in many Member States

Divergence in the EU-27 and especially between the North and South of the euro area has never been so significant. All employment and social indicators point to a growing divergence between the Southern and peripheral European countries, that seem to be trapped in a vicious circle of recession, while most of the countries of Northern and Central Europe have so far shown greater resilience. Part of this is driven by how the economy has performed overall but much of the overall performance is the result of how labour markets and social systems reacted to the severe global downturn.

The ability to cope with the shock was frequently compounded by the initial public debt and deficit levels, as well as the property market situation, and subsequent developments followed by the reaction of financial market.

Looking at GDP growth since 2007 alone, some Member States are richer than before the crisis, many are back to pre-crisis levels and some are significantly poorer. While the EU-27 average is close to zero, significant divergences appear among groups of Member States.

The decrease in household disposable income was most significant (above 4 %) in the Southern countries, Ireland, Hungary and the Baltic States. It was the result of the further deterioration of the labour market conditions, as well as of the weakening of the cushioning impact of social expenditure over time. In these countries, declining incomes affect the living conditions of a large part of the population.

The crisis has revealed that external economic shocks translate differently within the EU, they are asymmetric, and that diverging unemployment trends and the resulting social expenditure tend to exacerbate fiscal imbalances in countries facing the highest needs of adjustment and the highest threat to their social models.

The prolonged crisis increasingly affects labour markets, resulting in a rise in unemployment, and long-term unemployment in particular. Labour markets are divergent. This is, among other factors, the consequence of asymmetric economic shocks, in the context of a poor macro-economic situation.

Looking at the trends in the employment and unemployment rates in EU countries from 2008 to 2011, the effect of the economic slowdown and the persistent uncertainties in the labour markets was very pronounced. The employment rate for 15-64 year-olds, i.e. the working-age population, fell in all but in five Member States the unemployment rate rose.

As far as the employment rate for the 15-64 year-olds is concerned, besides Germany and Luxembourg, which recorded rises of respectively 2.4 and 1.2 percentage points from 2008 to 2011, Malta made significant progress too (+2.3 percentage

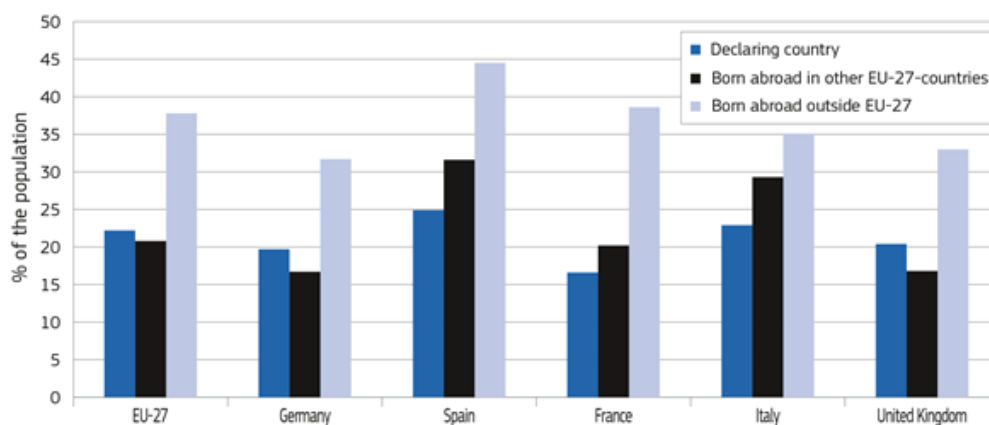
points), Poland showed moderate progress (+0.5 pp) and Austria's employment rate remained unchanged over the same period.

High levels of unemployment did not, however, lead to any visible or general labour market withdrawal, as could be expected from the past in times of prolonged recession.

During the crisis, job losses, reduced working hours, reduced activity among the self-employed, and in some cases pay freezes and pay cuts directly affected households' financial situation. The most direct effect of the deterioration of labour conditions is the rise in the share of people living in jobless households. Having a job remains the best safeguard against poverty and exclusion, since the risk of poverty faced by working age adults without work (unemployed or inactive) is more than three times higher than those in work. Working age adults have been hit first by the economic crisis, with a direct impact for children growing up in their households. Young adults and adults of prime working age (25-54) have experienced increases in the risk of poverty or social exclusion.

In a number of countries experiencing very severe recessions (Bulgaria, the Baltics, Ireland, Hungary, Spain and Greece) children have been significantly affected by the crisis. Lone parent households have been severely affected. For this group, the risk of poverty or social exclusion exceeds 50 %. At EU level, the risk of poverty or exclusion among the migrant population aged 18 and over remains much higher than the overall population.

Graph 1 At-risk-of-poverty and social exclusion of people aged 18+ by country of birth



Source: Eurostat – EU-SILC 2011, 2010 data for Italy and the United Kingdom

The differences observed in the dynamics of poverty, and related risks of long-term exclusion reflect the diversity of labour market conditions, and of the capacity of the welfare state to adequately protect people and to support their return to the la-

bour market. It also depends on the significant differences still existing in the household structure and the level of work intensity of the households across EU countries.

The situation is especially alarming in the group of countries (the Baltic States, Bulgaria, Greece, Italy and Malta) where long-term unemployment has increased most.

The Europe 2020 targets are becoming increasingly difficult to achieve.

4 The Europe 2020 strategy

A stronger, deeper, extended single market is vital for growth and job creation. Europe is able to act in times of crisis and to adapt its economies and societies. Today Europeans face again a moment of transformation to cope with the impact of the crisis, Europe's structural weaknesses and intensifying global challenges.

What is needed is a strategy to turn the EU into a smart, sustainable and inclusive economy delivering high levels of employment, productivity and social cohesion. This is the Europe 2020 strategy. This is an agenda for all Member States, taking into account different needs, different starting points and national specificities so as to promote growth for all. EU instruments, notably the single market, financial levers and external policy tools, will be mobilised to tackle bottlenecks and deliver the Europe 2020 goals.

To gear the single market to serve the Europe 2020 goals requires well functioning and well connected markets where competition and consumer access stimulate growth and innovation.

European Union defined where wants to be by 2020

- 75 % of the population aged 20-64 should be employed,
- 3% of the European Union's GDP should be invested in R&D,
- the "20/20/20" climate/energy targets should be met (including an increase to 30% of,
- emissions reduction if the conditions are right),
- the share of early school leavers should be under 10% and at least 40% of the younger,
- generation should have a tertiary degree,
- 20 million less people should be at risk of poverty.

As mentioned, one of the Europe 2020 strategy's aim is to increase the employment rate for the 20 – 64 age group to 75 %. The average employment rate remained static in 2011 at 68.6 %, which is still significantly below the pre-crisis level of 70.3 % (in 2008). Some 16.7 million jobs should still be created by 2020 in the EU (compared to 2011 levels), meaning that the overall EU employment figure should increase on average by 0.9 % per year. It also implies an increasing need to mobilise women, older workers aged 55-64 and other groups in the labour market.

Tab. 1 Employment rates in EU Member States in 2011 and progress needed in order to meet the Europe 2020 employment target

	(age group: 20-64)					
	Employment rate in 2011 (%)	Employment rate progress on 2010 (percentage points)	Employment rate national target for 2020 (%)	Current gap to national target for 2020 (percentage points)	Jobs in 2011 (x 1 000)	Employment average annual growth needed 2011-2020 (%)
BE	67.3	-0.3	73.2	5.9	4 427	1.2
BG	63.9	-1.5	76.0	12.1	2 897	0.7
CZ	70.9	0.5	75.0	4.1	4 806	0.1
DK	75.7	-0.1	80.0	4.3	2 474	0.6
DE	76.3	1.4	77.0	0.7	37 855	0.0
EE	70.4	3.7	76.0	5.6	584	0.1
IE	64.1	-0.9	69.0 – 71.0	5.9*	1 737	1.0*
EL	59.9	-4.1	70.0	10.1	3 999	1.6
ES	61.6	-0.9	74.0	12.4	17 830	2.1
FR	69.1	0.0	75.0	5.9	25 179	0.8
IT	61.2	0.1	67.0 – 69.0	6.8*	22 465	1.3*
CY	73.8	-1.6	75.0 – 77.0	2.2*	362	1.1*
LV	67.2	2.2	73.0	5.8	945	0.2
LT	67.2	2.8	72.8	5.6	1 338	0.7
LU	70.1	-0.6	73.0	2.9	221	1.6
HU	60.7	0.3	75.0	14.3	3 768	1.9
MT	61.5	1.4	62.9	1.4	161	0.0
NL	77.0	0.2	80.0	3.0	7 703	0.3
AT	75.2	0.3	77.0 – 78.0	2.3*	3 885	0.5*
PL	64.8	0.2	71.0	6.2	15 769	0.5
PT	69.1	-1.4	75.0	5.9	4 519	0.8
RO	62.8	-0.5	70.0	7.2	8 655	0.7
SI	68.4	-1.9	75.0	6.6	902	0.9
SK	65.1	0.5	72.0	6.9	2 332	1.0
FI	73.8	0.8	78.0	4.2	2 361	0.2
SE	80.0	1.3	80.0**	0.0	4 405	0.3
UK	73.6	0.0	–	1.4***	27 214	0.5***
EU-27 national target-based	68.6	0.0	73.7 – 74.0	5.3	208 789	0.7 – 0.8
EU-27 headline	68.6	0.0	75.0	6.4	208 789	0.9

Source: Eurostat, EU-LFS

Europe needs to get back on a path of sustainable, smart and inclusive growth and to create jobs of high quality for all. The Commission's Employment Package of April 2012 outlined a number of concrete measures to boost employment (and growth) in a fiscally neutral way.

The labour market situation of young people has become an increasingly urgent social matter in the EU and the integration of young people into the labour market continues to be a major policy issue for the EU and individual Member States. Despite a shrinking and increasingly better-educated youth population, young people in many Member States still face considerable problems in making the transition from education into employment. And many of those who have gained a foothold in the labour market often hold unstable jobs with unfavourable conditions and career prospects.

The young need special attention and support for various reasons. Firstly, their situation is more challenging in comparison to adults and has been deteriorating over time.

They face high unemployment rates and they are increasingly affected by long-term unemployment and labour market segmentation. The second reason is the negative long-term implications of unemployment at a young age, such as the increased probability of future unemployment, the reduced level of future earnings and the higher likelihood of precarious employment. The negative impact goes beyond the labour market and may also adversely influence poverty, young people's health status, life expectancy and youngsters' beliefs as well as their civic and political participation.

Tab. 2 Employment rate trends between 2000 and 2011

		2000 (% of pop.)	2008 (% of pop.)	2010 (% of pop.)	2011 (% of pop.)	Total change (percentage points)		
						2000-2011	2008-2011	2010-2011
Total	20-64	66.5	70.3	68.6	68.6	2.1	-1.7	0.0
	15-64	62.1	65.8	64.1	64.3	2.2	-1.5	0.2
Gender	Men (20-64)	75.8	77.9	75.1	75.0	-0.8	-2.9	-0.1
	Women (20-64)	57.3	62.8	62.1	62.3	5.0	-0.5	0.2
	Men (15-64)	70.7	72.7	70.1	70.1	-0.6	-2.6	0.0
	Women (15-64)	53.6	58.9	58.2	58.5	4.9	-0.4	0.3
Gender and other age groups	Men (15-24)	40.2	40.3	36.2	35.7	-4.5	-4.6	-0.5
	Men (55-64)	46.9	55.0	54.6	55.2	8.3	0.2	0.6
	Women (15-24)	33.9	34.4	31.8	31.4	-2.5	-3.0	-0.4
	Women (55-64)	27.4	36.8	38.6	40.2	12.8	3.4	1.6

Source: Eurostat, EU-LFS

The latest Eurostat estimates (2011) available for the EU-27 population living in poverty or social exclusion, as defined by the Europe 2020 poverty and social exclusion target, show that 119.6 million people living in the EU (23.6 % of the EU population) were at-risk-of-poverty or social exclusion in 2011, an increase of nearly 6 million from 2009. Based on the current information and with respect to progress on the EU 2020 target, after some slight positive development in 2009, the number of people living in poverty and social exclusion is back to the 2008 levels.

It is important not just to focus on trends in the extent of poverty and social exclusion, but also to consider developments in its severity or depth.

The crisis has not impacted uniformly across the whole population and has often led to an even worse situation for these groups already at heightened risk before the crisis.

Social protection is at the heart of the European Social Model. Social protection has a preventive role by insuring individuals and their families against different risks. It helps to cushion against poverty and the financial implications of social risks. Social transfers and other automatic stabilisers help to maintain household purchasing power and demand in the event of macroeconomic shocks. There are great differences between the Member States' social protection systems, both in terms of size and composition of spending and in terms of the reaction of spending to the business cycle in general and to the recent crisis in particular.

Regarding the effectiveness and efficiency of spending on social protection, large differences between Member States are also prevalent, both in terms of poverty reduction and labour-market friendliness. The size of social protection spending varies great-

ly between EU Member States. Expenditure is the lowest relative to GDP in EU-12 countries such as Romania, Latvia and Bulgaria (around 18 % in 2010) and the highest in EU-15 countries such as France and Denmark (above 33 % in 2010).

Social protection spending can be analysed from different angles. First, in terms of area of spending (i.e. by function); second, in terms of whether given benefits are provided to the recipients in cash or as a service in kind (i.e. by type of provision); and third, in terms of whether the provision of the benefits is universal or targeted to a certain population group or conditional upon the income or wealth of the recipients not exceeding a given amount.

Tab. 3 Development of GDP, unemployment rate and hours worked between 2007 and 2009

	GDP change (in%)	Unemployment rate change (in pps)	Hours worked change (in%)
	2007-2009	2007-2009	2007-2009
AT	-2.5	0.4	-2.7
BE	-1.9	0.4	<i>n.a.</i>
BG	0.4	-0.1	<i>n.a.</i>
CY	1.7	1.4	0.7
CZ	-1.7	1.4	-0.6
DE	-4.1	-0.9	-1.5
DK	-6.6	2.2	-2.3
EE	-17.4	9.1	-17.3
EL	-3.4	1.2	-1.6
ES	-2.9	9.7	-6.2
FI	-8.1	1.3	-2.1
FR	-2.8	1.1	-1.7
HU	-6.0	2.6	<i>n.a.</i>
IE	-9.8	7.3	<i>n.a.</i>
IT	-6.6	1.7	-3.8
LT	-12.4	9.4	-8.1
LU	-4.6	0.9	1.3
LV	-20.4	11.7	-18.5
MT	1.3	0.4	<i>n.a.</i>
NL	-1.8	0.1	0.4
PL	6.8	-1.4	3.1
PT	-2.9	1.7	-3.0
RO	0.3	0.5	<i>n.a.</i>
SE	-5.6	2.2	-1.7
SI	-4.7	1.0	1.7
SK	0.5	0.9	0.6
UK	-5.4	2.3	<i>n.a.</i>

Source: National accounts, Labour Force Survey

Table 3 is illustrating whether in the EU Member States the GDP shock translated or not into a shock in the labour market.

The path to sustainable and socially inclusive growth in Europe is dependent on the availability of a skilled and talented workforce. High levels of education and skills are needed to meet the long-term challenges of the economy and to facilitate the necessary labour market and work process adaptations required by rapid technical change and fierce global competition.

Conclusion

The European Union is an association of 27 sovereign member states, that by treaty have delegated certain of their competences to common institutions, in order to coordinate their policies in a number of areas, without however constituting a new state on top of the member states.

The main goal of the European Union since its creation is establishing and maintaining a single market. Exactly EuroMarketing has the role to help businesses to play a vital role in the economic system of European Union and to meet customers needs. It is necessary for companies to understand the current demographic situation on the single market and how it affects the customers life.

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Creative Class – the Elite of Today´s World

Karel Červený¹

Abstract

As time goes the requirements on managers are higher and higher. In former times it was enough just to have a high IQ and to know how to run the company properly. But soon occurred the requirement for social, emotional intelligency and soft skills used for being a good leader. Other important skills are to decide very quickly and take action quickly. The concept of creative class is connected with all these important skills. In this article I would like to introduce you to the very beginnings of the creativity class and to all the essential information you need to know about this issue.

Key words

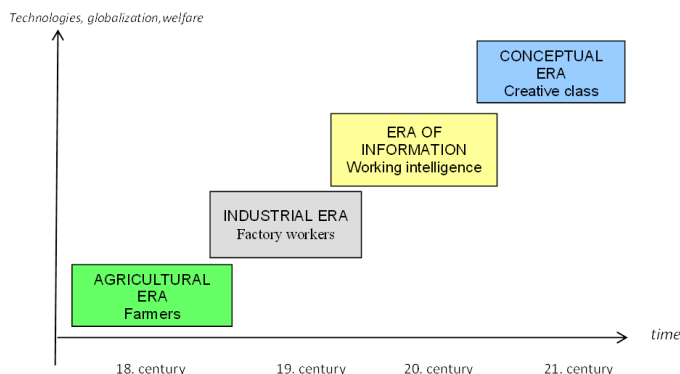
Creativity, Creative class, Creative cities, Creative industries, Era of information, Conceptual era, Development of creativity, Innovation

JEL Classification: Z13

Introduction

In former times a society was divided into various groups of people: group of farmers, workers, tradesmen and the group of working intelligence. With changing of technologies, means of production, economy, social ownership, access to information and with spreading of globalization throughout the world, the view on working labour is changing as well. A new group of people called "creative class" has been created and is slowly becoming the new elite of today´s world.

Fig. 1 Stages of development of society



Source: D. Pink 2008, s. 52

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In the beginning of 21st century the mankind has entered the era of creativity (the conceptual era) and thus everything around us has changed. A demand for new drafts, new products and services increases the demands for creativity of people.

In the studentbooks about economics we can see that in the 1970s the proportion between sold material (products) and sold ideas (patents, intellectual property) was 70:30. In the recent years the proportion changed and ideas (concepts) are being sold more than material (70:30). The creativity is essential for new concepts, but where should we learn how to be creative when not in school? Where can we find creative managers and developers when every school in the country provides us with the identical output? The answer for this question is to be found in the new branch and that is Creative industry. The creative industries are being developed by creative class.

This article aims to prove the importance of development of creativity in the companies.

1 Creativity is the basic thing

According to R. Florida (expert concerned about creative economy, George Mason University Washington), the creativity is the biggest competitive advantage of today's world (Cikánek 2009, p. 18). A high demand for creativity caused the formation of new class of society, which Florida and others call "creative class". Florida claims, that the amount of work places, which should come up with new ideas in order to increase added value in all areas, is wider than is actually thought. He thinks that creative class consists of scientists, engineers and doctors who deal with development and construction, architects, designers, pedagogues, artists of all kinds and people who work in show-business.

Other authors think that also top managers working in companies, where they are concerned about company's strategies and visions, should belong to this group, as well as urbanists and planners of city development. Those professions are called Central creative class. Graphically symbolized, around the core of the circle there is another circle consisting of wider group of profession – creative professionals, who have to deal creatively with problems of everyday life, especially in the field of law, business, health, counselling, police or people working in the department of strategic planning (Cikánek 2009, p. 41).

The difference between creative class and other people is that people belonging to creative class have to do the things in a different way and also have to keep coming up with new changes and new ideas. In contrast people with other profession (for example people working in the field of production and services) are paid mainly for not deviating from the working procedure and for achieving the maximum of accuracy. For example for the people working in the accountancy it is forbidden to be creative in any way. The same rule applies to managers of quality control or to workers, who have to follow the exact restrictions and cannot change the working procedure creatively (Cikánek 2009, p. 41 - 42).

The creative class is far more unlimited and by the creation and realization of tasks they can utilize a wider rate of autonomy and flexibility. With the mankind

moving on and on to the conceptual era, the number of people belonging to creative class is increasing. According to Richard Florida, the creative class in the United States of America consists of 30% of employees, 26% of them are workers and 46% works in the field of services (Florida 2002, p. 9).

Creativity as the basic skill of managers

CEOs are naturally aware of all of these facts. A research performed by IBM confirmed this fact. From the September 2009 till the January 2010 the IBM performed a research including 1540 CEOs working in 33 branches in 60 countries. Directors were asked repeatedly from 2004 one question and that is: Which characters are essential for a manager in order to achieve success? A result was really suprising.

The most important qualities of successful manager are (IBM Institute for Business Value 2010, p. 24):

- Creativity 60%
- Integrity 52%
- Global thinking 35%
- Influence 30%
- Open mind 28%
- Eagerness 26%
- Sustainability 26%
- Modesty 12%
- Justice 12%

All of the CEOs marked creativity as the most important character which should help them to look at the problems differently and find solutions for unexpected reversals in the nature (earthquakes, volcano, hurricanes), in the economic situation (financial crisis, devaluation of euro) and also in the society (terrorism, wars) and technology field (discoveries, inventions). Those reversals are going to cause a rapid change in the business. CEOs are afraid that the influence of USA, Japan and Europe will be decreasing. They are afraid of increasing influence of China, India and Brazil and also of technological reversals in nanotechnologies that will soon change almost every branch of business. In the USA managers worry about extended state regulations and increasing social costs.

Why is creativity so essential for CEOs? They are aware of the difference between current capabilities and complexity of events that are being spreaded all over the world. IBM measures this difference and calls it "the gap of insufficiency" (like the guru of management Andrej Kopčaj). Almost two thirds of respondents said that the difference between their capabilities and the complexity of events is nearly 30%. The most successful and creative ones say that the difference is only 6%.

Many respondents said that they hire teachers of creativity in order to find out how high the rate of innovative environment in their company is.

Other CEOs enrolled on the Master of Business Creativity course or on the five-year Master of Fine Arts course. Some of CEOs even confessed that they started to draw, take photos, play on some instrument or act in the theatre. Many of them feel the improvement of their creative thinking.

1.1 Description of Creative class

Creative class is really the elite of today's world. It is the class of society, which determines standards of today's society. Standards of creative class are very different from the standards of the classes of the previous times. Creative class supports individualism, self-expression, openness, respect towards various distinctions and tolerance for difference. It rejects dogmas and paradigms. In addition, the creative class is a dominant class of society, when it to wealth and income comes. In USA, the members of this class earn twice as much as the members of classes working in the field of production and services (Cikánek 2009, p. 41 - 42).

The need for freedom for creative people. Richard Florida thinks that creative class is an absolute opposite to so called business class, which determined standards of society in the USA in an organizational sphere, from the first half of 50s to the end of 80s of the previous century. Description of this class can be found in the book *Organizational Man*, written by W. Whyte. The member of business class usually spent the whole life working for one employer, where he could be promoted several times during his working career. The main principle of organization of work during those times was "Taylorism", which completely cut the tasks into small one- following another tasks.

The person who accomplished those tasks did not have to think too much while working. He just had to do exactly what had been ordered to be accomplished, in accordance to all the rules. No deviation had been accepted, which significantly suppressed the creativity. The members of Business class usually connected their identity with their employer, degrees and position. In contrast, the members of creative class hardly ever spend the whole career working for one employer. They try to balance their need for self-expression and self-realization with the degree of freedom and incomes. They constantly need new challenges in their lives and at the same time they need to have enough time for themselves. They are not concerned about positions or degrees that much (Cikánek 2009, p. 41 - 42).

No collar workplace. The creative class does not usually work in a traditional hierarchical order. Very often it is the specialist who determines the organization of work himself (self-management). The main factor of control is the intrinsic motivation – a desire to overcome the problems, change something and achieve something, for example to achieve the recognition by colleagues. Those people usually wear casual clothes and also their physical appearance (make-up, hairstyle, piercing, tattoos) is the way they express themselves, which often provokes the members of more conservative class. They reject fixed working hours and they like to be their own bosses. The way they act may seem a little extraordinary to others, for example when they go to work by bike or by scooter, or when they walk barefoot in their offices. They do not feel the formal authority and very often they accept only natural and professional authority. It is hard to manipulate them because often they are independent, they are self-employed (Cikánek 2009, p. 41 - 42).

A lifestyle based on the experience. The members of creative class overcome traditional bourgeois and bohemian lifestyle (bobos) and they denominate creative ethos, which means that creative identity is formed by the combination of work and free time. They like to do lot of creative activities. They need the combination of work

and free time, they need to have fun while they are working. One person thus can be developer and constructor, writer, climber, actor or amateur chef at the same time.

Non-traditional work schedule. When it comes to work or free time, the members of creative class utilize their time as intensively as possible. They try to fill every single minute of their life with creative incentives. At the same time, the classic work schedule and free time are being eliminated. Creativity cannot be switched on at 9 o'clock in the morning and then again switched off at 5 o'clock in the afternoon. That is the reason why the members of creative class often work at home besides normal working hours, while sometimes during the working hours they do not concentrate on their tasks. In order to create a new software program, to write a book, plan a marketing strategy or to create a new investment strategy, it is essential to concentrate intensively, and we need to balance this period with free time and time when we can relax, gain new inspiration and ideas. It is well-known fact that 95% of ideas for innovation is created outside the development department – to be precise 95% of them is created in a free time. That is the reason why so many innovative companies (e.g. Google, 3M, Apple) and private research institutions gives their constructors and developer free work schedule. They have to participate in meetings, monthly hand in the result of their work, meet their colleagues from the technology, production and services department. Whether they come up with new ideas while strolling in a wood, having a bath or fishing, does not matter. For the wise employer the only important thing is the result of their work (Cikánek 2009, p. 41 - 42).

Meetings organized by creative communities. The members of creative class spend their time in a creativity stimulating environment, which is varied and full of experience. They live in environment, where they can reflect and improve their creative identities and at the same time improve their own creativity. They choose the environment and communities that have special character, communities that can protect them from the stress and pressure from the outside. They search for non-traditional clubs, events like www.cinemaroyal.cz, they do not go for a holiday by sea, because it means wasting their time. Instead, they go for a holidays to mountains for example to Peru or Norway. Some of them choose challenging courses of creativity, where they can learn how to take photos, ride a horse or how to paint pictures.

2 Professions of tomorrow

With regards to graphical symbolization of conceptual era, it is clear that lot of manual positions for workers will be soon replaced by robots. For example Foxcon, which employs around 1,2 million of people around the world, plans to replace roughly 300 000 people by robots by the end of this year. Foxconn is planning to engage around 1 million robots within a few years. Lot of companies plan the same thing. The reason for this is that robots can do better what people are asked for – precise and quality work. Robots do not complain, they are never ill, they are never in a bad mood, do not smoke, do not need breaks or holidays, they can work 24 hours a day and do not need any wages, they do not go on strike. All in all they are ideal workers.

According to scientist Michia Kaku, most of the positions, where workers only have to do repetitive tasks, will be replaced by robots by 2030. Which professions will not be replaced? Which of them will be required?

Surprisingly enough, there is still a big group of employees, who cannot be replaced neither by robots nor by computers in next 30 years. I mean professions, which require so called safe recognition of objects – images and the ability to find creative solutions. That is the reason why for example policemen, plumbers, gardeners, hairdressers, artist of all kinds, will still be needed in the future. The society will need lot of scientists, inspirational leaders and also people, who know how to contribute to society.

Approximately 75% of employees will be made redundant, because very often they are just intermediaries between leaders and actual workers, so they will not be needed anymore. Lower management, officials, accountants-lot of them will also be fired. Although the possibility to buy something in the future will be higher and higher with the help of internet, we will still need experts, who can give us a good piece of advice. When we for example find our dream house on the internet, still there is a possibility for us to hire an expert, who will give us advice about technical conditions of the house, financing, operating costs, he can help us to find hidden defects and so on. Your personal banker (does not necessarily have to be the employee of the bank) can help with effective investment strategy, your lawyer can help you with interpretation of law application, your doctor can help with your health conditions.

In the rich cities the citizens will have to pay garden architects and gardeners from their own taxes, as well as they will have to pay artists, who will make their lives funnier and nicer. They will want to work in the field, where common sense and experience (characters that robots do not have), the ability to see the things in a different way than others do, the ability to conclude new opportunities where no one else see them and the ability to anticipate is needed. Profession that provides beauty, peace, harmony and knowledge. Creative class will grow.

3 Nobody can be creative under pressure

Particularly effective killer of creativity is stress. If we are under pressure, if we do not have enough time and cannot concentrate on our activities properly, the creativity fades away very quickly. If an employer treats people in a bad way, he can barely expect good results out of their work. It is not a coincidence that psychologists claim, that people are becoming sillier under pressure and during a stress period.

It is quite usual that in Czech companies we see rigid thinking, which is connected with a Taylorism and its deep history. Although management requires innovations and competitive advantage, it is actually truth, that people are afraid of changes, they do not want them and sometimes people that come up with new ideas are punished. (Červený 2013, p. 87 and Ministry of Education 2010, p. 16 - 17)

4 How to improve our creativity?

We should improve our creativity all day long, not just at work or at home. Simply: everytime, everywhere. How can we achieve it? We can decorate our office with lot of colourful things, paintings and subjects, which inspire us and provoke us.

We should do the same at home. Every day we should try to do something differently – e.g. go to work in a different way or get off the bus one stop earlier and then just walk. Instead of doing the things we usually do in the morning, do them in the evening. We should meet with people who influence us in a positive way, who inspire us and also provoke us, people who like humour. If we are interested in machines and we go for a Machine fairs, we should also go for another fairs, not only about machines, other fairs can also inspire us.

The inspiration can surprise us. One should have lot of hobbies, e.g. playing some instrument, visiting theatre or even act in a theatre, go for a walk, meet some friends and so on.

In all parts of our life we should search for an opportunity to change: taste new - unknown food, buy a new painting to our apartment, buy a new book, a new lamp, just change the way we live. Change the order of our furniture sometimes, change our hairstyle. Paint a picture – doesn't matter that we cannot paint, just do it. Meet new people, travel to places we have never been before, go to the cinema to see a movie we would not normally want to see, maybe sleep sometimes in a living room instead of sleeping in a bedroom. Just step out of the stereotype, so we can see which stereotypes are useful and which are not. (Červený 2013, p. 86)

Conclusion

Creative industries are being improved by the creative class, which brings high added value. This added value is the source of the high profitability and guarantees high competitiveness of the organizations.

Creative class needs to improve its creativity. Development of creative thinking is essential for key employees. It is a long-term process but it is definitely worth it.

If the creativity really is an essential condition for high added value (design, new concept), then the principles of improving employees' creativity in the creative industries can help in R&D by innovations, discoveries and inventions. If other industries also utilize principles of stimulation, development and creativity of the employees in the creative industries, the added value of products and services will grow and an innovation cycle will be abbreviated.

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Trends in Supply Chain Relationships in Automotive Industry after the Global Economic and Financial Crisis

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Abstract

Global economic and financial crisis in years 2008 – 2009 has changed supply chain relationships in automotive industry in two steps. After shortlived immediate effects followed longterm trends affecting different processes and company departments. Generally positive trends recognized in automotive industry after crisis are mainly oriented to longterm co-operation with best partners sourced globally. Main activities between customer and supplier were directed to risk diversification, supplier development, global sourcing and financial stability of supply chain. These trends will mature in next years till next customers generation behaviour revolutionize these again.

Key words

supply chain, financial crisis, relationship management, automotive industry

JEL Classification: M30, L220

Introduction

Automotive industry was one of most affected industry sectors by financial and economic crisis of 2008-2009. The effects of this crisis aren't limited only to these two years. While economic depression culminated in year 2009, really long-term effects were showed in automotive supply chains later. It isn't object of this paper to analyse quantitative effects of crisis on individual subjects or entire supply chain. The object of this paper is to analyse most significant changes in relationship management of participating parties. As every big economic depression, this global crisis has brought many serious, partially existential problems for all actors. On other side it was a chance for change of outdated relationships in complete supply chains.

Before crisis there were dominating three types of relationship management. Method of „Exit“ was preferred by big three North American car manufacturers. This is working with constant treat to suppliers to be replaced. Method of „Voice“ used mainly by japanese carmakers was on the contrary based on closed supplier pools with very long co-operation frame. And then there was a nascent method of european car producers, mainly german ones, which was at that time a compromise between mentioned two ones.

During crisis all activities of supply chain parties were directed mainly to guarantee survival of companies. While car makers focused their influence in political lobbying for their own benefit, lower tier suppliers fought to avoid any delivery disruptions in

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supply chain. All the changes of relationship management in this time were purely reactive, as entire automotive sector was burdened with the mistakes of the past.

Only with the next recovery started some long-term changes in relations between individual subjects of supply chain. Now after several years we can define fields of these changes and prove their permanence. For this paper purpose we focused our attention to following areas:

- Risk diversification in sales
- New trends in procurement affecting supply chain relations
- Financial stability of supply chain
- Logistic
- Technologies and innovations reshape the roles

1 Risk diversification in sales

As car makers are selling their products outside of analysed supply chains, we will discuss here only sales activities of Tier 1 – 3 suppliers inside their chains. Here we are able clear recognize two basic trends after crisis:

- Pursuit of customer diversification
- Looking for new markets

1.1 Pursuit of customer diversification

Automotive industry is historically characterized as one with highest level of inter-dependency between individual players. This has many reasons. Most important ones are mainly unique technological equipment, long-term contracts, confidentiality and origin of many mainly big Tier 1 suppliers as spin – offs of international carmakers. As a result till crisis in years 2008 – 2009 many suppliers were absolutely dependent on one do-minant customer. In general, every company is as strong as their partners are. And there were many suppliers with really weak ones. Tier 1's in North America were bound in relationships with Big Three(GM, Ford, Chrysler). Every of these carmakers was fighting for own survival. Additionally Obama's administration decided to support suppliers only through carmakers. In this situation there was only one solution for managers – diversificate customers. Golden rule of automotive industry after several years is to have maximum 40 % of sales with biggest customer. This limit is generally accepted by customers too now, as they understand implications as lesson took from crisis. „ If the carmaker has its own safeguards to prevent spillover of its proprietary know-how, it may welcome collaboration with suppliers of greater proliferation; the carmaker can indirectly benchmark other leading competitors through collaboration with such suppliers and enhance its capabilities. Through proliferation, suppliers not only diversify enterprise risks but also strengthen bargaining power vis - a - vis carmakers, which will further vitalize collaborative problem solving“(Oh, Rhee, 2008, p. 509).

1.2 Looking for new markets

This is another way of risk diversification. As lesson learned from 2008 – 2009 is clear, that some types of crisis hit some sectors much more than others. In times when bank loans are unavailable for end customers, the sales of products like cars suffers especially. This was the reason, why many automotive suppliers changed their strategy of 100 % focus to automotive industry. Instead of continue this, they elaborate business plans for offering their products and services to other sectors. Some of them, mainly lower Tier 2 – 3 suppliers achieve very quick reasonable success with this strategy in field of consumer products. For Tier 1 is this a long run as they have to define global working business model without any experience regarding branding. Few global Tier 1 are active in industries like aerospace or renewable energy. The share of these activities on their sales volumes is marginal. On customer side this activity is generally welcomed as it helps to improve financial stability of supplier chain during sectoral crisis.

2 New trends in procurement affecting supply chain relations

The position of procurement changed completely after crisis. It is accepted as strategic function by company's top management now. In majority of companies purchasing manager reports to general manager instead of sales manager as was the case in past. Problem remains, that only the minority of purchasing managers has adopt conviction in entire supply chains competition instead of individual companies. First reason is superiority feeling toward suppliers implicit in hierarchical understanding of supply chain. Second reason is personal experience of overwhelming majority of these managers only with buyer's market (excess of supply compared to demand). Sure it is welcomed if buyer has personal experience with sales and this is valid vice-versa too. We are able observe following trends in relationship management by procurement:

- Supplier development
- Preference of integrated suppliers
- Utilization of internet portals
- Global sourcing
- Sourcing flexibility

2.1 Supplier development

This term was known in literature long time before crisis. Its content was mainly limited to ad hoc short – term actions to resolve existing quality issues with supplier. With process oriented managerial style, focus changed to pro – active avoiding of issues. „Short - term problems can be addressed through collaboration in new car development and the ensuing mass-production process, whereas long-term problems can be solved through supplier development“ (Oh, Rhee, 2008, p. 508). Supplier development isn't more numerical supplier evaluation. Today this means set of activities to

ensure mutual compatibility between supplier and customer. It is a neverending process. Imanipour defined long – term goals related to suppliers:

- Supplier Quality Improvement
- Supplier Production Process Improvement
- Increasing Competitive Power in Market
- Supplier On-time Delivery
- Cost Leadership in Market
- Technical Knowledge Transition to Suppliers
- Logistic Knowledge Transition to Suppliers
- IT Knowledge Transition and Development
- Electronic Relationship and Information Sharing Development with Suppliers

(Imanipour, 2012, p. 91)

Effect of all these activities has to be saving of money and time(ultimately again money) on both sides. For next future there still remains one important question: How to unify supplier development process through entire supply chain?

2.2 Preference of integrated suppliers

In this paper's context adjective integrated has nothing to do with product's scale, no matter if module, system, group or individual component is delivered. Integration is here related to supplier's production technologies. Imagine situation, where Tier 1 supplier is buying painted plastic parts. In past, this usually involved three parties. Injection moulder has produced blank plastic part, this sold to painter and painter sold painted plastic part to customer – Tier 1. Both subsuppliers were sourced independently by Tier 1. As problems occurred, injection moulder blamed painter and vice – versa. Due to unclear hierarchical arrangement and responsibility, this represents neither classic dyadic, nor network relationship. This situation was recognized by some Tier 2 – 3 managers, which offered their customers some complementary technologies beside core ones. This model found positive response by customers as it solves many issues in different aspects(quality, logistic, R&D, etc.).

2.3 Utilisation of internet portal

Already in last decade of 20. century many companies started to use internet for commercial purposes. Mainly for marketing objectives. First attempts to manage relationships between supplier and customer were designed as third parties solutions open for all potential clients. As pioneer of this pattern in automotive industry was in year 2000 established portal Covisint. After potential good start this solution shows very quick its limits. Mainly lower tier suppliers perceived this tool increasingly only as leverage to reduce prices. There were many similar efforts to establish such portals even before crisis, no one of them was a real success. Therefore began some OEM's and global Tier 1 to establish their proprietary portals. Soon first of these portals embraced additional functions supporting not only commercial activities with suppliers, but also supplier development. „However, adoption of eBusiness in supply chains has been

slower than expected, particularly in small to medium sized enterprises (SMEs). The downstream larger businesses were forging ahead with eBusiness in 'eIsolation' and were not providing supply chain leadership. They were creating eLands with SMEs adrift of them"(Harland, 2007, p. 1234). With internal implementing of integrated enterprise resource planning systems changed the ability and willingness of SMEs to use proprietary portals of their customers. After crisis generally all 2 – 3 Tier suppliers were used to work with these. But this is only half way solution. Current design of these portals includes only customer and one level of suppliers. We still need to find solution involving whole supply chain. „The greatest benefits of eBusiness occur when its application is fully integrated throughout the chain"(Harland, 2007, p. 1250).

2.4 Global sourcing

Before crisis global sourcing was perceived by OEM's mainly as localization of Tier 1 suppliers, which followed their customers to new markets. These subsequently sourced local 2 – 3 suppliers for some less sophisticated components. Main motivation wasn't to select worldwide best suppliers, but only to satisfy local governments. Here we can identify one of the biggest crisis value, which forced mainly weak OEM's really start global sourcing for the right purpose – to find worldwide best suppliers. Key points for this were following:

- Global footprint of Tier 1 suppliers
- Global car platforms
- High transparency through information technologies
- Changing balance of power in worldwide economic

„The only recourse that suppliers have to generate long-term value gains and profitable growth is global growth in volume following the crisis – particularly in emerging automotive markets"(Stolz, 2010, p.1).

2.5 Sourcing flexibility

„Sourcing flexibility is related to the company's ability to find another supplier for each specific component or raw material. Some scholars (Narasimhan and Das,2000) observe that for a company to compete through flexibility, the sourcing or supply practices are quite important"(Sánchez, Pérez, 2005, p.686). The importance of 1st tier suppliers' purchasing capability is on the rise for the following reasons: first, as the 1st tier suppliers' new parts development cycle is shortened in accordance with carmakers' shortened new car launching cycle and lowered part carry-over ratio, the need for early involvement of 2nd tier suppliers in the 1st tier suppliers' R&D process has grown accordingly. Second, the number of 2nd tier suppliers with whom a 1st tier supplier works is increasing due to carmakers' accelerated modularization and 1st tier supplier-base reduction policies"(Oh, Rhee, 2008, p. 496). Generally we can say,that sourcing flexibility was driven before crisis by top management of global companies, during the crisis it was driven by supply base bankruptcies. Today the main aim of this activity is to improve complex flexibility as comparative advantage of individual supply chain. Historically, because of „exit" method, sourcing flexibility is native for north american

companies. On opposite side of the scala, we still can find Japanese companies. It is necessary to say, that almost all OEM's and Tier 1 companies are trying by many good reasons parallelly to global sourcing and sourcing flexibility to reduce number of their suppliers. These processes aren't antagonistic as behind all of them has to be the target to co-operate only with best suppliers.

3 Financial stability of supply chain

As a lesson learned from crisis, profitability and financial health become very important part of relationship management in automotive industry. While during crisis all actions in this field were only re-active, thereafter actors shifted to more systematic, pro-active measures.

3.1 Financial stability of suppliers

„The crisis in automotive industry 2008 – 2009 left deep traces bei suppliers. In 2009 suppliers turnover decreased in worldwide average by cca. 25 %, average profit (EBIT/turnover) decreased from 5,7 % in 2007 to cca. -1,5 % in 2009. As consequence of this cca. 340 suppliers have declared so far insolvency“ (Berger, 2010, p. 2). It was necessary to replace them as market began to vitalize after crisis. „Despite this historically bad situation came the consolidation only very dragging into operation. Thus is the number of M&A (mergers & acquisitions) – transactions in supplier segment dropping since 2007 – and contrary to the general expectation went the purchases through strategic investors in 2009 disproportionately back. In addition to a general uncertainty of potential buyers and their lenders, played the vehicle manufacturers on this occasion a central role. From the perspective of manufacturers, consolidation is not strategically desirable in many segments“ (Berger, 2010, p. 2). Interesting change occurred by financial situation of Tier 1 and Tier 2 – 3. „Suppliers with >10 bn EUR revenues show lowest profitability levels. Small and medium-sized suppliers have significantly improved their profitability compared to pre-crisis levels. Suppliers need to put an even stronger focus on product innovation. Only suppliers who can differentiate themselves from competition via superior product functionality will be able to sustainably achieve EBIT margins in the range of 6% and above. Most other suppliers will get further pushed into the commodity corner, where their profit will be locked-in at a 3 - 4% level“ (Berger, 2011, p. 2 - 4).

3.2 Payment terms

Despite many positive improvements in relations of customers and suppliers in automotive supply chain, there are still persisting many issues. One of them is unbalanced financial flow in individual supply chain levels. While car makers receive payment from customers in advance, respectively by delivery, they request their suppliers constantly longer payment terms. Till crisis ranged average payment term by cca. 45 days, during crisis it increased to 90 days and at present even 120 days isn't an ex-

ception. Subsequently the same payment terms Tier 1 transfer to lower levels. Whereas global players are able to adapt these conditions, for small and middle sized Tier 2 – 3 companies this means constant financial stress. Main issue here isn't cash flow, as financial flows are repeated, but refinancing costs are too high.

3.3 Financial audits

Lead global companies have started this activity immediately with first supplier bankruptcies in 2008. At that point automotive companies were missing any experience with this activity and relied mainly on financial reports issued by rating agencies. This were insufficient for decisions faced by automotive supply chains. OEM's and global Tier 1 suppliers began create their own risk management teams. This activity invoked different reactions in supplier community. Some suppliers recognized legitimacy of these audits, other tried to decline. Because of sensitiveness of company's financial datas it is the privilege of supplier to decline, but with consequence of losing business. Today these audits content two parts. First one is evaluation of supplier's financial results. These datas are generally public. More important is discussion about supplier's business plan for next 3 – 5 years. This has to be the core topic of financial audit. Experience shows, that in many companies this document is still understood to be only formality with missing consistency. If this is the case, auditor has to be very cautious about the future of company. It is really recommended for top managers and owners of audited company to take part on this discussion. In some countries or cultures this discussion can be made really only with decisionmakers. Once the result of audit is available, it is the internal policy of individual customer, who makes final decision about next co-operation with audited supplier. This has to involve representants of different departements(risk management, purchasing, financial departement, etc), to avoid any alibism.

4 Logistic

While before and during crisis probably most important request in logistic was supplier localization with primary aim to reduce logistic costs, after crisis and in near future the main task of logistic departement will be how to implement worlds best suppliers in one supply chain. Logistic isn't more only about packaging and transport, it is about project design. With global car platforms there is a possibility to have global supplier for particular product instead to have many local suppliers with different level of processes and cultural heritage. Input of logistic departement has to be the most important by decisions about where produce components, where groups, modules, systems and where to make final assembly. With increasing globalization and standardized supplier development, purchasing will be able identify right partners for every scenario.

5 Technologies and innovations reshape the roles

As in other sectors of our live, new technologies and innovations are playing increasingly important role in automotive industry. While crisis time provided best opportunities for producers of low segment cars, after crisis technologies and innovations implemented in car and its production become decisive. Balance between OEM's and Tier 1 suppliers completely changed. In the past all innovation was driven by OEM's. Management consultancy Oliver Wyman(formerly Mercer Management Consulting) identifies that in 2015 the global automotive suppliers and engineering firms will invest approximately €65bn in R&D — far more than twice as much as the OEMs (Danneberg, 2008, p. 18) Growing importance of Tier 1 suppliers, which take over leadership by development of individual modules and systems, failed to be translated into their equality with OEM's. From future's point of view the OEM's dominance will be apparently maintained from following reasons:

- Carmakers market's consolidation, reduced OEM's number
- Mutual co-operation of carmakers
- Political support and lobbying
- Carmakers insourcing due to capacity redundancy
- Pressure on supplier number reduction

Despite this persistent OEM's dominance the shift in R&D and innovation activities towards lower Tier suppliers gives them big opportunity in marketing activities. While they own any product brand, they have to be able address end customers with marketing of innovations and technologies developed by them. Once their campaign is successful, end customers start ask this innovation or technology by car dealers and they do the same by OEM's. Circle is complete! But this won't be definitely as smooth as this. Currently all suppliers in automotive industry have only marginal experience in end customer marketing and as consequence missing marketing infrastructure. Paralelly can't be expected, that OEM's willingly reduce their influence on consumer's decision.

Conclusion

Relationships in supply chain were, are and will be a dynamic process. Internal dynamics of this organism persistently accelerate and have impact on all departments in company. It is evident, that all players, big or small, only can survive as a part of successful supply chain, or better to say, network. Any mistake in selecting right partners, if they are customers or suppliers, is deadly. This doesn't mean to get rid of all non-ideal current partners. That definitely means to shed all those not-willing develop themselves. This is currently manageable in dyadic relationships. Next step is to unify all these processes in complete supply chain/network. Starting point here has to be one supplier portal servicing all tier levels. But this is definitely future, not presence. From point of view of future development, most impact on relations in automotive industry will have probably the change in behaviour of future customers, as car status will be dramatically different as today. For next generations car won't be a status symbol. The need to own will be suppressed. This will bring retreat from customization and movement of pre-assembly to lower tier supplier.

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Process of Human Resource Management in Small and Medium-sized Enterprises¹

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Abstract

Human resources are the major factor in business success, regardless of the business focus, number of employees, turnover, scope, etc. Considering the importance of small and medium sized enterprises in point of view of their limited resources is very crucial to research this problematic within such specific environment. The aim of this paper is to present preliminary research and its results of project GAJU 039/2013/S, in the meaning of analytical description of core characteristics of human resource management within small and medium sized enterprises.

Key words

human resource management, small and medium sized enterprises, process management

JEL Classification: L53, M12

Introduction

Small and medium-sized enterprises are the driving force behind business, growth, innovation and competitiveness. Those businesses are also a significant employer throughout the world economy.

According to Kotlířová (2011) the share of small and medium-sized enterprises in the European Union covers over 99% of European businesses, and provides over 60% of all jobs in the Czech Republic, which is confirmed by the report on the development of small and medium-sized enterprises, from which it follows that the proportion of small and medium-sized enterprises in the total number of active business entities in the Czech Republic was 99,84% in 2011, which amounted to 1 066 787 legal entities and natural people. The proportion of employees of small and medium enterprises in the total number of employees of the business sector in the Czech Republic was 60,85%, to the nearest 1 865 000 employees (Ministry of industry and trade, 2011).

The definition of small and medium-sized enterprises is based on the Commission Regulation No 800/2008. The basic criteria for assessing the size of the undertaking, which will continue to be post address, include, inter alia, the number of employees. For small and medium-sized enterprises, according to many authors, for example according to Kislingerová, Nový (2005), Dvořáková et al. (2007) and Veber, Šrpová

¹ GAJU 039/2013/S „Human Resource Management in Small and Medium-sized Enterprises“

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(2008), but also according to the definition of the European Union, we consider enterprises, that employs fewer than 250 employees.

Kleibl, Dvořáková, Šubrt (2001) state that one of the most important factors affecting the success or failure of the company in the challenging competitive environment of the market economy is the quality of the human factor. Since the beginning of its formation personnel management was considered to be an important and an integral part of process management, its shortcomings negatively affect the quality of the operation of the organisation (Welch, 1994).

According to Truneček (2004) there is a positive phenomenon in the present distinct shift of Czech companies towards procedural orientation control – more than 60% of businesses is focused on the management of complex processes as opposed to managing individual isolated operations or functions. Also Svozilová (2011) says that process management and related process improvement has become a normal part of strategic approaches to management and in many companies they have already found their place in the corporate culture.

The main purpose of existence is to create a product output process (Rolínek, 2008). There have to be some inputs at the beginning of each process, those subjected go through transformation that is maximally adjusted at the end of the process of getting the output that someone else needs (Svozilová, 2011). Řepa (2007) states that improving business processes are now a bare necessity to keep company in the market.

Šmída (2007) states that process management represents the systems, procedures, methods and tools, ensuring maximum performance and continuous improvement of corporate and intercompany processes, which are based on a clearly defined strategy and organization in order to meet the specified strategic objectives.

Strategic direction, based on the long-term forecast of development of the company, helps to anticipate future problems and opportunities. Its application is extended to prepare the organization to address the main problems and obstacles of the further development (Keřkovský, Vykypěl, 2006). According to Sedláčková, Buchta (2006) strategic management gives clear objectives and directions for the future of the company and sense of security for employees. It is known that most of the people work easier when know what is expected of them, and where the company is heading. Strategic management also helps to improve the quality of management, leads management to make better quality of decision. Keřkovský, Vykypěl (2006) also note that the strategic management helps to improve communication within enterprise, project coordination, motivation of workers and improving the allocation of resources.

The central concept of strategic management closely associates with the objectives pursued by the company. According to Kotler, Keller (2007) strategies reflect the basic ideas about what way will be corporate goals achieved.

Dedouchová (2001) presents two definition of the strategy, traditional and modern. The traditional notion of enterprise strategy is in understanding of document, in which they are determined by the company's long-term objectives, set out the progress of individual operations and the deployment of resources necessary for the fulfilment of the objectives. The modern concept of strategy is in company's readiness to understand the future. In the strategy there are set out the long-term objectives of the

company, the progress of the strategic operations and deployment of resources required to meet the objectives so that the strategy was based on the business needs, take account of the changes to its resources and capabilities, and at the same time adequately respond to the changes in the surroundings. Johnson, Scholes (2006) added to the modern concept, that the characteristics of the strategy should be undertaken a specific strategy, competitive advantage, it should specify the basic parameters of the business, a set of products, services, production volume, etc. and last but not least strategy fundamentally determines the tasks of the tactical and operational levels of management.

Apply for a corporate strategy – nothing should be seen as static and unchanging. Strategic thinking needs always to be so dynamic, as is the company itself. The consistency of the corporate vision, corporate policies and corporate strategies in ever-changing situations, it is indispensable. This is true now more than ever (Mallya, 2007).

1 Methodology

Preliminary research presented in this paper was financially supported as a part of research project GAJU 039/2013/S funded by Gant agency of University of South Bohemia in České Budějovice. The aim of this research is to determine key indicators, factors and tools, which may support decision making in the field of human resource management within the small and medium sized enterprises and overall describe this process in their daily business practice.

The aim of this paper is to present preliminary research and its results of this project, in the meaning of analytical description of core characteristics of human resource management within examined small and medium sized enterprises located in South Bohemia region.

Small and medium sized enterprises were characterized by number of employees according the definition of European Union; from nil to 249 employees. The research sample contains of 200 small and medium sized enterprises located in South Bohemia region and for the need of preliminary research there were carried out questionnaire survey during August and September 2013 on the sample of 30 enterprises.

The preliminary research sample consist of 30 small and medium sized enterprises located in South Bohemia region, specifically 43% is located directly in the main town České Budějovice, 13% in Jindřichův Hradec and the rest in other South Bohemian towns. Examined enterprises are primarily (62%) enterprises with less than 50 employees – small enterprises and the remaining 38% are medium-sized enterprises with number of employees between 50 and 249. With regard to the form of business, there are 70% of limited companies, 26% of joint-stock companies and 4% of cooperatives. The main focus in their business is in building industry (26%), production (26%), agriculture and food industry (22%).

Obtained data were analyzed and summarized through basic statistic methods of data description (esp. relative frequencies, median) together with graphical expressions presented in this paper.

1.1 Research sample description

Research sample consists of 30 small and medium sized enterprises (public company, limited partnership, limited company, joint-stock company and coop) located in South Bohemia region. In point of view of their limited resources, it is not surprising, that only 13% of surveyed enterprises have trade unions. The range of competence of selling goods and offering services is predominantly in whole Czech Republic (57%), 26% of examined enterprises acting within South Bohemian region and the rest 17% within European Union countries. 30% of examined enterprises have foreign participation, mostly from Austria, which is quite logical in point of view of location. On the other hand, they are mainly independently acting enterprises (73%), further 19% are enterprises involved in holding and also some enterprises are part of franchising contract, of other form of chain or network. In point of view of their limited resources, it is not surprising, that only 13% of surveyed enterprises have trade unions. Limited resources relates with using outsourcing, especially in the IT (44%), accounting (35%), transportation (30%), cleaning and service (21%), etc., only 13% of examined enterprises do not use outsourcing.

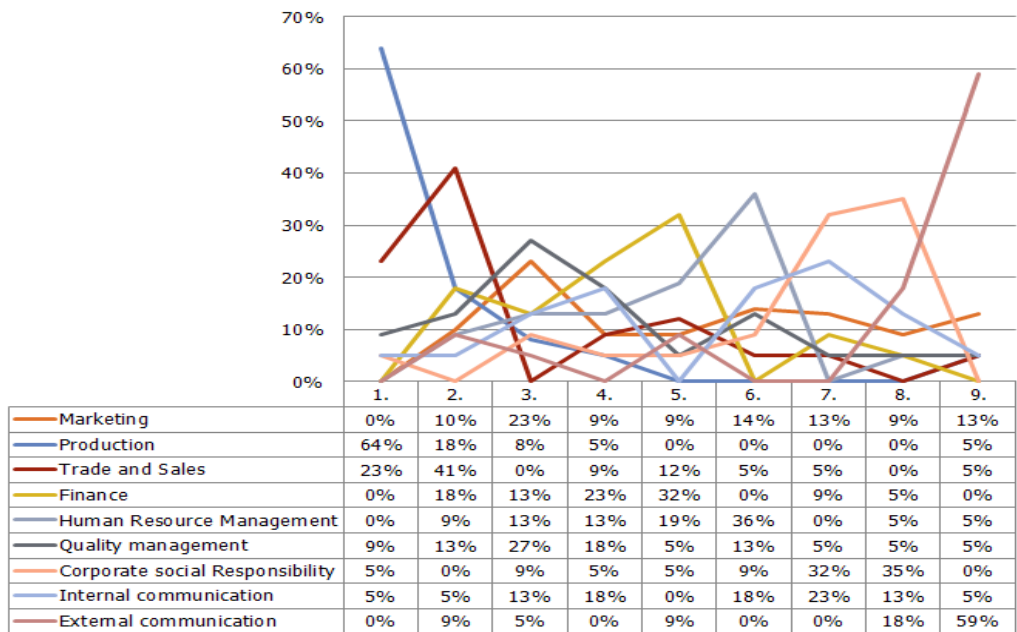
Another typical characterization of small and medium sized enterprises is relatively small percentage of companies that create strategies in human resource management (in the preliminary research 46%, 5% of them in the written form), on the other hand, it does not mean that they are acting without direction, only it is most about inner vision of owner shared in informal way through enterprise. The similar situation is with position of press officer, which exists only in 9% of examined enterprises. On the other hand, 93% of surveyed enterprises is holder of ISO 9001 certificate, 40% of ISO 14001 certificate, 20% of OHSAS certificate, etc. Also teamwork as core part of modern management is hold more-less in every surveyed enterprise.

2 Results

There are a lot of different processes in the business practice; the basic ones are shown in the graph 1.

From the basic production, trade and sales, finance, marketing to human resource management, internal and external communication, quality management or corporate social responsibility, which presents holistic cover of modern managerial concept? It is obvious that for examined enterprises is most important process of production, on the second place of importance is process of trade and sales followed by quality management, finances and finally human resource management.

Graph 1 Relative frequencies of the order of importance of various business processes



Source: own creation

Graph 2 shows how examined enterprises evaluate by percentage core processes based on their perfection resp. their satisfaction with functioning of processes.

Graph 2 Median values of satisfaction with various business processes

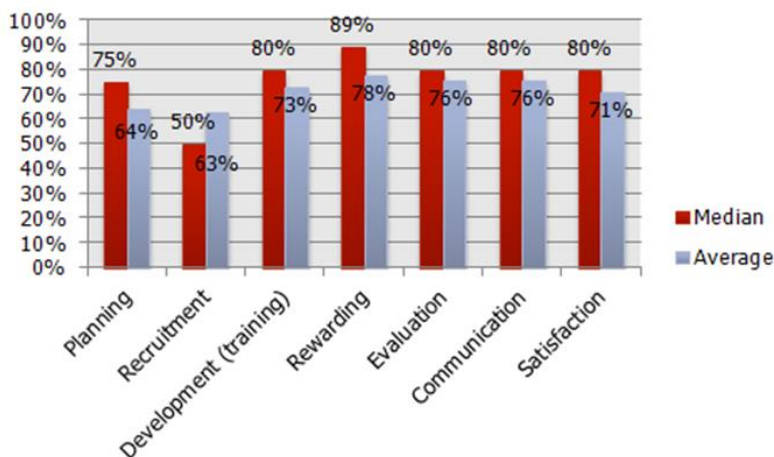


Source: own creation

We can see that surveyed enterprises are relatively satisfied with process of production and finance and least with process of external communication and corporate social responsibility. Satisfaction of process of human resource management is in median 55%, which shows potential for improvement. As the main issues in this field of daily business surveyed enterprises mostly stated lack of qualified employees, ageing of employees, increasing costs, motivation attendant on lack of commitment, rewarding system, etc.

Human resource management represents in the business practice holistic approach. We can find specific activities that are included in this managerial activity, such as planning of human resources in the meaning of number, qualification, timing and location, further recruitment as a variety of different possibilities how to attract and recruit the right employee, which is followed by their development and training, rewarding connected with evaluation, never ending communication and care of their satisfaction. The graph 3 shows the overview of median values and average (relative frequencies) how surveyed enterprises perceived importance of individual activities of human resource management. The most important one is rewarding (89%) followed by evaluation and communication, furthermore, development and training, satisfaction, planning and the least is surprisingly recruitment with 50%.

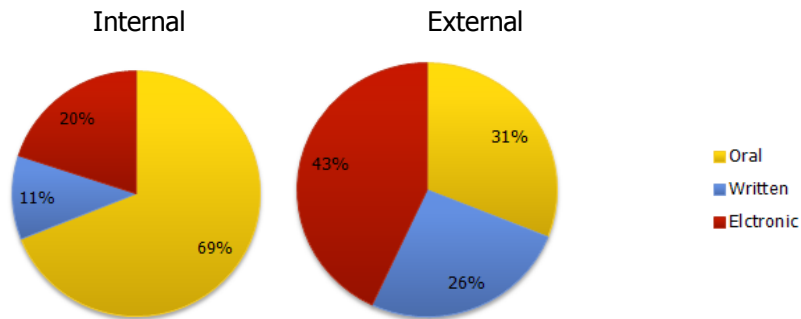
Graph 3 Median and average values of importance of various activities of human resource management



Source: own creation

We can see that communication is quite important for surveyed enterprises, graph 4 shows structure of utilization of specific forms of internal and external communication. It is clear that dominant is oral communication especially in the inner environment of business, followed by electronic communication, that is dominant in point of view of external communication. Receding form of communication in the external but mostly in the internal environment is written communication.

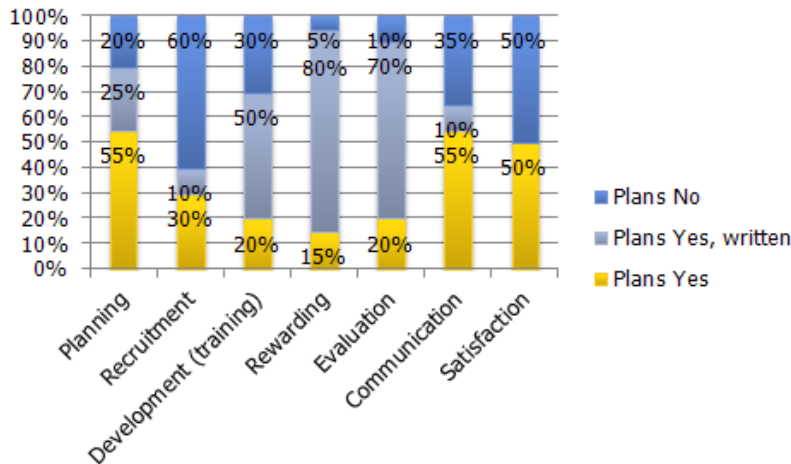
Graph 4 Relative frequencies of internal and external communication forms



Source: own creation

The important activity, not only in human resource management, but in every business activity, is planning. Graph 5 shows relative frequencies dealing with planning of surveyed enterprises within specific aspects of human resource management. We can see, that written planning is most frequently used in rewarding, employee’s evaluation, development and training. Planning in non written form is typical for areas as employees plans, communication, satisfaction, that are also together with recruitment often implemented without planning at all within the examined businesses.

Graph 5 Relative frequencies of planning of various activities of human resource management

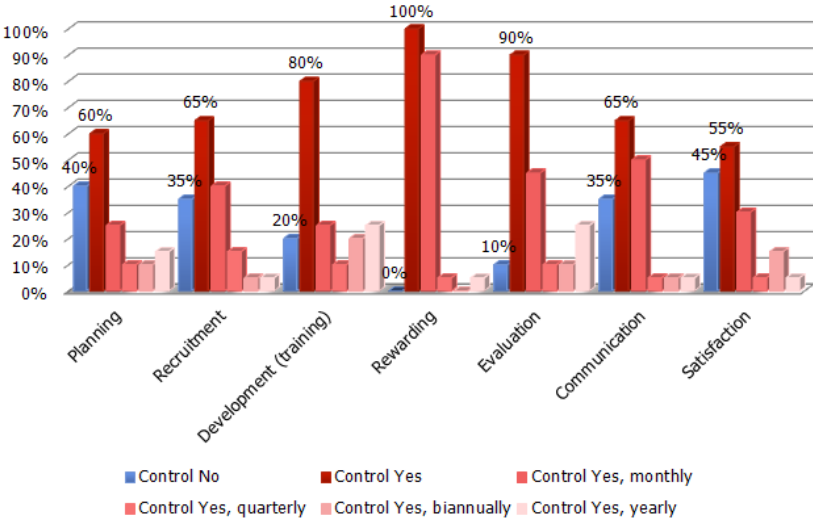


Source: own creation

After planning come crucial part of business practice control. Graph 6 shows overview dealing with control within mentioned core human resource management activities. Dark blue and red columns show strictly what number of examined enter-

prises do or do not control within individual areas. The light shades of red shows the structure of control timing. The control is dominant in rewarding with monthly period, further evaluation again mostly with monthly period of control, development and training, where are control carried out mostly yearly and monthly. Between 50 to 60% of surveyed enterprises do controls in the area of planning, recruitment, communication and satisfaction, mostly in the month period.

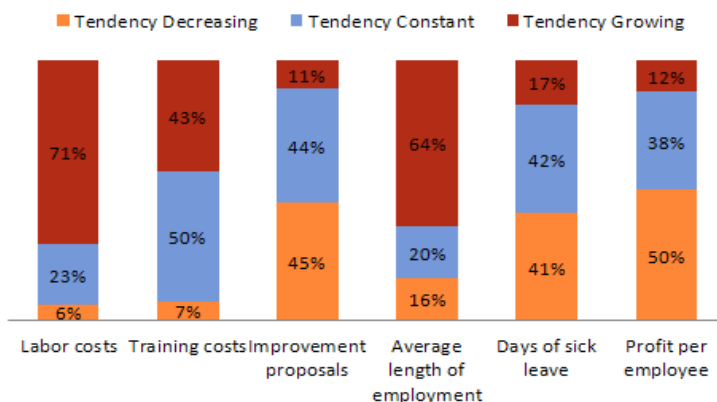
Graph 6 Relative frequencies of control and its timing of various activities of human resource management



Source: own creation

To carry out effective control, there is need to determine set of indicators. The graph 7 shows some specific indicators that are used by examined enterprises for human resource management, there are labour costs, training costs, number of improvement proposals, average length of employment, days of sick leave and profit per employee. We can see that the tendency of indicators and the growing one is apparent by labour costs and average length of employment. In contrary decreasing tendency is by profit per employee and improvement proposals. The constant tendency is most frequent by training costs and days of sick leave. Either way surveyed enterprises are mostly satisfied with current situation of those indicators.

Graph 7 Relative frequencies of tendency of some human resource management indicators



Source: own creation

Conclusion

The aim of this paper was to present preliminary research and its results of this project funded by GAJU under No. 039/2013/S. It is clear that larger research sample will bring the possibility of more sophisticated data analysis. Nevertheless, results presented in this paper show, that despite the increasing importance of human resource management, there is still dominant focus on production, trade and sales and quality management. Examined enterprises are, except of process of external communication, satisfied with those processes for more than 50%. Production and finance processes work best.

There were characterized seven main activities within examined process of human resource management that are most important for examined enterprises. More than 80% of them perceived as crucial rewarding, evaluation, communication. In view of planning in those areas of human resource management, survived enterprises mostly do plans for development and training of employees, rewarding and their evaluation – in the written form. The following step is control, which is similarly most frequent for development and training, rewarding and evaluation usually in monthly intervals. With controls relates indicators, except of traditional ones, examined enterprises followed also indicators such as number of improvement proposals, average length of employment or days of sick. Research also confirmed global tendency that costs rise and profits fall.

Human resources are the basis of each business and awareness of its importance is growing, on the other hand, small and medium sized enterprises have to face a lot of difficulties that are brought by everyday high turbulent environment, and so the change of their daily politics is slowly. Nevertheless, we can see effort in the right direction, which can be supported by results of researches such as this one.

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Logistics Performance and Its Changes during Present Global Financial and Economic Crisis¹

Lenka Drobcová²

Abstract

The aim of this work is to show the impact of economic and financial crisis on logistics and transport industry. Based on the data from the World Bank report Connecting to Compete: Trade Logistics in the Global Economy, this paper offers information about the Logistics Performance Index and its changes in chosen countries of the European Union, mostly neighbouring countries to Slovakia and countries connected by the river Danube (Danube region). Applying the method of comparison gives us the idea about the changes of the main indicators during the period between 2007 and 2012, the present and near future opportunities and threats for transport industry and logistics itself.

Key words

Logistics Performance Index (LPI), transport, trade research, logistics

JEL Classification: C44, L91, R4

Introduction

Nowadays the world faces not only the impact and influence of globalization itself, but what more; everybody must deal with current economic and financial crisis. There is no doubt that this crisis has an enormous impact on not only states, countries, industrial areas, markets or companies, but also, on common people and their everyday life. Thanks to process of globalization, the world became more open, countries and their markets are more accessible with possibility to move people as well as goods, materials, energy, information and financial flows across the borders. Logistics and transport, one of the most dynamic factors of the global economy have become more and more important. The impact of globalization is also significant in building logistic systems in all areas of transport (road, rail, water, air) and combined transport. This area is highly influenced by new information technology and systems involving high-volume and large scale "information highways" and network. Subsequently, these factors have a great impact on development of commercial logistics (electronic ordering, cashless payments etc.) and macro-logistics (linking companies starting with the extraction and processing of raw materials into semi-finished products, their transport to customers, service or recycling). Increasing cross-border trade is one of the factors which might help economic recovery during a period of economic downturn.

Logistics and transport play an important role not only on the macro level in the economy but also micro level presented by business entities. The importance of this

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industry expanded and gradually is taking over more and more activities in the economic world. Nowadays challenge is to offer complex services which connect the suppliers, manufacturers and customers. It is necessary to optimize goods, service and information flows. However, also limiting factors of sustainability, infrastructure limitations and the number and qualification of human resources must be considered.

In this period of fast changing markets, the flexibility and adaptability together with shortening the time of transport processes represents a vital part of logistics. However, in many industries cost is still one of the most significant factors of competitiveness. According to Gópfert, in the area of logistics the cost "encompasses the value of the management into the use and application of the production factors involved in logistics services" (Gópfert, 2002).

Export and import are the main factors of the international transport market. Demand for logistics services depends on demand for some products or services and that's why represents secondary, supporting area of realized trade.

1 Institutional Background

Since its establishment in 1995, the World Trade Organization (WTO) has taken the responsibilities to rule the world trade. This organization assumed the principles of its predecessor - the General Agreement on Tariffs and Trade (GATT). Nowadays the WTO adjusts and creates rules for the international trade of goods and services as well as the intellectual property rights. In case of problems, the organization provides a forum for negotiations on multinational bases to resolve any trade problems and also includes a formal mechanism for settling a dispute. WTO is the primary institution helping to liberalize trade activities all over the world. Within its scope, the WTO presents an institutional basement and also has introduced more programs helping trade facilitation, including improvement of transport and logistics.

One of the organizations represented by the authorities in the fields of logistics and supply chain management, the Council of Supply Chain Management Professionals (CSCMP) defines the logistics as "the process of planning, implementing and controlling procedures for the efficient and effective transport and storage of goods including services, and related information from the point of origin to the point of consumption for the purpose of conforming to customer requirements. This definition includes inbound, outbound, internal, and external movements." (CSCMP, 2010).

Important worldwide active institution is the World Bank which provides assistance in the technical and financial field, mostly to developing countries all over the world. The organization was established in 1944 and among financial products and services it offers a wide range of publications and reports. For the aim of this work we chose the Logistics Performance Index which was published every second year since 2007. The LPI index was prepared and implemented in co-operation with several institutions, logistics providers and academic partners. The participants are:

- the International Trade and Transport Departments of the World Bank,
- Turku School of Economics (TSE) in Finland,
- Global Facilitation Partnership for Transport and Trade (GFP),
- the International Federation of Freight Forwarders Associations (FIATA),
- the Global Express Association.

2 Logistics Performance Index (LPI)

Logistics Performance Index (LPI) represents results of a worldwide survey of subjects operating in the field of transport and logistics: global freight forwarders and express carriers. Used is a method of standardized questionnaire. The responses are collected from logistic professionals, practitioners, policymakers and users. Based on both, qualitative and quantitative measures, the LPI index provides feedback on "friendliness" of the logistics environment in countries all over the world. The data include measures of performance of logistics supply chains inside each country, offering two main perspectives: Domestic and International. A domestic logistics performance points out how efficient is a supply chain in monitored countries, depending on specific features of the economy. For the aim of this work, the overall International Index was chosen.

So far, there had been published 3 reports (2007, 2010, and 2012) in which logistics operators express their views on the main six indicators. In the latest report, almost 1,000 respondents gave the feedback. Out of this amount, 54% provide logistics services (such as warehousing, distribution, courier services, cargo transport etc.) as their core business. 32% are full-container companies of which 22% are full-trailer load transport companies and 10% represent custom tailored logistics solutions. Considering the kind of transport, the most respondents deal with multimodality (45%), maritime transport (23%) and air transport (13%).

The international LPI is created by a mathematical method where normalized scores of the 6 key indicators are multiplied by their component loadings (CL). CL represents the given weight of each indicator. The result comes from the summary and is close to a simple average of the components.

Table 1 describes the six core indicators together with the value of the rating and number of the question in the survey. Indicators are collected in 6 main areas of the logistics where rating 1 represents very low activities (indicator 1, 2, 4, 5, 6) or very difficult (indicator 3) environment. On the other hand, rating 5 means very high level (all indicators except for 3) or very easily arranged competitively priced shipment (indicator 3). Besides the average result, the LPI contains also rank of the countries and percentage of highest performer.

Tab. 1 Key Indicators of LPI Index

No.	Key Indicator	Rating		Question No.
1	The efficiency and border management clearance	very low (1)	very high (5)	10
2	The quality of trade and transport infrastructure	very low (1)	very high (5)	11
3	The ease of arranging competitively priced shipment	very difficult (1)	very easy (5)	12
4	The competence and quality of logistics services	very low (1)	very high (5)	13
5	The ability to track and trace consignment	very low (1)	very high (5)	14

No.	Key Indicator	Rating		Question No.
6	The frequency with which shipments reach consignees within scheduled or expected delivery time	very low (1)	very high (5)	15

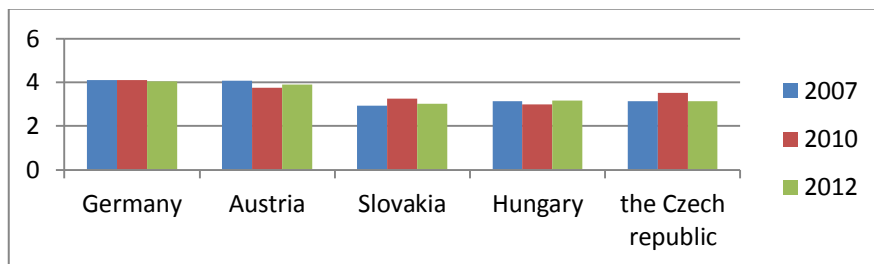
Source: Own processing by the author – www.worldbank.org

2.1 LPI and its Score in Monitored Countries

Logistics Performance Index provides a complex view on data from 155 countries. It was first published in 2007, in the year which is considered, not only in some professional financial papers, as the beginning of the global financial and economic crisis. So far, there had been printed together three reports on logistics performance. Since all of them contain a large number of data, the chosen countries, besides Slovakia, are Germany as a basis for comparison of the developed industry in Western Europe, Austria and Hungary due to its connection to the river Danube and the Danube region and the Czech Republic as a former member of our common state. The first two countries are developed economies with stable political and economic environment. The rest of the countries have in common the historical presence of the communist regime, insufficient infrastructure, low internal sources and strong bonds on geographically closed developed economies within the European Union.

Based on the results from the compared reports, Graph 1 indicates total scores (value range from 1 to 5 – see Tab. 1) of the LPI index in above mentioned monitored countries.

Graph 1 The Logistics Performance Index – Score by the Country



Source: Own processing by the author – www.worldbank.org

Since 2007, Germany and Austria have kept the highest levels of overall scores and these countries are considered as “friendly” to logistics. Among the rest of the countries, the best results were achieved by the Czech Republic where the score indicates small changes between 3.13 and 3.51 points. The results in Slovakia showed improvement in the year 2010 (increase from 2.92 to 3.24) on one hand but also decrease in 2012 (to 3.03 points). As we see, the last three countries (also members of the Visegrad 4) still have considerable reserve for future development of the logistics.

2.2 LPI and the Ranking in the Observed Countries

As assumed, the aim of the Logistics Performance Index is to point out the strength and weaknesses of one of the most important industries in nowadays economies and to suggest the possible areas of its improvement. However, in this turbulent period of globalization, financial and economic crisis the company must have agility to succeed and to stand its position on the market. In the economy are present changes which have become more global, information demanding and technology depending. Some authors pay a big attention to indicate the importance of logistics as a source of sustainable competitive advantage (Porter, 1985; Achrol, 1991; Webster, 1992).

Table 2 represents a complex view on the LPI index in the chosen countries, key indicators and overall ranking. Marked are also the directions of movement either upwards for the better position or downwards to worse place in the rank. Collected data are from the reports from 2007, 2010 and 2012 where the data from the last two years are compared to the previous one (for example: the indicator Customs improved from the place 55 in 2007 to 47th position in 2010). LPI rank represents the final position among the all surveyed countries.

Tab. 2 Monitored Countries – Ranking by the Indicators

	Country	DE			AT			SK			HU			CZ		
No .	Year / Indicator	2007	2010	2012	2007	2010	2012	2007	2010	2012	2007	2010	2012	2007	2010	2012
1	Customs	4	3 ↑	6 ↓	8	20 ↓	9 ↑	55	47 ↑	45 ↑	34	45 ↓	47 ↓	36	27 ↑	43 ↓
2	Infra-structure	3	1 ↑	1 -	9	21 ↓	11 ↑	52	42 ↑	48 ↓	33	38 ↓	40 ↓	36	34 ↑	50 ↓
3	International shipments	4	9 ↓	11 ↓	3	4 ↓	7 ↓	38	57 ↓	71 ↓	41	86 ↓	52 ↓	43	17 ↑	45 ↓
4	Logistics quality and competence	3	4 ↓	4 -	4	20 ↓	3 ↑	40	41 ↓	43 ↓	37	53 ↓	36 ↑	42	35 ↑	31 ↑
5	Tracking and tracing	5	4 ↑	7 ↓	12	22 ↓	11 ↑	55	31 ↑	68 ↓	44	71 ↓	30 ↑	35	27 ↑	46 ↓
6	Timeliness	8	3 ↑	2 ↑	3	23 ↓	31 ↓	60	34 ↑	46 ↓	34	62 ↓	61 ↑	42	19 ↑	63 ↓
	LPI rank	3	1 ↑	4 ↓	5	19 ↓	11 ↑	50	38 ↑	51 ↓	35	52 ↓	40 ↑	38	26 ↑	44 ↓

Notes: DE – Germany, AT – Austria, SK – Slovakia, HU – Hungary, CZ – the Czech Republic.

Source: Own processing by the author – www.worldbank.org

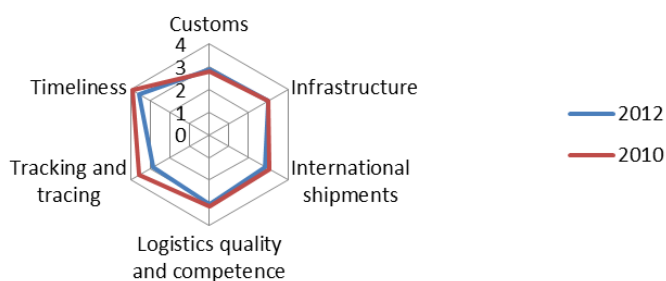
As seen in the table, the best place, out of the chosen countries, is occupied by Germany which remained among the first five best evaluated countries. Due to slightly worsen efficiency and border management clearance (a drop in the ranking from the 3rd to the 6th place), international shipment and the ability to trace and truck the consignment, it ended on the 4th place in 2012 (based on the date from 2011). Alt-

though building the new infrastructure is more expensive than in the compared countries, Germany occupies the best position also in this field. The second best in the ranking of observed countries is Austria which took the best position in International shipments (in a long-term period) and significantly improved indicators of quality of infrastructure, logistics services and tracking and tracing ability. However, there is a continuing decrease of the Timeliness indicator. Based on the ranking from 2012, the third best placed country is Hungary. In 2010 the position of Hungary fell significantly from the 35th to 52nd place. Most of the indicators showed quite a high decline (indicators 3-6). In 2012 the situation changed in a rather positive way since the country improved all the problematic areas. The fluctuating position of the Czech Republic is caused by opposite direction of the indicators development. Except for Logistic quality and competence, the features which improved in 2010 worsen in 2012 and vice versa. The highest fall was caused by quite a low frequency with which shipments reach consignees within scheduled or expected delivery time. Finally, on the last place out of the researched countries is Slovakia. After some progress in tracking and tracing and better timeliness in 2010, in 2012 Slovakia failed to keep the bettering position and dropped from place number 38 on the 51st position. Customs was the only improving indicator, compared to the data from the previous report.

2.3 LPI and Indicators Changes in Slovakia

Logistics in Slovakia before joining the European Union was not developed well. Nowadays, thanks to mutual cooperation and support from the European fund, Slovakia has the chance to improve its infrastructure and gain a modern technology, building up multimodal hubs involving all kinds of transport. The main drivers of the economy during the period of globalization are foreign investors represented by their factories and chains. The main areas of their influence are automotive and electronics industry. Influenced by the financial and economic crisis, the current trends show a shift of the certain activities from Western Europe eastwards. However, Slovakia as a small country and the smallest player (concerning the V4 or the Danube region countries) is trying to increase its competitiveness using the specifics of economic and demographic environment.

Graph 2 PI Index of Slovakia in 2010 and 2012



Source: Own processing by the author – www.worldbank.org

The above graph suggests that the Slovak Republic is the most powerful in the field of logistics which is reliability in the meaning of delivering consignment on time, with the evaluation of 3.57 and the competence and quality of provided services (3.07). There was only very small decline in the value of the Infrastructure indicator which changed from 3.00 in 2010 to 2.99 in 2012. Opposite development is seen in the efficiency and border management clearance where the date increased from 2.79 in 2010 to 2.88 in 2012. The most noticeably dropped the indicator of the ability to track and trace consignment (3.54 in 2010, 2.84 in 2012).

3 Future Challenges in Logistics Performance

Nowadays, with connection to the logistics performance, there have been remarkable changes in this industry which no more guaranties only transporting any product or goods to the right place and on time but it also takes the responsibility for possible impact of such services on the environment while trying to keep a sustainable growth. Future trends are influenced by several main factors which can be summarized as following:

- Applying low-carbon economy principals in everyday activities,
- Developing innovative solutions based on technical and technological improvements,
- Deepening collaboration also among competitors,
- Higher preferences for "green" products,
- Reducing carbon emissions involving stricter rules and regulations.

Deutsche Post DHL, as the leading company and the most significant driver of change in the logistics field came up with a completely new and sometimes radical prospects of a possible future development. DHL experts introduced recent result of their studies and research in the work *The World in 2050- A Scenario Study*. Presented are five scenarios out of which two are rather positive and three with the negative view on the future logistics development. As stressed by CEO Frank Appel "Today's complex economic and political landscape renders accurate forecasts virtually impossible. In our volatile and connected world, traditional, linear forms of analysis have repeatedly proven wrong. They, alone, simply aren't enough to help us anticipate and prepare for change." (Appel, 2012)

3.1 The World in 2050 – A Scenario Study

The experts from the DHL offer different, mostly contrary views on the future character of the world in connection to trade, transport and logistics. There are 5 main scenarios dealing with economy, population growth, customers' lifestyle, nationalism and possible comeback of the policy of protectionism. Table 3 offers a complex view on the scenarios itself while defining the main characteristics of future environment, key factors of the monitored business area and suggested future advantages or disadvantages of offered solutions.

Since it is quite difficult to predict the direction of the world trade, the study summarizes the information of today's trends and describes more likely scenarios. From the logistics point of view, the Scenario number 5 seems to be the most suitable and advantageous.

Tab. 3 Summary of Indicated Scenarios in 2050

No.	Scenario	Characteristics of the environment	Key factors of the industry	Disadvantages/advantages
1	Untamed Economy-Impending Collapse	global mass production, estimated population of about 9 billion people	rapid demand for goods transfer	increasing competition for the natural resources
		accelerated worsening of climate changes	dissatisfaction for the appetite of growth	
2	Mega-Efficiency in Megacities	megacities as pillars of global cooperation	more sustainable transport	unlimited interaction and global collaboration
		downsides - rural areas are left behind		applying "green economy", innovating, more efficient technologies
3	Customized Lifestyles	facilitating the world with an individual lifestyle	mass production and uniformed good will disappear	diversity of the world
		thanks to technical progress in 3D printing, consumers turn to producers	lower transport demand	growing need for recycling creating new commercial perspectives
4	Paralyzing Protectionism	domination of nationalism, high custom barriers	stagnation of the international exchange	conflict over natural resources
		trade restricted to original blocks - end of globalization		
5	Global Resilience - Local Adaptation	fast moving industry, expanding industries	logistics rapid reactions	safe solutions
			top priority is to secure the supply chain	fast adaptability, immediate reactions even in emergency

Source: Own processing by the author – www.dhl.com

According to the table, important features still are and will be a necessary adaptation, technology innovation, safe and secure supply chain and short reaction time.

Conclusion

In recent decades, due to increased request for transport efficiency, logistics gained unprecedented dimensions. The growing need for environmental protection and material resources pushes the subjects on the market to coordinate various forms of transportation. Present economic and financial prices influenced the way of choosing the most suitable, reliable and at the same time low cost transport services. Logistics is becoming more and more complex influenced by emerging factors of competitiveness such as security of the supply chain or adaptability to unexpected situations. Due to crisis, logistics service providers and carriers have to re-evaluate their own processes and adopt less popular measures. In term of transport companies, there is increased "fight" over customers while customers benefit from more attractive offers and rates. Outsourcing is gaining stronger position since fewer and fewer companies can afford to run these activities in-house. However, the main idea of each entity is to maintain its own core business.

As for Slovakia, the logistics systems mainly based on automotive and engineering industry orders ensure a fluent material and finished products flow from manufacturers to contractors and end users. One of the negative aspects of logistics performance in Slovakia is a high concentration on road transport which is becoming unsustainable. The higher demand compared to lower offer is reflected in prices. However, hand in hand with higher prices, the customers expect better quality, accuracy and timeliness. There are many investment projects being considered in terms of profitability, sustainable growth in relation to the availability of related public infrastructure. Taking only Bratislava region into account, the area has a great potential in relation to transport: road, air, rail or water. Its location close to Vienna and Budapest plays an important role in international perspective. Except for the air transport, ground services suffer from the lack of capacity of whether local roads or highways, incredible traffic jams and delays. The transport problem is also related to the pricing of highways which is reflected particularly in the transfer of routes for local roads, causing many problems. One of the solutions seems to be the evaluation of efficiency of the Danube region itself, which based on a support by the EU programmes and funds, represents a great potential of improving Slovak logistics performance.

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Elimination of Production Losses¹

Šárka Findová – Josef Košťálek²

Abstract

The aim of this paper is to show the emergence of possible losses due to wrong use of the possibilities of the production system. Conversely speaking, if the organization of production quality and are elected by the correct combination of the production structure will achieve higher profits.

Key words

efficiency, conservation, management, linear programming tool

JEL Classification: D29

Introduction

This paper focuses on the description of the problem of optimum utilization of installed production capacity in the production system. Optimum is the best. Optimization is always associated with finding some extreme features. For example, minimizing the total cost or maximizes the total profit. Additionally, this paper describes how to take advantage of a number of decision problems all easily accessible the program MS Excel.

1 Optimal use of production capacity

The term capacity indicates the maximum possible volume of production in the manufacturing system. Of course aim is to maximize capacity utilization. In a situation where the capacity of the facility is not fully utilized there is a need for a higher number of orders, it means to look for new customers. New customers who buy goods, but also customers, with whom it will be possible to cooperate. For example, if I have enough work for two lathes my potential customer is a company that has a capacity of turning full and needs to produce more.

Another situation is a problem when the capacity is exhausted and can not be produced any more. You then need to analyze contracts and decide which to implement and in the future refuse, because I is not much gain. The point is to find the optimal portfolio of production that will maximize profit.

A typical problem might look like this: Product 1 a profit of CZK 500 one piece, product 2 brings 1 000 CZK. It is necessary to produce at least 50 units of product 1

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and 10 units of product 2 because they are booked. Maximum is possible to produce products 500 1 and 800 2 of products, because a greater amount will be sold. It is also necessary to consider the time consumption of the individual machines (Table 3) and the capacity of these machines (Table 4).

Tab. 1 Capacitive problem – profit in 1 piece

Profit CZK / 1 piece		
Product 1	500	X1
Product 2	1 000	X2

Source: personal

Tab. 2 Capacitive problem – production limits

	Quantity	Min. (pieces)	Max. (pieces)
Product 1	X1	50	500
Product 2	X2	10	800

Source: personal

Tab. 3 Capacitive problem - time consumption

	Quantity	Lathe	Milling machine	Grinding machine
Product 1	X1	10	5	0
Product 2	X2	20	10	15

Source: personal

Tab. 4 Capacitive problem -capacity of these machines

Machines	Capacity
Lathe	9 000
Milling machine	8 000
Grinding machine	5 000

Source: personal

The question is how much to produce of the product 1 and how much of the product 2 that the maximum total profit. The situation should be described mathematically.

Limiting conditions – formulas 1 to 7:

$$50 \leq x_1 \quad (1)$$

$$x_1 \leq 500 \quad (2)$$

$$10 \leq x_2 \quad (3)$$

$$x_2 \leq 800 \quad (4)$$

$$10 \bullet x_1 + 20 \bullet x_2 \leq 9000 \quad (5)$$

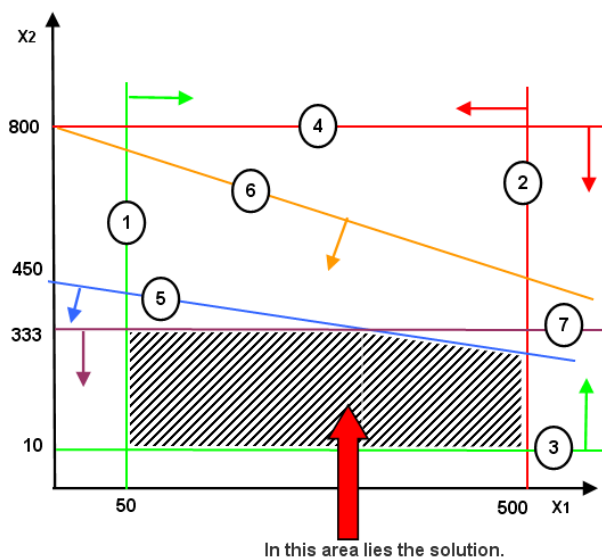
$$5 \bullet x_1 + 10 \bullet x_2 \leq 8000 \quad (6)$$

$$15 \bullet x_2 \leq 5000 \quad (7)$$

Function with extreme – formula 8:

$$F = 500 \bullet x_1 + 1000 \bullet x_2 = \text{Max}. \quad (8)$$

Fig. 1 Limiting conditions

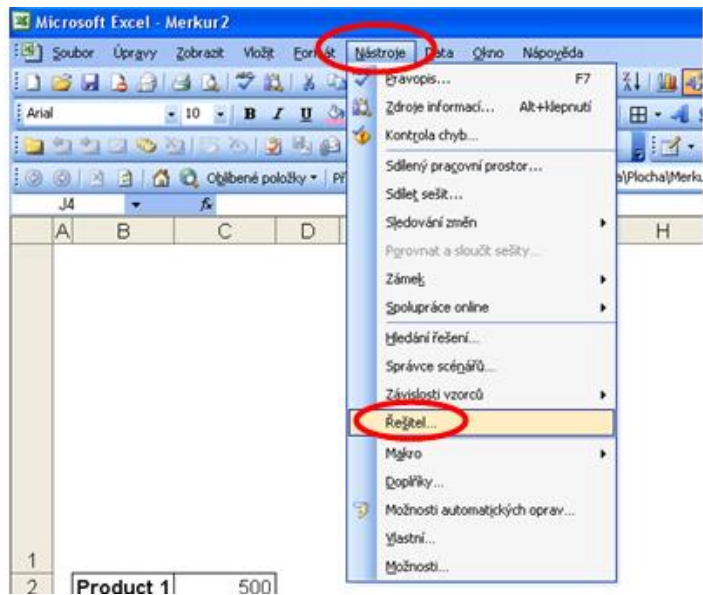


Source: personal

I need to find the values of the variables x_1 and x_2 such that they meet the limiting conditions and function of the maximum total profit. The graphic solution can be used only for two variables, because this situation can be drawn in 2D space. I need another solution method for more than two variables.

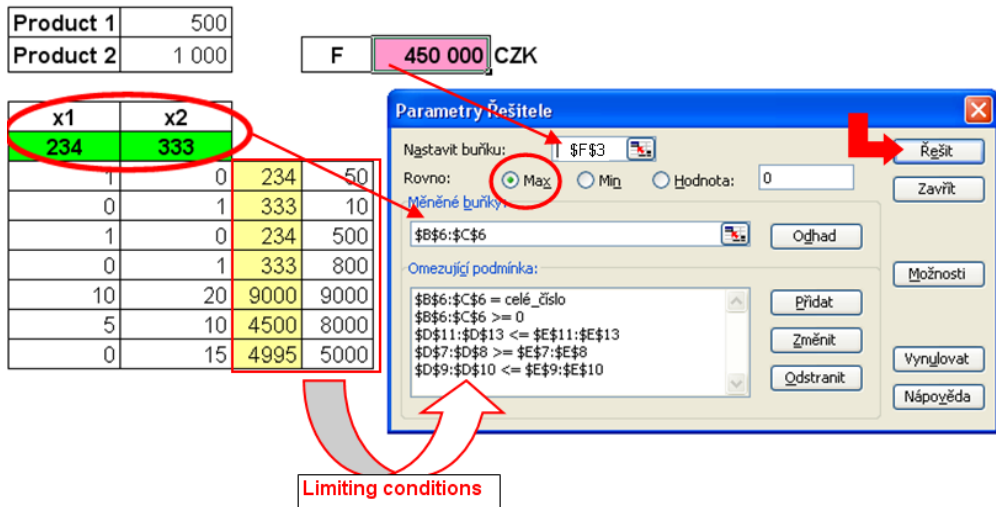
Reliable mathematical tool that can solve these problems is called linear programming. MS Excel is the tool, so you can easily use, as mentioned Kožíšek (2008, pp. 98-99).

Fig. 2 Mathematical tool



Source: personal

Fig. 3 Linear programming in Excel



Source: personal

Finding the optimal solution will bring higher profits. Efficiency of the production system depends on the quality of decision making. The quality is the need for appropriate decision-making tools, as shown above.

2 Producer behavior in economic theory

Another problem in the organization of production Macík states (2007, p 126). Volume production is given production function $f(x_1, x_2)$ such formula 8.

Where: x_1 is the quantity produced and the number 1

x_2 is the quantity produced number 2

Where In addition, the manufacturer is able to realize the production of certain costs, which expresses the function $TC(x_1, x_2)$, such formula 9.

$$f = 2 \cdot x_1 \cdot x_2 - 0,05 \cdot x_1^2 \cdot x_2^2 = \text{Max.} \quad (9)$$

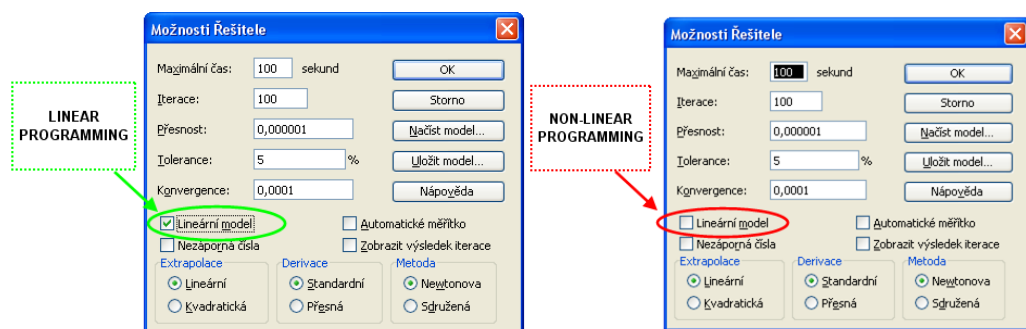
$$TC = 100 \cdot x_1 + 200 \cdot x_2 = \text{Min.} \quad (10)$$

Here are two possible situations, either seeking maximum output $f(x_1, x_2) = \text{max.}$ or conversely known volume of production and try to minimize the total cost $TC(x_1, x_2) = \text{min.}$ In both cases, we are looking for variables x_1, x_2 . The values of variables x_1, x_2 represent a combination of the structure of production.

Macík (2007, pp. 127-130) describes a solution using Lagrange functions. This solution is complicated, and especially in finding an optimal combination between more than two products ($x_1, x_2, x_3 \dots x_n$) is very complicated calculation.

Another option is to again use the tools in MS Excel solver. This tool includes in addition to linear programming also nonlinear programming. This is the same algorithm, but also works for non-linear function for which we are looking for extreme or non-linear function in restrictive conditions. The procedure is similar to that in figure 3, but in „possibilities" set nonlinear model (figure 4), as mentioned Plevný (2005, p. 99).

Fig. 4 Non-linear programming



Source: personal

3 Other possibilities of savings in companies

Samuelson (1995, pp. 472-473) lists the three most important factors leading to the organization of production in large companies. These are economies of scale. These savings can occur if production costs with increasing production volumes decline. Efficient production of cars is possible, if the annual production of 300 000 pcs / year. Great company and good coordination. If there were no economies of scale and specialization could each of us to make their own auto, watches and tailored shirts. Another reason is the possibility to make large investments, which require high profits, a series of small savers' deposits or loans from other companies. Another important reason is the need for high quality management.

When group production is a reduction of the average fixed costs as expense items are distributed to a larger number of products as referred to Beran (2010, p 101). Therefore, some companies cooperate to achieve a positive synergy effect, fully utilize its production capacity, achieve better negotiating terms when in contact with suppliers (quantity discounts) and customers (shipping and payment terms).

Vlásek (2010, p 45) highlights the importance of the following factors of success in terms of product costs. They are: the level of science, level marketing, quality design, quality purchase, production costs, management costs.

Conclusion

The present time is characterizes by uncertainty, yet are evident signs of the economic crisis and increasing competition especially from Asia. In such a situation it is necessary the search for savings of all kinds and proper use of all resources. As the situation changes dynamically is always something to improve and it is necessary to carry out a new analysis of the situation and sophisticated decisions.

Manage the business in a period of strong economic growth, rising demand and general abundance is not a problem. But to be able to run a company in crisis economic times it requires great and capable management. Sedlacek (2012, p. 225) says that the economic crisis also have their positives, because it shows the true face of economies and depriving the economic system load (poorly managed company goes bankrupt, they reveal poor management, etc.).

This paper describes also a simple solution using mathematical applications in MS Excel, which can provide managers with valuable information and they are essential to our quality of decision making.

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IBC 2013, RAI CENTER, AMSTERDAM

– Marketing Management and Social Aspects in Actual Innovation Process of Electronic Media

Gabriel Gröber¹

Abstract

IBC (International Broadcasting Convention) is the premier annual event for professionals engaged in the creation, management and delivery of entertainment, attracting about 53,000 visitors in 2013. IBC combines a highly respected and peer-reviewed conference with an exhibition that exhibits more than 1,400 leading suppliers of state of the art electronic media technology, and provides unrivalled networking opportunities. Author of the article, which was personally participated in that event, analysed some innovation aspects from marketing management point of view, which has also special social angle.

Key words

the latest technology impacts; brand promotion and marketing management – riding (product) stars; industrial world of content creation and production dramaturgy, local sense for management and delivery, visitor and press accreditation, short-time stay.

JEL Classification: M31

Introduction

Amsterdam RAI complex is one of the largest exhibition and conference centers in EU, hosting most of international trade fairs, exhibitions, and congresses held – in Amsterdam 2013. The fully air-conditioned exhibition area, which covers 87,000 m² with 11 multifunctional halls available for exhibitions, trade fairs, cultural or sport events. The Congress Centre comprises 22 congress room areas. It has also conference rooms with capacity up to 1750 persons.

IBC 2013 Amsterdam is also leading expertise organisation in broadcasting industries, including industry representation, executive networking, and research and information resources. IBC program works also as an annual event for professionals working with media, broadcasting and entertainment content – with networking opportunities among representatives of the electronic media's elite. Each year brings together professionals from the workflow community – all in one place.

The IBC conference program provides a platform for senior executives to connect across countries and technologies, to engage with new ideas and to challenge the industry's agenda.

IBC's promotions, sponsorship and event opportunities, giving that platform to promote brand representatives from over 170 countries.

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FOCUS: The main aim of that article is to present brief review of IBC 2013. The article is also focused on critical evaluation of the new trends – in next-generations technologies. We describe also actual impact of IBC Amsterdam on practical sizes of marketing management techniques, and important network aspects.

Data collection

Selection of tools and methods used in the case study: (1) company profiles and professional consultations, (2) observation, (3) seminar agenda and analysis, (4) roundtables / presentations/ demonstrations, and (5) integrated SWOT analysis in conference environment terms (production and industrial insides).

1 All media provide so many choices in IBC Amsterdam 2013

Features of IBC Exhibition and IBC Conference in marketing leads (a lead, in a marketing context, is a potential sales contact: an individual or organization that expresses an interest in your goods or services. Leads are typically obtained through the referral of an existing customer, or through a direct response to advertising/publicity. A company's marketing department is typically responsible for lead generation):

- IBC Exhibition: Fourteen halls in RAI brimming with the world's most innovative electronic media and entertainment technology primed to discover the future of electronic media.
- IBC Connected World: visitors could understand the stunning impact of wired and wireless internet delivery and devices into and out of the home. They found daily show and tell demonstrations of innovative technology. Sessions were run by industry experts – including „round table debates“, which put it all – into context.
- IBC Production Insight: visitors had opportunity to test and drive the latest in camera design and imaging technology. Cameras were compared in action around a fully accessorised studio set and visitors received practical advice for their next production.
- IBC Big Screen: The future of digital cinema could be in 3D, at high frame rates, or in higher resolution? These questions were maybe answered, and the latest tools were displayed and previews of „exclusive content“ were displayed in the sumptuous 4K, stereoscopic 3D digital projection and with audio presented in Dolby 7.1 Surround Sound-equipped theatre.
- IBC Future Zone: The future was unveiled first at these special exhibits chosen from the world's leading broadcast and academic research labs. Visitors could feed their imagination with experiments in high dynamic range, super hi-resolution, light field imaging.
- IBC Industry Insights in main topics: 1. When will Ultra-HD arrive? 2. Is the industry's economy in good health? 3. Can there be a single worldwide standard for broadcast TV?
- IBC Conference 2013 – Keynote Speakers: IBC 2013 keynote programme brought attendees on an unrivalled opportunity to hear from influential thought-leaders in the international media and entertainment arena, who came to IBC to share their insights into game-changing global business trends, growth strategies and technological innovations.

- IBC Conference Streams: The IBC2013 conference was structured around carefully selected streams, to reflect the trends that matter and to challenge customer thinking.

The key conference themes shaped the conference programme on charting innovation and progress of technology platforms, supporting business models, and aims providing valuable insight into the latest advances in industry collaboration. Including standards from a variety of perspectives in business and content production.

For example problem of „big data in the electronic media and entertainment industry“ are establishing its commercial significance and key for one of the hottest topics of 2013.

Plenty on the subjects were investigating it from all angles, with some compelling examples, that demonstrate how it is currently being used by content owners and broadcasters alike. Big Data has already been key in other industries, and as connectivity expands it is likely „to be a crucial tool“ in measuring how the viewer relationship with content and devices of all sizes are evolving.

2 Critical understanding in the latest progress: EBU R 128, 4 K definition, or „weak feedback“ in relation to management decisions

IBC Conference presented hot topics of 2013 as key innovations: HEVC (High Efficiency Video Coding), UHD TV (Ultra High Definition Television = 4 K), or HDR (High Dynamic Range video), are as a main challenge and opportunities for successful audiovisual management, in anticipation „positive effect on the economics“, and enjoying novel and exciting services.

But we are to check the situation – also with more „background and behind-the-scenes information“. From that angle are broadcasting technologies, developed by world's media specialists, have managed to find and exploit further hidden pockets of redundant information and spectral capacity. But all this stimulating proposes of IBC 2013 could be from some local point of view – „issue of big questions“. We propose the following objectives and indicative measures for further analysis:

(1) ALL INDUSTRIAL STEPS NEED CHANCE FOR SOCIAL FEEDBACK

The development of management for preserving digital culture should be accompanied also by „stimulating research“ – into problems and solutions, through the development of research programmes, analysing social and professional feedback on actual trials, applications, and all technological changes.

(2) EXCHANGE OF KNOWLEDGE – AS A PART OF PROCESS

Highly recommended is to improve the skills base, by creating mechanisms for the exchange of knowledge, and for the identification of emerging skills requirements, and „real communication needs“ of consumers and society as a whole.

(3) CULTURAL ASPECTS OF THE SITUATION – HOW IMPORTANT IS „THE BIG SCREEN AND RISING (PRODUCT) STARS“ FOR INNOVATION OF CREATIVE STYLES AND PRODUCTION DRAMATURGY?

Important is to stimulate discussions about the adoption of the new standards as the fact, that the marketing management process is facing new challenges in a very different context from the one, which is pragmatic and realistic. Simply to say: So much new ideas, but are they really necessary or reasonable? Finally, we recommended collaboration with local public opinion leaders, or all relevant sources. Also to assess the cultural aspects of the situation, which are.

(4) BUSINESS INTELLIGENCE: YES. (...) BUT ALSO WITH RELEVANT AND EFFECTIVE SYNERGY ON REGIONAL, NATIONAL AND INTERNATIONAL SCALE

Stresses the need for an „effective synergy“ with all relevant areas and actions for the creation of new strategies – to create an integrated and responsible feedback; there are some local, but big environmental risks.

(5) INDUSTRY INSIGHTS SESSIONS: EDUCATE AND LEAD THE MARKET IN TURBULENT ECONOMY TIMES

The most missing point is losing a lot of economy and pragmatic affairs – due to quick technological approach; turbulent times – in period of global economy, media, and also marketing-management stagnation. The real meaning of local markets aims are focused on „management's integrity, which is a key element in the efficacy of professional audits“, also actual professional scepticism and effort to verify management representations in media communications.

(6) CONFERENCE KEYNOTES, MEDIA SCEPTICISM, AND BRAND PLACEMENT AS A GREAT OPPORTUNITY TO NETWORK: „DIRECTIVE EBU R 128“ – IS SIMILAR TO „UHF DEFINITION LIFTING“

We proposed to improve wider and deeper critical discussions also from the position of „local relations“. As most of the official brand promo material says – IBC is always „exchange ideas with some of the biggest thinkers in the business. Then also to learn from the success stories. Then to identify the pitfalls and build your knowledge to develop new strategic approaches. Also to network with the top minds, who can make a real difference to your business, and understand how underlying business models will change – as the result of new technologies, and strategies how to adapt to them“.

But in past, according to negative professional feedback of some European directives (mainly DIRECTIVE EBU R 128; mainly concerned to loudness normalisation and permitted maximum) had very problematic role in audiovisual communications. Specifically they many times took active role in suppression of genre rules in AV-media. Also a new method of normalization volume broadcast, determined in accordance with EBU R-128, has completely eliminated unpleasant transition effect between broadcast content and advertising, and settle differences when switching between live and pre-recorded content.

Similar to that „structural problem“ is actual situation in so quick progress in technological innovations. Especially for smaller countries and players, which are a little out of „the main cutting-edge ideas“. It demonstrates not good balance with real media problems, which are actually „creativity or management“ and „the funding of public sphere“.

Conclusion

Summarization of main benefits and final evaluation of study case results, from IBC Amsterdam, 2013:

- (1) Strengths: The main goal is to improve the technological capacity of professionals in AV-media.
- (2) Weaknesses: Relatively small focus on relevant and critical professional feedback.
- (3) Opportunities: Seeing an industry scenario from „the multiple and synergic perspectives“.
- (4) Threats: Following the dream, pushing the boundaries in the entertainment business, but in the same time see also social responsibility for the great dynamics of progress.

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Financial Analysis in the Context of Increasing Competitiveness

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Abstract

The financial situation of the company presents achievements in various areas of corporate activity and provides a comprehensive picture of its performance. Financial analysis is an important tool of current and future corporate financial situation evaluation. When financial analysis is well prepared and objectively interpreted, it provides overview of the financial health of the company. The aim of the analysis is to assess the financial situation and determine which factors are involved in shaping of the financial situation of the company and how intense this involvement is. Complex financial analysis includes financial analysis ex-post and ex-ante.

Key words

Financial analysis, financial analysis ex-post, financial analysis ex-ante, financial ratios, prediction methods.

JEL Classification: M21

Introduction

Globalization of the economy increases demands on business performance. Currently the company is successful when it can flexibly respond to new methods in business management. Financial-economic analysis can dramatically affect the financial situation of the company. Well prepared and objective analysis can identify the critical aspects that could seriously threaten the future existence of the company. On the other hand, the right composition of the analysis determines the point at which the company should build in the future. Of course, the basis of the analysis is the correct interpretation of results of financial indicators.

The article shows the financial analysis of the company as an important tool for diagnosing the financial health. Introduction of the article presents theoretical apparatus of the financial analysis. In the second part of the paper we show the current situation in the use of financial analysis in practice of Slovak companies.

1 Theoretical definition of financial

Financial analysis is a significant part of financial management. Financial analysis is connected with financial accounting and financial management and it connects these two instruments of business management (Grünvald, 1996, p. 59).

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In a market economy, financial management is a dominant part of economic activity. Content of financial management is management of financial processes, which includes the following four basic activities (Vinczeová, Hiadlovský, 2004, p. 3) :

1. Financial planning,
2. Financial decisions,
3. Organizations of financial processes,
4. Financial analysis and control.

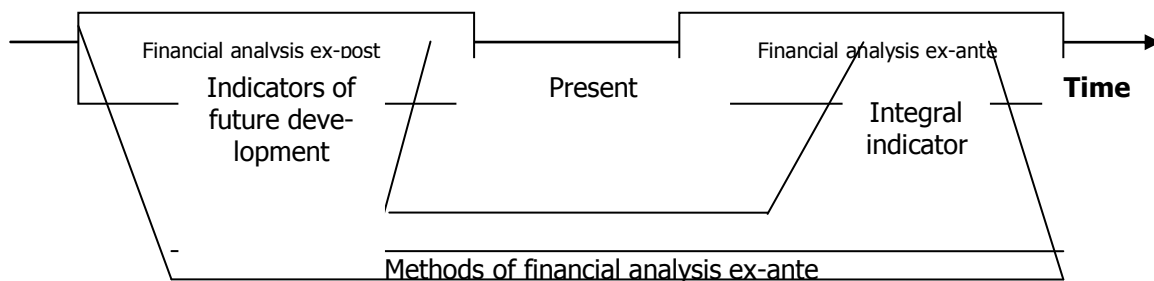
We can see that the financial analysis has an important position and role in financial management. Financial analysis assesses the degree of achievement of financial targets in recent times (financial analysis of ex-post) and predicts the development of financial situation (financial analysis of ex-ante). The previous text shows that the financial analysis gives incentives for operational management and provides input for preparation of the financial business plans for the next period.

The financial situation of the company is subject of financial analysis. Aim of the financial analysis is to evaluate the financial situation (financial health) and to determine which factors are involved in shaping of the financial situation of the company and how intense this involvement is (Lesáková and collective, 2007, p. 21).

In the literature we can find different views on the process of financial analysis, but in practice it is frequently used procedure, which comes from USA. It is based on financial ratios and it is used practically in the whole market economy (Zalai, 2002, p. 50). It consists of logic and chronological steps (Lesáková and collective, 2007, p. 37):

- calculation of financial ratios,
- comparison of company's ratios with the average ratios of industry,
- examination of the development of business characteristics at the time,
- analysis of relations between financial ratios,
- proposing of measures.

Fig. 1 Connection between financial analysis ex-post and ex-ante



Source: HIADLOVSKÝ, V. 2010. Utilizing of methods of financial analysis in practice of small and medium-sized enterprises in the Slovak Republic. Dissertation thesis. [CD-ROM]. Banská Bystrica : The Faculty of Economics, Matej Bel University, 2010 [cit. 2013-09-13], p. 26.

In the literature and in practice we find many classifications of financial analysis. The best known classification is the classification according time – financial analysis ex-post and financial analysis ex-ante. Financial analysis ex-post focuses on the current results and explains them by looking into the past. It is a substantial part of practical financial analysis, which allows "to diagnose the financial health". Financial analysis ex-post identifies the strengths and weaknesses of the company. The role of financial analysis ex-ante is prediction of the development of company finance. Figure number 1 graphically illustrates the connection between financial analysis ex-post and financial analysis ex ante.

Financial ratios continue to represent one of the financial world's most powerful and versatile tools. Financial ratios quickly provide with management cost effective information of financial characteristic of company. In the literature we meet with the various subdivisions and the arrangement of financial ratios. In the article we incline to classification according the area of financial analysis:

- liquidity ratios,
- activity ratios,
- debt ratios,
- profitability ratios,
- ratios of market value.

Financial analysis ex-ante is based on the results of financial analysis ex-post. Prediction methods must classify company into one of two categories - prosperous or bankrupt companies. Financial analysis ex-ante is related with bankruptcy prediction. Bankruptcy prediction has been a major research issue in accounting and finance for years. The continuing interests in bankruptcy prediction models are understandable as company collapse does have unpleasant consequences for not only its shareholders but also their employees and the economy of the locality where that company operates. Methods for bankruptcy prediction we can divide into two big categories:

- multivariate discriminating analysis,
- neural networks.

Multivariate discriminating analysis has been the dominant method in failure prediction. It is a statistical method commonly used in classification. It estimates the linear function which can most effectively classify the objects as follows:

$$D = B_0 + B_1X_1 + B_2X_2 + \dots + B_iX_i.$$

Where D is a discriminate score, B₀ is an estimated constant, B_i are the estimated coefficients, and X_i are the variables. The most popular method of multivariate discriminating analysis is Altman Z Score. The formula was originally based on data from 66 publicly held manufacturing companies. Half of these were going concerns. Altman has since developed two additional models: one for privately held manufacturing companies and another for non-manufacturing companies (sometimes called "general use companies") (Narayanan, 2010, p.12).

Neural networks also have been applied for classification of problems such as management forecasting, bond rating, stock price prediction, interest rate prediction, and extraction of accounting knowledge.

2 The results of the questionnaire research

The questionnaire research was performed in the period from 24 October 2012 to 5 December 2012 (6 weeks). Research was focused on finding the current status of implementing of financial analysis in practice of Slovak companies. Questionnaires were distributed electronically (via e-mail) to small, medium and large companies. Questionnaire was created through Google Docs. 78 fully completed questionnaires returned from 506 companies (percentage of return is 15,415 %).

Tab. 1 Number of analyzed companies

Type of company	Number of companies	Percentage
Micro-company (0 – 9 employees)	14	17.95 %
Small company (10 – 49 employees)	15	19.23 %
Medium company (50 – 249 employees)	21	26.93 %
Big company (250 employees and more)	28	35.89 %
Total	78	100.00 %

Source: Questionnaire research

Tab. 1 presents splitting of sample by number of employees. Large companies with number of employees 250 and more represent the largest number of companies (28). Micro-companies (the maximum number of employees is 9) have the smallest representation in a file, and to 17.95%. According to the regional classification companies from Bratislava region have the largest representation (25.65%). Bratislava region is the economically powerful region in Slovak republic and according to the statistical office of Slovakia in the year 2011 there were 35.40 % companies from all Slovak companies. Next table shows more details of regional characteristic.

Tab. 2 Regional characteristic of analyzed companies

Region of Slovakia	Number of companies	Percentage
Bratislava region	20	25.65 %
Trnava region	6	7.69 %
Trenčín region	15	19.23 %
Nitra region	6	7.69 %
Banská Bystrica region	15	19.23 %
Žilina region	4	5.13 %
Prešov region	6	7.69 %

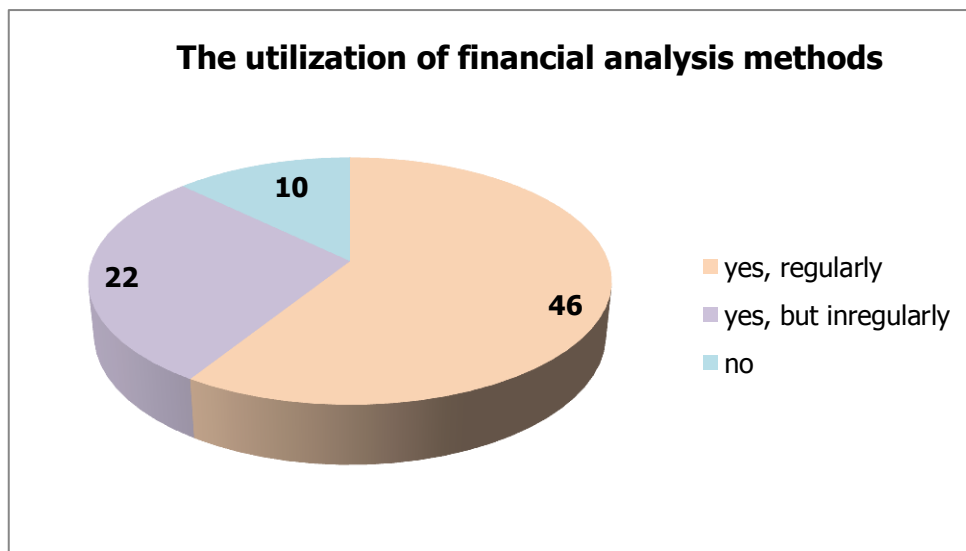
Košice region	6	7.69 %
Total	78	100.00 %

Source: Questionnaire research

The aim of the first question was to determine if companies (in their practice) realize financial analysis for evaluation of financial situation (level and development of financial situation). So if companies utilize methods of financial analysis. 46 companies perform financial analysis regularly and 22 companies from these companies are big with 250 employees and more. 10 companies don't perform financial analysis and it is interesting that 3 companies from these 10 companies are big. In the graph 1 we can see that 28.21 % of studied companies (22 companies) realize financial analysis, but only irregularly. Frequently, literature indicates the following methods of financial analysis:

- financial ratios,
- financial models in financial analysis,
- Balanced Scorecard,
- Economic Value Added.

Graph 1 The utilization of financial analysis methods



Source: Questionnaire research

In the question number 2 companies clarified why they didn't realize financial analysis. 34.375% of companies (11 companies) identified the option "other". We can divide these responses into two main categories:

1. Company doesn't realize financial analysis because owner or management of company doesn't require it. 9 companies identified this response;

2. Company doesn't realize financial analysis due to the reason of its little size – number of employees. 2 companies identified this response.

10 companies doesn't realize financial analysis for time-consuming character of financial analysis. This answer is questionable because financial ratio is one method of financial analysis. Advantages of financial ratios are speed and simplicity and calculation and interpretation of their results are not time-consuming. The following table presents complex overview of answers related to the second question.

Tab. 3 Overview of reason why company doesn't realize financial analysis

Why company doesn't realize financial analysis	Number of companies	Percentage
Financial analysis is time-consuming	10	31.250 %
Financial analysis requires increased costs	0	0.000 %
Financial analysis isn't important	6	18.750 %
Company doesn't have knowledge for financial analysis	5	15.625 %
Other	11	34.375 %
Total	32	100.00 %

Source: Questionnaire research

Question number 3 focused on identification of indicators for diagnosing financial health. In this question companies could choose more than one option. Results of question are following:

- Profit – 73 companies,
- Financial ratios – 46 companies,
- Prediction methods – 17 companies,
- Economic Value Added – 8 companies,
- Balanced Scorecard – 7 companies,
- Other – 3 companies.

In analyzed group of companies there is average number of utilizing indicator 1.962, the modus is 1 indicator and the median is 2. All these results are very low.

Conclusion

The financial situation of the company and its credibility are the important factors that affect not only the position on the market, but also attitudes and confidence of customers, investors and the general public. Financial analysis helps managers to assess not only the current financial situation, but managers can also make prediction of the future financial situation.

From results of questionnaire research we can deduce that companies don't realize financial analysis for time-consuming character of financial analysis. This argument is more than questionable because financial ratio is one of methods of financial analysis. Financial ratios are characterized by its simplicity and of their computation. Based on the above, we can argue that the status of financial analysis in financial management is extremely important and financial analysis in company's practice has its significant place and justification. Therefore we recommend to companies of all sizes to perform financial analysis regularly and systematically because it can prevent crises in company.

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Innovative Marketing for Small and Middle Size Enterprises

Lilla Hargitai¹

Abstract

Marketing plan is usually part of a company's business plan, but the knowledge on innovative marketing strategies is very weak among the decision makers.

The research based on interviews with 50 small and middle size enterprises in Hungary gives us a general picture about the knowledge-cloud on effective marketing communication. During the economic crises at most of these enterprises the marketing activity is the first activity deleted by the decision makers. For enterprises, to survive the economic crises, it is essential to use consistent, continuous and innovative marketing-communication. It is affordable, if we use innovative marketing to keep the brand activity live.

Key words

innovation, marketing, economy, new advertising techniques

JEL Classification: M31

Introduction

Small and middle size enterprises in Hungary in general do not have enough resources to order marketing advisors or advertising and public relations agencies for elaborating marketing strategies and campaigns for them. In most of the cases they do not have enough financial background for advertising on television, and the majority of them think, that using the internet, or public relations means, that they do not have to spend money on advertising.

The enterprises sometimes realize, that they have a certain problem, but they are not aware of the fact, that the problem can raise for different reasons. It can rise from the weaknesses of the organizational structure, or it can come from human resource side as well. But enterprises tend to use communicational tools not only for solving communicational problems, but for everything.

Another group of the small and middle size enterprises do not use communication at all. They are aware of the fact, that the product should sell itself. It happens sometimes, but while we are preparing a business plan, we can never rely on it. Great web-site-s, ideas, product are dying because there is no professional communication which connects them to the potential users /consumers.

To find out what are the exact mechanisms for decision making concerning the usage of (innovative) marketing strategies, we found out, that there is a need to make a research on the field, and collect data about the behavior of those enterprises.

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While the focus of the research is on marketing communication, we surprisingly found out that most of the SMEs do not have such strategies at all. By innovative marketing strategies we understood:

- the new way of using traditional media (TV, radio, press, outdoor), especially new advertising techniques like, product placement, interactive advertising, split screen advertising,
- the systematic usage of social media and mobile marketing,
- the usage of innovative tools of advertising like: Digital signage, POP, Guerilla marketing, Ambient marketing, ambient media, ambush media, Astroturfing (Grassroot marketing), Buzz (Word of mouth), Brand hijacking, Flashmob, virus marketing,
- the strategical thinking about public relation and CSR.

The main purpose of the study was to have an overall picture of the current status on the exact knowledge of the SMEs on innovative marketing communication. Our analysis was a thought-provoking analysis of the current state of economic phenomena and trends.

1 Marketing – Communication: the end of the classical advertising?

Marketing plan is usually part of a company's business plan, but the knowledge on innovative marketing strategies is very weak. There are many misunderstandings around the role of communication itself. Who should work on it? What is exactly what we should do ourselves, and when do we need a help of a specialist? Which techniques are available and which we can use for us for pushing a message?

Decision making

In 70% of the interviewed companies the decision about marketing is made by the General Manager. 20 % had a dedicated member in the firm who has to work on marketing-communication (a Marketing or PR Manager), and in 10 % buy knowledge on marketing by outsourcing. But even if they have an own Marketing or PR Manager, his/her work was mainly to translate brochure-s and packaging information into Hungarian.

Knowledge on marketing-communication

The small and middle size enterprises:

1. Do not have knowledge on the real cost of using internet (social media campaigns, viral videos, games, etc. - 84%) and the media (90%).
2. Do not know the new advertising techniques which are available for them (see research results below about marketing-communication).
3. Do not trust communication (72%), and the media in general (80%),
4. Do not believe that marketing communication can be effective (64%)
5. They are not able to give short brief about the positive values of their product or service (60%), neither to differentiate it from its competitors.
6. They are not aware of the fact that, the best communication is made by those, who are working for the company (although they could certify the product or service).

7. Some of them think that there is no such a notion as „marketing specialist“.
8. Used marketing in the last year: 22%
9. Used marketing ten years ago: 42%.

1.1 Methodology of the research

Deep interviews were made in 2012 and 2013 with 50 small and middle size enterprises in Hungary, members of the Hungarian Chamber of Commerce from all around the country. We elaborated a questionnaire as a guideline for the asking person. The interviews were processed by content-analysis.

1.2 Research results

Marketing-communication

Generally speaking the firms lose their faith on communications. They tend to think that.

1. Media and advertising is not useful at all (55% - 62%)
2. People are extremely "closed" (70%), they cannot be reached with classic communication (60%).
3. They believe on the effectiveness internet and social media campaigns (90%), but
4. They think using internet for marketing is for free (72%). Most of them never tried but they are all planning to start in the near future (88%).
5. They all try to spend as less it is possible for marketing.

Innovative marketing techniques

Generally speaking small and middle size enterprises in Hungary are not aware of innovative marketing techniques. We asked the about the concrete innovative marketing tools, checking their exact knowledge on trendy notions. The results are the following:

How many of them did hear about / know what is is?

1. Innovative marketing
 - 1.1. Targeted, medium specified classical ad (80% / 68%)
 - 1.2. Local out-door marketing activity (82% / 42%)
 - 1.3. Point-of-purchase activity (80% / 26%)
 - 1.4. Guerilla-marketing activity (60% / 12%)
 - 1.5. Ambient marketing (30% / 0%)
 - 1.6. Ambush media (0% / 0%)
 - 1.7. Buzz / word of mouth (8% / 0%)
 - 1.8. Brand hijacking (0% / 0%)
 - 1.9. Flash mob (30% / 28%)
 - 1.10. Product placement (42% / 30%)

- 1.11. Mobile marketing (including applications, games)(50% / 8%)
- 1.12. Social messages used for business purposes (78% / 10%)
- 2. Public relation / event marketing (18% / 0%)
- 3. Social media campaign (60% / 18%)

Everyone can be a "better creative" than Creative Directors?

Most of the decision makers think that the idea can come from everywhere, even from the consumer. Sometimes it happens. But usually the consumers are not

1. Aware of the brand values (therefore: they have no limits of creativity, when they create sg.)
2. Prepared to build long-term strategies.
3. They do not have knowledge and experience on what sells.
4. Do not collect consumer insights before planning, which is essential.
5. Do not care about the form of expression.
6. Do not know the medium-specification (for what is it useful), and the date about the media-consumption.
7. Are not able to make sort message, to compress the main unique selling proposition.
8. Are not realizing what is substantial from the point of view of the product.
9. Are not realizing and analyzing the psychological, political and social environment.
10. Do not know how people use the service or product.
11. Their idea or communication proposal is not elaborated with the purpose of selling.
12. Their idea does not contain a reason why the consumer should believe on the message proposed by the brand.
13. The consumer has no visual education (to see, to feel, to realize forms, shapes, the character of the used material, aesthetical education, knowledge on what is the meaning of visuals, the capacity to use and occupy the space)
14. Do not know the relations between action, space and time.
15. Do not have knowledge on "structure".
16. Do not have knowledge on colors (their role on forming space, symbolic meaning, and psychological effect).
17. Do not have knowledge on caring about context.
18. Do not have knowledge on unique and mimeographed – the distinction between the applied and the autonomous art.
19. Do not know about the power of imagination (advertising and its environment, radio-advertising, missing visual signs, etc.)
20. The moral values of creation (it is not enough to acquire the technique, it is important for what is it used for - social values, empathy, humanism, responsibility of acting, solidarity, anti-racism).
21. They are not seeking trends permanently as the advertising people do.

This is all knowledge of a creative person working on innovative marketing, and not known by the decision-makers of the enterprises.

Creativity (idea-building) is freedom. But the results of the research show, that in 2013, in Hungary, there is no need of idea, there is a need for sales. Decision-makers

always want “creative” communication, but at the same time, they do not believe, that “creativity sells”.

Conclusion

Regarding the results of the study, the attitude of SMEs in Hungary towards marketing communication is very surprising; as it comes out that their knowledge is very weak on the marketing tools and possibilities. Even if they know a certain technique they reject to use it or do not use it at all, especially not in a strategic way.

This was also our hypotheses and it was approved by the research. But we didn't expect so dramatic results.

The interviewed small and middle size enterprises do not believe on marketing in general. In the last years (of the economic crisis) they realized that they should use different, cost-effective, innovative tools for transferring messages about their service or product. At the same time the prestige of the marketing and advertising is very low, the decision makers think they do not need experts on this field. Even if they have experience on technical knowledge they do not order creative work. They believe on some innovative channel, forms, techniques (Facebook, guerilla-marketing, virus-video), but they

1. Do not have exact knowledge on how these innovative marketing tools work,
2. And what else possibilities they have.
3. Also, they do not realize that elaborating successful campaigns also require professional creative work.

The benefits of the research:

- it became clear, that there is a need of concrete education for the small and middle size enterprises on innovative marketing strategies.
- it is important to communicate, that the Marketing Plan should be prepared by an advisor who understands the brand, but the realization should be in the hands of those, who work for the enterprise every day. If a firm cannot spend much on marketing, the best solution is to use its own people for operative communication.

The website, the social media activity is the best if people working inside are refreshing it. But for making a brand visible we definitely need a marketing specialist person and a creative team around.

Innovative marketing in the beginning of the 21st century is very personal, the consumer is almost co-creator, but the marketing activity should prove the brand value and sell— this expectation never changed.

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Chinese Economy Expansion and Its Energy Policy Implications in the Era of Global Financial Crisis

Lukáš Harvánek¹

Abstract

The article is devoted to research of China's internal and external position in energy field and tries to outline country's basic strategy needed to satisfy growing needs for energy sources. Using basic research methods like analysis of the development path, author first of all focus on home resources and based on this analysis describes a role of crude oil in China's energy mix. As this analysis confirms assumptions that China will stay on course and will play a role of net oil importer in long term period It describes strategy of the country in obtaining energy resources.

Key words

China, economy, growth, energy, resources, strategy

JEL Classification: Q43, Q47

Introduction

The global economy with all its development trajectories characterised by new era of globalization change very quickly. Last year's marked first of all by financial crises in advanced economies; these changes further intensify and accelerate. Early adaptation of global scene subjects on new developments allows survival among global competitors at the level of companies, countries or entire regions. Recent developments are great benefit to rapidly emerging economies such as China, India or Brazil. During this period, best beneficent of these changes looks to emerge the People's Republic of China (PRC). It has grown to a position from which it can respond appropriately and use every opportunity among international community. Its successful reactions confirm a number of facts. It is only a matter of time before the second largest economy in the world will challenge USA as a „top one“. It's not just global production hall with cheap labour force anymore. Its knowledge-intensive economy, production of high-tech products, the rising status of Chinese state-owned companies abroad and implementation of foreign policy in the disputed regions around the world increasingly attracts the attention.

Raw materials are, in addition to foreign direct investment (FDI), increasingly needed to satisfy the robust international expansion of China and accelerating of its domestic demand. Another *condition sine non-qua* of the acceleration of this economy are the resources of energy, which are dependent on the import of coal, oil and gas. With a huge population and expansion of the future demand growth will sharpen competition for raw material and energy inputs, mainly between traditional net importers of raw materials, i.e. the U.S. and the EU on the one hand and China on the other.

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Most populous country in the world attracts with its relatively underdeveloped domestic demand characterized by low gross domestic product (GDP) per capita worldwide attention. The reason is simple. With increasing GDP per capita to the level of developed countries and the current population of over 1.3 billion, if the consumption of energy has increased to such extent its satisfaction is questionable. With 79-percent share of coal in the overall energy mix and increasing pressure on ratification and compliance with the Kyoto Protocol is therefore likely that the share of coal in the energy mix will decrease and the share of oil and natural gas will increase. With the same assumption also works company BP, which predicts that the share of coal in China's energy portfolio will fall in 2030 to 59%, but its consumption compared to the current period double due to overall growth in consumption.

China is aware of its increasing dependence on fossil fuels what is reflected in the overall country's strategy. It's steps in the form of cheap credit and support actions for investments abroad; the Chinese government encourages company's operation in foreign territories. The different regions attract a different policy, which is in line with the national strategy. In this contribution, I analyse internal sources needed to satisfy the Chinese expansion. I focus on present developments and try to forecast future moves in this field. I also analyze current Chinese investment in various regions of the world and try to draw the country's strategy in foreign resources expansion. I will follow continuity in my former research and will focus in this contribution at the Merkur Conference on the Chinese external and internal requests needed to satisfy rapid expansion of its economy. This topic, which I want to explore, is currently not received much attention and therefore provides opportunities to its further investigation. With limited global raw material sources and the expected expansion of the Chinese economy the explored issues should lead the agenda of the European Union and a high degree of attention should be paid at companies' level.

1 Expansion of Chinese economy and its energy strategy

Energy resources are one of the pillars in the progress of human civilization as a whole and an inherent part of modern society, too. Energy policy therefore clearly falls within the core of China's strategic mix and follows a series of internal steps standing behind the expansion of the Chinese economy in terms of Deng Xiaoping's strategy of "four modernizations" from the 1960s, which were related to ineffective reform steps Mao Zedong, and the subsequent strategy opening up to foreign investments, liberalizing tendencies in the world economy, expansion of capital movements and various others. This movements help Chinese economy to became second biggest in the world with gross domestic product in 2011 totalling more than 7 trillion \$. (To compare, output of the U.S. economy at the same period amounted to almost 15 trillion. \$).

Energy policy has inherent place in the next development of PRC, as it analyzes variety of domestic resources needed to support further expansion and secures basic operations in all spheres of the economy. Therefore analysis of China's energy policy is important to understand its potential impact on the limited global energy resources and rising geopolitical tension. In this contribution I try to analyze what strategy the country applied in term of its own resources with focus on crude oil and strategy it applies on the resources which it is lack of and must look beyond its borders to acquire

them. The reasons, why to deal with China's energy policy analysis, can be find several. Hunger for resources in the most populous country in the world is supported by rapidly growing economy, which during period of 2000-2010 reach yearly growth rate at 10 %. Even though expansion of Chinese economy is expected to slow down this year, government seeks to support economy by ways of loose monetary policy and robust stimual packages. Expansion at the rate between 7 % and 8 % is therefore very likely. Government most probable will not support economy with package worth of \$586 billion which It seek to smooth negative effects of global financial crisis, but we can expect government infrastructure spending and steps to support household demand.

Since PRC reformed its economy in 1970s and open up to foreign capital the importance of energy industry has grown rapidly. Energy consumption per capita is however still very low in compare to another developed countries. As we can see in Table 1, energy consumption in China is fourfold lower than in US and is even lower than in the Slovak Republic. But it is obvious that consumer demand for energy in country will grow rapidly and with current very low living standards and growing demands for energy it will sustain the trend in the long term.

Tab. 1 Development of energy consumption p.c. (years 2003-2011, in kg of oil. equiv)

	2003	2004	2005	2006	2007	2008	2009	2010	2011
PRC	1 118	1 252	1 342	1 458	1 529	1 575	1 689	1 807	1877
India	443	462	473	490	510	526	559	566	573
USA	7 794	7 882	7 847	7 697	7 758	7 488	7 057	7 164	7 069
DE	4,136	4 159	4 102	4 136	4,026	4 069	3 872	4 003	3 758
SR	3 465	3 413	3 496	3 457	3 307	3 385	3 086	3 287	3 114

Source: Authors calculation using World Bank statistics. Online: <<http://data.worldbank.org/indicator/EG.USE.PCAP.KG.OE>>

1.1 China energy policy assumptions

PRC became according to International Energy Agency (IEA) second biggest oil consumer in the world following US and biggest energy consumer in the world. Country energy mix consists of coal, nuclear energy, natural gas, oil and renewables. In 2011, coal represented 70 % of China overall energy mix, so along with crude oil (19 %) and natural gas (4 %) the share of fossil fuels in country energy consumption accounted for 93 %. This proportions show us the country's high fossil fuels dependence, low energy balance diversification and with current low coal-fired power plants technology demonstrate China's position as the world biggest air polluter. By comparison, the U.S. energy mix also consists mainly of fossil fuels, although diversification is brighter. In 2010, according to EIA 25% of U.S. energy consumption generated oil, 22% coal and 22% gas. Furthermore, 8.4% were nuclear and 8% renewables, mostly hydropower. (EIA, 2013). The Chinese government, however, in its twelfth five-year plan for the period 2011-2015 undertaken to increase the share of non-fossil fuels in the energy mix to 11.4%, from 8.3% in 2010. (CBI, 2011, China's Twelfth Five Year

Plan). It wants to implement this step by reducing energy consumption and promoting energy efficiency and diversify energy mix. This decision carries a variety of consequences that will form market with renewable energy in the country, the growth of investment in the sector and business opportunities for companies from other countries. It also carries a number of obstacles.

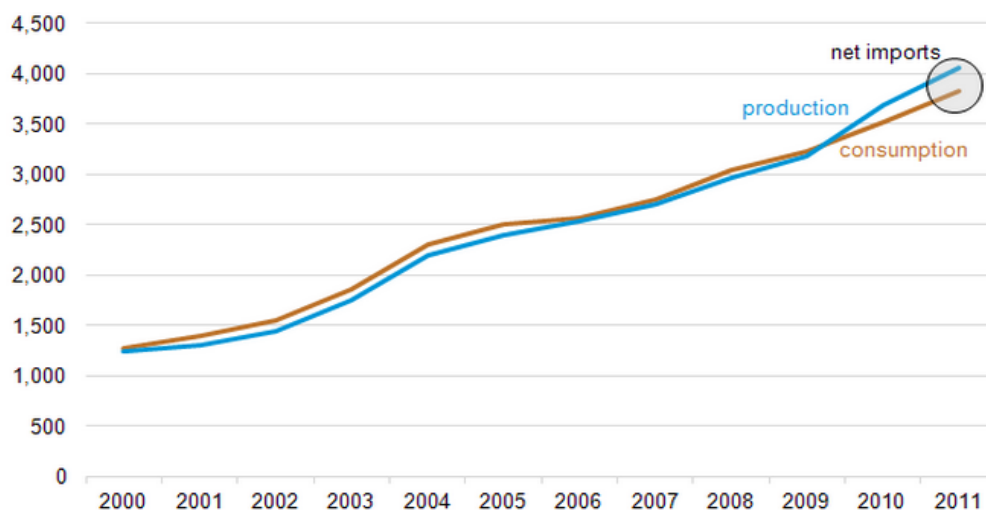
China's expansion through rapid industrialization is based on three key inputs in form of huge amount of cheap labour, access to foreign capital and technology and cheap energy, what allows share of coal in the overall energy mix. Coal accounts seventy percent of the country energy mix, therefore an analysis of its position is crucial for the present and future course of the country. PRC has the third biggest reserves of this source in the world, what makes it self-sufficient at first sight. However, with current robust annual production of 1,956 million tonnes of oil equivalent, representing 49.5% of annual global production, coal reserves in the country will be depleted in 33 years. US have coal with current production for 239 years and Russia for 471 years. Fact that PRC became in 2009 a net importer of coal demonstrate us government awareness of this development. Before this period PRC coal even exported. Markets have reacted to this fact by rising prices and a major exporter of raw materials Australia, Indonesia, from where China imports half of its needs, further Russia, Mongolia, significantly increased investment in coal mining. (EIA, 2013, China Energy).

1.2 The role of oil in Chinese energy mix

Irreplaceable role in China's economy with 19-percent share in the energy mix of the country has oil. As it is very important source mainly in transport, so it is clear that China and other countries that does not have this commodity will turn to foreign countries and the net oil exporters. As we can see from Chart 1 China was still in early 90's net oil exporter, but in 1993 became a net importer and the difference between production and consumption is increasing. Country has to cover this by import. China became the second largest net importer of oil after the US in 2009. As Its production will be relatively stable over coming years, EIA assumes that strong growth of its economy underpin by robust and cheap labour force and low gross domestic product per capita (according to World Bank amounting to \$ 8 466) It can be expected a further significant increase in Chinese oil imports. If we assume that China with population of more than 1.3 billion would reach level of GDP p.c. of European Union (\$ 32 642) its GDP in nominal terms would have to quadruple, what would bring it to the level twice as high than US GDP. This assumption with high likelihood of fulfilment means that with nominal GDP growth will increase Chinese energy demand as well. Chinese oil reserves are (unlike case of coal 13.3 % of global) only 0.9 % of all global proven oil reserves, even though it was with volume 14.7 billion. barrels highest in Asia-Pacific region. China, thanks to government support policy and consequent high economic growth successfully avoided the global financial crisis of 2007 and 2008 and subsequently debt crisis that has paralyzed the euro area. Oil consumption in China has increased steadily during the period, which did not respond to the slowdown in the global economy. In 2008, consumption was 7,817 million. barrels, following year it increased to 7,937 million. barrels and gradually to 9,758 million. barrels in 2011, which was growth over 2010 of 5.5%. (BP, Energy Outlook 2030)

The country has also invested heavily in the development of refining capacity. According to data from the BP oil processing capacity of the country has increased significantly. While in 1970 the country's refineries processed 554 million barrels per day, in 2000 it was more than 5 million barrels of crude oil per day in 2011 the number reached 10.834 million barrels of oil per day. As the country's production represent 4.09 million barrels it is therefore clear that imported 5.08 million. barrels per day is processed by its domestic refineries. The remains accounts for imports of finished petroleum products and derivatives

Graph 1 Comparison of Chinese production and consumption of oil (2000-2011, in mil. Bpd)



Source: EIA.2013.China Energy. Online: <<http://www.eia.gov/countries/cab.cfm?fips=CH>>

1.3 China energy strategy is realized by NOC

China, being aware of its future needs implements purposeful strategy in energy policy. Main part of it are energy companies, which form a kind of state extended arm in domestic and foreign operations. The main companies include China National Petroleum Company (CNPC) and its subsidiary PetroChina, Sinopec and China National Offshore Oil Corporation (CNOOC). Along their operations coexist government institutions, which have more control and support function. The primary body responsible for policy and regulation of the energy sector and the implementation of the overall energy strategy is the National Bureau of Development and Reform Commission (NDRC), which beside other roles sets the oil prices. The important role also play the Ministry of Commerce (MOFCOM), especially in the contractual phase of all foreign investment. (BALÁŽ, P.- MARGAN, F.- RUŽEKOVÁ, V.- ZÁBOJNÍK, S.2011. Energetická bezpečnosť v období globalizácie a jej vplyv na konkurencieschopnosť EÚ, s. 128). Ministry of Foreign Affairs (MOFA) provides diplomatic support in research and concluding contracts. The National Energy Agency NEA approves projects.

Chinese oil companies (NOC) are no longer merely imitators of their foreign counterparts BP, Exxon Mobil, Royal Dutch Shell, but have capital, technological equipment, and knowhow and have big advantage in form of government support. Their growing role in the world proves their position in the top ten largest companies in the world rankings compiled by Fortune magazine. Specifically, Sinopec had \$375 billion in revenues and ranked at fifth place. China National Petroleum with revenues worth of \$352 billion was on the sixth. (FORTUNE. 2012. Global 500). Power of the oil companies worldwide proves the fact that in the ranking of top ten eight are from energy field. Regarding China's largest oil company, Sinopec, it had 1,649 992 employees, \$375 billion in annual sale and net profit of \$9.453 billion. This is a huge number even at the level of the gross domestic product of some countries and demonstrates the growing strength of Chinese companies in the global economy.

Tab. 2 Chinese NOC in numbers

Companies	Rank 2011	Rank 2009	Sales (in millions. \$)	Profit (in mil. \$)	Assets (v mil. \$)	Employees (2010)
Sinopec	5	7	375 214	9 453	277 297	1 649 992
CNPC	6	10	352 338	16 317	481 073	633 383
CNOOC	101	252	75 514	8 836	114 161	65 800
Sinochem	113	203	7 099	1 178	41 021	44 256

Source: Prepared by the author based on data from: FORTUNE.2012. Global 500. Available online at: <http://money.cnn.com/magazines/fortune/global500/2012/full_list/index.html>

To understand the global investment strategy of Chinese NOC abroad, we must first know the origin of these enterprises. CNPC, Sinopec and CNOOC have a common origin in the former Ministry of Petroleum Industry and the Ministry of Chemical Industry. The Chinese government within the broad economic reforms of the eighties decided to move productive assets of state ministries to state-owned companies (SOE). (OECD Library). The government thus sought to improve their competitiveness, increase efficiency, wanted to give impetus to these companies to market discipline and the development of capital markets. CNPC is given the function of exploration and production of crude oil on land, Sinopec responsibility lies in petroleum refining, distribution and marketing. CNOOC is relatively smaller compared with the first two companies, namely focusing on the offshore exploration and production. However, it is more profitable than the first two giants as they focus more on oil and does not pay too much attention to oil derivatives, which are strictly controlled by the state. Sinochem operates mainly in the chemical industry.(SINOCHEN, 2012). From a geographic perspective, the three main Chinese NOC have also different scope. CNPC controls the north of the country, Sinopec and CNOOC dominated south and , as mentioned earlier, offshore production. With the transfer of greater powers to the management of these companies' territorial boundaries starts to blur slowly and NOC are beginning beginning to compete in all areas. CNPC dominance is observed in the construction and operation of oil and gas pipelines, Sinopec is far more than a CNOOC refinery is still the largest specialist in offshore production.

1.4 Analysis of Chinese oil market investments

Looking at the total Chinese investment on the following map we can observe the growing importance of Chinese investment abroad. Country is no longer a net recipient of FDI, but since 2004 it starts invests abroad and in 2012 it became third largest investor abroad. Chinese companies which are as mentioned earlier an extended arm of the government have not felt the impact of the global financial crisis to that extent as their European or American counterparts. From table 3 we can see that their investments abroad had despite the slowdown of the global economy during 2007 and 2009 growing trend. In 2007 investments of Chinese companies amounted to \$ 56 billion. In 2010 this volume grew to \$108 billion. Overall, from 2005 to June 2012 the Chinese state-owned enterprises invested abroad \$505.1 billion. Energy attracted largest proportion of investments i.e. \$191.1 billion. This confirms our belief that Chinese strategy "going-out" with focus on ensuring energy security is a priority for the country's foreign policy. On a second and third place there are of the metals and the transport volume of investments during the period, i.e. \$84.1 billion and. \$71.9 billion.

Tab. 3 Chinese NOC foreign investments analysis

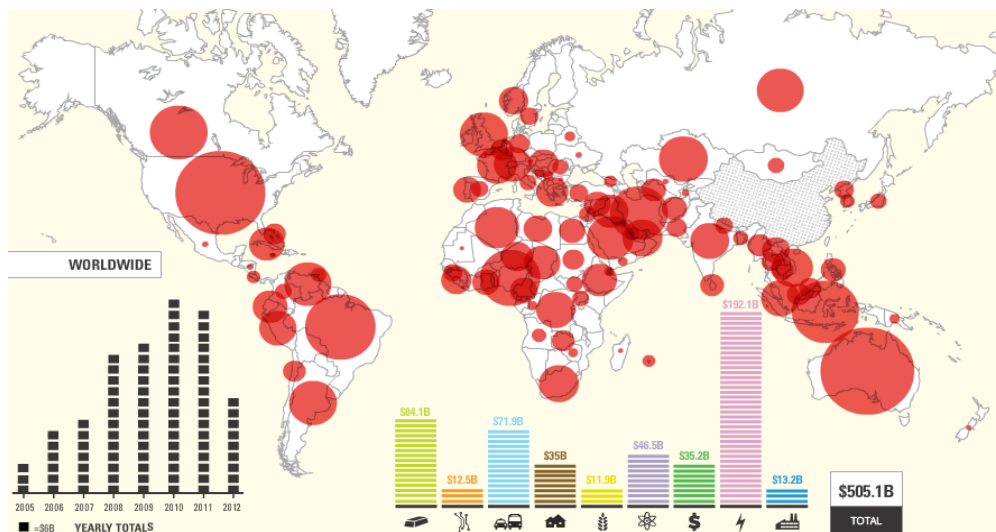
	Total (in thous. \$)	CNPC	Share (CNPC)	Share (regions)	Si-nopec	Share (Sinopec)	Share (regióny)	CNOOC	Share	Share (regions)
Africa	\$19 500	\$8 260	13,39%	42,36%	\$7 520	12,39%	38,56%	\$3 720	9,65%	19,08%
Middle East	\$40 180	\$13 730	22,26%	34,17%	\$10 450	17,22%	26,01%	\$16 000	41,50%	39,82%
South America	\$36 560	\$9 620	15,60%	26,31%	\$16 090	26,52%	44,01%	\$10 850	28,15%	29,68%
CIS	\$20 580	\$14 320	23,22%	69,58%	\$6 260	10,32%	30,42%	\$0	0,00%	0,00%
US and Canada	\$24 300	\$10 350	16,78%	42,59%	\$9 410	15,51%	38,72%	\$4 540	11,78%	18,68%
Others	\$19 790	\$5 400	8,75%	27,29%	\$10 950	18,05%	55,33%	\$3 440	8,92%	17,38%
Total	\$160 910	\$61 680	100,00%		\$60 680	100,00%		\$38 550	100,00%	

Source: THE HERITAGE FOUNDATION.2013. China Global Investment Tracker. Online: <<http://www.heritage.org/research/projects/china-global-investment-tracker-interactive-map>>

Biggest foreign investor from Chinese NOC was with more than \$61 billion CNPC. Biggest share of its investments are allocated in countries of CIS and especially in Kazakhstan, followed by Middle East and US and Canada. Sinopec, second biggest foreign investor from NOC, is most active in South America and other countries than we have mentioned. CNOOC activities are focused primary on Middle East and South America. From this perspective we can see that these companies have split their sphere of influence, even though it can overlap in some regions, they are not competitors in the true sense.

Investments in the energy and mining were primarily in regions rich in these resources, such as the Middle East, Africa, South America and Australia. (SALIDJANOVA, N. 2011. Going Out: An Overview of China's Outward Foreign Direct Investment. U.S.-China Economic and Security Review Commission) While transport investments have attracted particular African countries. Most investments in the area of finance went to USA, South Africa and to a lesser extent in Germany and Belgium.

Fig. 1 Chinese FDI in territorial terms (2005-2012)

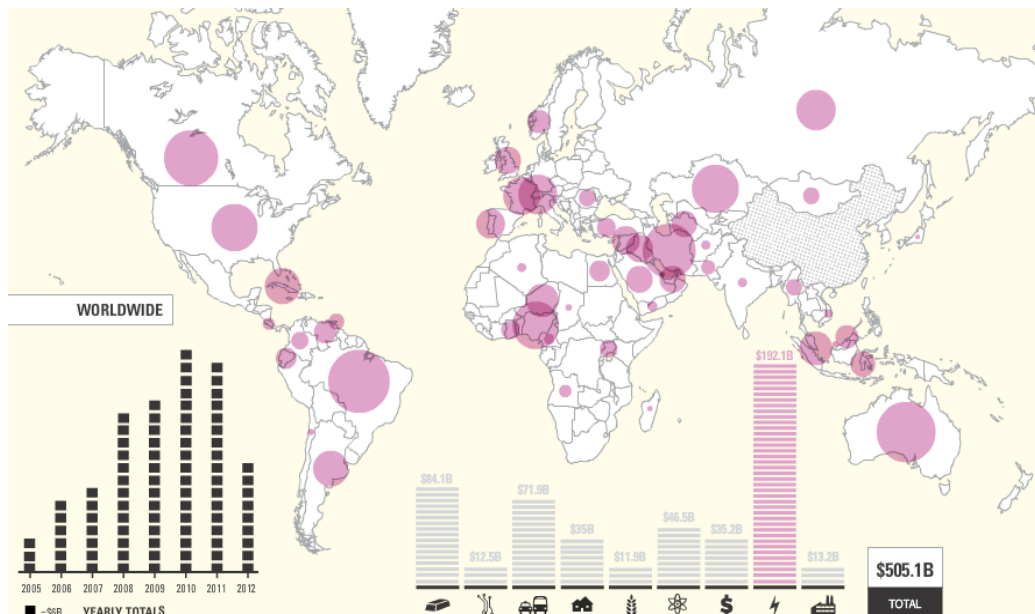


Source: BALÁŽ, P.- SZÖKEOVÁ, S - ZÁBOJNÍK, S.2013. Čínska ekonomika: Nová dimenzia globalizácie svetového hospodárstva .p. 208.

1.5 Analysis of China's investment strategy in the Middle East

Chinese foreign investment in the energy sector has the largest share of investment in all sectors of the country, i.e. 38%. The largest volume of investments geographically sent Chinese oil companies to the Middle East, in the amount of \$40.180 billion. The largest amount of resources companies invested in Iran (\$24.820 billion, what represents 61.77% of total investments in the Middle East). Largest investment in the country China took place in September 2006, in the amount of \$16 billion. China's CNOOC and Iran's state energy company National Iranian Oil Company signed an agreement to develop offshore North Pars gas field, which is one of the largest in the world. In January 2009, China CNPC purchased shares through the Iranian company in the amount of \$1.760 billion. Chinese interest in Iranian assets confirms the additional amount of investment. Tehran sanctions crippled the West (USA, EU) welcomes Chinese investment and vice versa. China takes the opportunity stemming from other countries embargo on that country. It is not at all surprising that Iran is at the heart of the Chinese capital interest, as well as U.S. political pressure. The share of proven reserves of the country in world is around 9.1% and at the current very low production caused by negative impacts of sanctions can produce oil for additional 95 years. The fact that China has replaced the country which promoting embargo against Tehran, confirmed by the fact that despite the tightening of sanctions Iran's oil production since 2003 is growing and is currently at stable level or slightly increasing. In second place in the Middle East is Syria, which attracted 9.36% investment of Chinese companies. This fact is further evidence of the use of sanctions against Chinese expansion plans.

Fig. 2 The territorial distribution of Chinese investment in energy sector (2005;2012)



Source: THE HERITAGE FOUNDATION.2013. China Global Investment Tracker. Avalible online at: <<http://www.heritage.org/research/projects/china-global-investment-tracker-interactive-map>>

Although Syria has only 0.2% of world oil reserves, Chinese companies are taking every opportunity to push European companies from the region. In December 2005, for example, CNPC bought 30% of shares in Petro-Canada, which is a joint Sino-Canadian company in Syria, for \$290 million. In May 2010, China's CNPC bought a 35 percent stake in Syrian division of Dutch Shell company for \$1.48 billion. With a 0.2-percent share of the global oil reserves is unlikely that Chinese interest was directed mainly to the energy sector. It proves more creativity of Chinese companies and trying to use every free market opportunities. Evidence of investment policy towards this country, however, are not as obvious as in the case of Iran. We may therefore more likely to say that China considers Syria as a strategic location in the region and its close alliance with Iran and may play an important role in the geopolitical dispute between the U.S. and the EU on the one hand and China and Russia on the other.

Middle East and Arabian Peninsula countries belong to most important fossil fuels sources. Saudi Arabia, Iran and Iraq are countries with biggest share of oil on world oil reserves; therefore have important place in Chinese energy strategy. Iran attracted in 2005 and 2012 years period nearly \$25 billion of Chinese investments and have share on total Middle East investments at level of 62 %. Important place also plays Syria which attracted investment in volume of \$3.7 billion, Iran and Saudi Arabia both more than \$ 3 billion.

Tab. 4 Inventories of crude oil and natural gas in the Middle East (to 31.12. 2011)

	Oil			Natural gas		
	Billion barrels	Reserves (World)	R/P	Bil. cubic meters	Share (World)	R/P
Iran	151,2	9,1%	95,8	33,1	15,9%	*
Iraq	143,1	8,7%	*	3,6	1,7%	*
Kuwait	101,5	6,1%	97,0	1,8	0,9%	*
Oman	5,5	0,3%	16,9	0,9	0,5%	35,8
Qatar	24,7	1,5%	39,3	25,0	12,0%	*
Saudi Arabia	265,4	16,1%	65,2	8,2	3,9%	82,1
Syria	2,5	0,2%	20,6	0,3	0,1%	34,3
United Arab Emirates	97,8	5,9%	80,7	6,1	2,9%	*
Yemen	2,7	0,2%	32,0	0,5	0,2%	50,7
Other Middle East	0,7	*	37,1	0,2	0,1%	49,3
Total Middle East	795,0	48,1%	78,7	80,0	38,4%	*

Source: Prepared by the author based on data BP Statistical Review 2012

Conclusion

Chinese economy international expansion and expected dynamic internal consumption growth provides room for robust growth of domestic subject of the economy and still higher import of input sources dependency. This concerns mainly raw material and among them particularly sources of energy. As their potential supply is limited China through its own foreign investments acquire this resources for its benefit what increase the overall demand for inputs especially in energy field and cause increase in prices. Growth of Chinese economy was slow down by effects of financial crisis and a new phenomenon has emerged: Decrease of its international demand, what has tremendous impacts on overdebted often monoculture commodity exporters. They are losing chance to repay their financial obligations and global economy discover new risky challenge.

As we can observe from China's energy strategy in Middle East, government in Beijing realize It's natural resources dependency and try to exploit every free opportunity on the market, regardless political situation in the resources rich country. This development will certainly further intensify competition on global scene and deepen gap in relations between China on one hand and US and EU on the other.

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Cross-Border Cooperation and Alliances (the Example of the Kysuce Region)¹

Tatiana Hlušková²

Abstract

Strategic alliances are often used as a means of gaining the competitive advantage among the business entities, but they can be useful also for other subjects. The Kysuce region borders with both Poland and the Czech Republic, which provides an opportunity for cooperation of various entities from all the three states. One of the cooperation forms is the concept of partner cities. In the case of the city of Čadca, some alliance activities (e.g., cultural) are well developed, some of them (e.g., economic) are developed only to a small extent – therefore, the potential of this cooperation is not yet fully developed.

Key words

Strategic alliances, partner cities, cooperation, Kysuce

JEL Classification: L83, R11, R58

Introduction

The aim of the paper is to point out various forms of cross-border cooperation and their importance on the example of the Kysuce region. For example, the cooperation takes the form of alliances with partner cities in the neighbouring countries. Such partnerships could provide a platform for creation of economic linkages and also for the development of tourism.

Strategic alliances are an important means of improving the competitiveness of business and other entities. In the case of regions, alliances can contribute to quality of life improvement or help to create more favourable business environment. However, their effectiveness largely depends on the willingness and commitment of all the subjects involved.

1 Strategic alliances

There are many different definitions of strategic alliances, but all of them agree upon the basic point: strategic alliances are partnerships of two or more entities in order to gain competitive advantage. They enable the partner companies to make use of the opportunities that would otherwise be beyond the capabilities of a single firm.

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As for the forms of strategic alliances, the opinions of American and European authors vary. In this article, we would like to divide strategic alliances into contractual agreements and equity arrangements. Contractual agreements can be formed along the whole value chain: companies can create research and development alliances, product development alliances, technological alliances, production alliances, procurement alliances, marketing alliances, distribution alliances, standard-setting alliances or service alliances. Thus, the partners in contractual alliances combine their resources only in a certain field of business activity. Equity arrangements can take form of joint ventures, minority equity alliances or equity swaps (FERENČÍKOVÁ a kol., 2013).

Basic motives to create a strategic alliance are foreign market entry (often combined with the need of overcoming the legal barriers of entry), risk sharing (e.g. risk of capital intensive investment), cost sharing (e.g. R&D costs), reaction on competitor's activities, sharing of the global resources (e.g. airport terminals) or learning from partners.

Strategic alliances can be formed not only among business entities, whose primary goal is to achieve profits. They can be useful also for international organizations, administrations, municipalities, public institutions, schools, non-profit organizations, or even individuals. The aim of such alliances is to raise the welfare and quality of life of the citizens, research and development or to protect the environment. Subsequently, fulfillment of these goals may create new business opportunities, improve the performance of companies or economic environment of the countries as a whole.

One of the important motives for alliance creation is foreign market entry. Nowadays, the companies (and especially the small and medium ones) often do not have enough resources to expand their activities abroad. Alliance can be an important means of cost- and risk-sharing, thus improving the chances of success on foreign markets. To sum up, alliances offer the partners an access to superior resources or skills that they do not possess or would not gain on their own.

In addition to resources, strategic alliances may foster the sharing of skills, which can lead to an improvement of competitiveness of both firms. The skills usually reside in the human capabilities, systems, and structures of organizations and they might include local market knowledge, training, and purchasing power (HOLMBERG – CUMMINGS, 2009).

Alliances provide partners with several direct benefits, such as quick access to new markets, technology, knowledge or new customers (PREBLE – REICHEL - HOFFMAN, 2000).

Even though strategic alliances have a great potential to improve competitiveness of their members, they often fail to meet their objectives. Previous studies indicate that the failure of many strategic alliances can be traced to the partner selection and planning stages of alliance creation. These stages are important for the risk minimisation. They also identify the four Cs, which are crucial for pre-selection of potential alliance partners: compatibility, capability, commitment and control. These factors are also regarded as important determinants of alliance longevity (PANSIRI, 2008).

Commitment and capability has been found to positively influence general satisfaction with market share, profitability and alliance performance as a whole, while trust has a positive impact on general satisfaction with alliance performance. Control was

found to have an influence on satisfaction with technology transfer and alliance operational performance while compatibility was positively associated with general satisfaction with alliance performance. (PANSIRI, 2008)

However, the success or failure of an alliance cannot be judged properly by any objective measures. Kale, Dyer and Singh (2002) caution against the use of traditional accounting or financial measures such as sales growth, return on assets, or profitability as indicators of alliance performance. These kinds of measures have only limited ability to provide information about cooperation effectiveness. As a result of these objections, there has been a growing trend in the literature emphasizing multiple method research that strengthen the importance of shareholders' and managers' subjective assessment of alliance performance. Managers and shareholders tend to assess performance in terms of either their overall satisfaction with the alliance, or the extent to which an alliance has met its objectives. These objectives are not only financial, such as profits, sales or return on investment. The goal of an alliance can as well be development of new product or technology, market entry or learning. In these cases, alliance can be viewed as successful even though the financial measures are not satisfying. Another disputable measure is the longevity of an alliance. Duration of many partnerships is set at the beginning of the cooperation and is bound to achievement of alliance goal. After reaching the objective, there is no reason to continue the partnership.

Results of study conducted by J. Pansiri (2008) suggest that most alliance executives state general satisfaction with alliance performance as an ultimate goal of the partnership, because it covers all the other aforementioned areas of alliance performance. Therefore, the potential alliance partners should display a high degree of commitment, capabilities, and trust, and the partner companies should display a certain level of compatibility. Alliances based on commitment, trust, compatibility and less control are likely to be more successful.

One of the most highly integrated sectors is travel and tourism. Its defining characteristic is the proliferation of strategic alliances within the industry, and between the industry and other sectors of the economy (HOLMBERG – CUMMINGS, 2009).

Even though entities active in tourism are competing against each other, partnerships and alliances are significant for a number of reasons (PANSIRI, 2008). The tourism industry is composed mainly of small companies, which usually lack the adequate resources for both marketing and foreign market entry. To overcome these obstacles, the companies should join forces and cooperate with each other. That means creation of alliances with partners who meet a variety of needs. The fact that most of the companies are small and medium enterprises and the multiplicity of their alliance partners has implications on the manner in which alliances are managed in the travel sector. They cannot rely only on formal partner control mechanisms but rather more on partner commitment and capability, trust and compatibility.

The small and medium company size is associated with the need to establish the most effective yet less expensive forms of alliances. This need is a result of limited, especially financial resources. Four most effective and less expensive alliance types identified are marketing and distribution agreements, sharing information and communication technology, joint selling or distribution, and franchises and licensing (THEEFF).

2 Cross-border cooperation on the example of the Kysuce region

The region of Kysuce has a favourable location in the north-west of Slovakia, bordering with the Czech Republic and Poland. This provides it with an opportunity to make use of the proximity of the other two countries and to start a bilateral or even multilateral collaboration.

The biggest city of the region is Čadca with approximately 25 000 inhabitants (MESTO ČADCA, 2013). Čadca has three partner cities: two of them in Poland (Toruń and Żywiec) and one in the Czech Republic (Valašské Meziříčí). The cooperation is based on agreements, which provide a framework for various activities in fields such as culture, sports, education, infrastructure development or tourism.

Official cooperation with the city of Toruń is the longest one of the three, starting in 1996. Nevertheless, contacts with the city of Żywiec date back even before 1989 (cooperation agreement was signed in 1998). Partnership with Valašské Meziříčí still lacks a formal framework, as the agreement between the cities has not been signed yet.

The major occasion for the presentation of the partner cities is the traditional yearly fair, which is held on the first Sunday after the St. Bartholomew's Day (August 24), who is the patron of the city and who is also pictured in Čadca's coat-of-arms. The partner cities are stated as the event co-organizers. The fair is also an opportunity to present music and dance folklore groups from the partner cities.

The cooperation between Čadca and Toruń is developing in the areas of culture (performances of the folklore groups, exhibitions of painters and photographers) or sport (meeting of players of various sports – footballers, table tennis players, chess-players, marathon runners or even tourists). Cooperation of schools is also taking place – namely between Academic grammar school in Toruń and Bilingual grammar school in Čadca. Another form of collaboration are the youth exchange programmes, such as summer camps. The municipality officials also exchange information and experiences on various conferences (TORUŇ, 2013).

The cooperation with the city of Żywiec is based mainly on the joint projects in the fields of infrastructure development (interconnection of the cycling routes, connection of the cities by the means of railway and road transport) or tourism – publishing of advertising materials about the cities, interconnection of information centres, protection of the environment. Again, a cooperation between schools exists, this time including the elementary school on the Komenského street in Čadca, the business college Obchodná akadémia D. M. Janotu or the engineering training college. Čadca and Żywiec also organize the days of the partner city culture in turn, with the participation of the folklore groups, orchestras, painters and photographers or craftsmen. Municipality and city organizations (e.g., library) officials meet regularly with the aim of information exchange (ŻYWIEC, 2013).

On the occasion of the 15th anniversary of the cooperation with the city of Żywiec, Čadca officials prepared several activities, including the exhibition of photos and performances of the folklore dance companies and musicians from Żywiec or the exhibition of famous Polish painter Michał Klis in the Čadca city gallery. Photographic exhibition presented the history and the present day in both of the cities.

Cooperation with the city of Valašské Meziříčí functions on the basis of The program of cooperation from 1999. Unofficial cooperation in joint programmes (e.g., the protection of sacral monuments) dates back to 1996. Cooperation in other fields include joint presentations about tourism opportunities in the cities, cooperation of city TV channels or presentations of the cities' culture at various events. City officials from both of them claim the interest to sign Agreement on Partner Cooperation and thus formalize the partnership (VALAŠSKÉ MEZIŘÍČÍ, 2013).

Relatively new is the cooperation with the district of Oświęcim in Poland, which started with the signing of The Cooperation Agreement in 2012. The cooperation is primarily aimed at raising the financial resources from eurofunds, which would be utilized on joint projects in economic cooperation, tourism, environment protection, education or culture. The Euroregion Beskydy partnership will provide a framework for cooperation.

Cooperation in tourism extends beyond the partner cities, as shows the example of questing, an innovative approach to the promotion of the region based on unveiling of the cultural, natural and historical richness of the region. Due to the joint project The QUEST for Visegrad heritage, supported by the Visegrad Fund, the municipalities of the four cities - Grajewo (Poland), Čadca, Kutná Hora (the Czech Republic) and Gyál (Hungary) started the collaboration in this innovative form of tourism. Čadca has the first official questing route in Slovakia, which was created in cooperation with the company Planet PR from Kraków (zdroj).

As for the legal framework and basic rules of the cooperation, the officials from the partner cities meet every year to discuss the content and future activities. Therefore, there is not any long-term plan of activities. The cooperation is being improved continually, according to changing conditions.

Nevertheless, the cooperation with partner cities seem to be intense, but without any clear performance criteria. According to the information from the city officer responsible for culture and international relations, there is no detailed evidence about the number of tourists coming to Čadca or their country of origin – thus the impact of cooperation cannot be measured. However, the overall number of tourists is rising, judging by the number of clients in The Cultural and Information Centre.

Economic cooperation is not formalized at all, limited only to occasional meetings of entrepreneurs for the sake of information exchange.

The cultural cooperation is likely to be the most developed one, with numerous exhibitions and performances of local artists, even though there is not any regular event dedicated to the culture of partner cities.

The partnerships with three partner cities and one district might present the city of Čadca and a whole region with a number of benefits, yet they seem to be not fully exploited. Especially in the economic sphere, the potential to connect various business entities is not developed at all. Such connections might provide them with all the advantages of strategic alliances, as are the cost- and risk-sharing, foreign market entry or learning.

The most promising area of the partnerships might be the tourism sector - given the relative proximity of Čadca and its partner subjects (except of Toruń). Advertising materials are published also in Polish, depicting the most attractive sites in the region,

including ski centres in Veľká Rača-Oščadnica and Makov, pilgrimage site on the Živčáková hill, meeting place of the three countries called Trojmedzie, or the world-unique sites: the narrow gauge forest railway in Vychylovka, crude oil spring in Korňa and the giant stone balls in Milošová-Megoňky.

All of the three languages – the Slovak, Czech and Polish – are similar to some extent, which could also lower the barriers of cooperation. The EU membership of all of the countries might also facilitate the collaboration of entrepreneurs. To sum up, the conditions for cooperation are very favourable, and also the willingness of interested entities seem to be present. Nevertheless – as is the case of every strategic alliance-, planning and implementation stages are equally important. The potential of partner city alliances in the Kysuce region is not yet fully developed, especially in the economic sphere.

Conclusion

The concept of partner cities may be a source of many benefits for its participants, given the potential of cooperation is fully exploited. The geographical proximity and similarity of the languages could contribute to the positive effects, especially in tourism. In the case of Čadca and the Kysuce region, the partner city alliances do not provide any significant (especially economic) direct effects – even if they would, there is no measurement of these effects at the city or regional level. However, the potential of these alliances (if properly managed) is large, as shows the most developed sphere of cooperation – the cultural one.

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New Trends in Retail Marketing

Veronika Hrdličková¹

Abstract

The subject of the paper is New Trends in Retail Marketing. The work describes current trends in European retailing. The particular subsections characterize marketing mix variables that are specific for retail sector: People, Product, Price (Distribution) and Promotion. For achieving the retail success is important to continuously adapt strategies and marketing mix variables to changing consumer demands. Accelerating lifestyles and the need for shopping under one roof encourage growth of already large companies but also stimulate the expansion of small size stores.

Key words

marketing, retail marketing, marketing mix variables

JEL Classification: M31

Introduction

The customer appears in the market as an important subject that affects decisions making process of retail stores. The main goals in retail sector are to achieve the highest level of satisfaction the customer needs and to achieve the required profit.

Significant workload and accelerating lifestyles cause changes in customer behavior who has been searching for a big shopping centers. Business is exposed to strong pressure from the internationalization and globalization worldwide. As a result of unification and internationalization is the change in shopping behavior and customer needs.

Each retail company faces important decision making process for a strategy that will help to achieve some degree of differentiation comparing to competitors. Nearly uniformed range of goods is no longer a prerequisite for achieving business success. Management of retail units concentrates their attention on such attributes as the image of retail stores, shopping atmosphere, customer service etc.

The subject of the paper is focused on the characteristics of marketing in retail sector and the classification of European trends in the retail market. The paper also focuses on the characteristics of individual elements of the marketing mix in the retail environment. For preparing the work were used various sources of foreign books and the major literature is Retailing in the 21st century written by authors Manfred Krafft and Murali Mantrala.

1 New Trends in Retail Marketing in Europe

Marketing consist everything undertaken by a supplier in order to satisfy the needs and wants of customers. It is not just selling and promoting the products. The supplier

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must make an acceptable and affordable combination of goods and services available to customers at the right time and in the right place.

According to Sullivan and Adcock (2002) „marketing is simply managing the exchange with customers in the best possible way. It also requires attention to the competitive environment since it is no good having a satisfactory offering if another organization is making a superior offer and thereby is achieving all the sales. However the basic principles of marketing are no different for a retailer than for any other supply organization. What is different is the immediacy of many retail marketing exchanges, and the range of activities that can be undertaken by the retail marketer in order to achieve a profitable exchange with a customer“.

A retailer is a dealer or a trader who buys goods in bulk and then sells goods in small quantities to the final customers. Retailers interact with the final customer in a supply network, but they are both buyers and sellers of goods and services, they need to acquire the products they offer and in this will negotiate with suppliers of such items.

„From an economic standpoint the role of a retailer is to provide real added value or utility to their customer. This comes from four different perspectives:

First is utility regarding the form of a product that is acceptable to the customer. That is the retailer does not supply raw materials, but rather offers finished goods and services in a form, that customers want.

Second comes the critical aspect of place. Offerings are available at a place appropriate to where a customer wants to purchase.

Third is time utility. In this respect retailers provide a benefit by making offerings available at a time suitable to their customers.

Finally there is utility from possession, in that retailers facilitate the transfer of ownership to the customer.“ (Gupta, Randhawa, 2008, p. 21).

All this are real benefits that can retailers offer to their customers in order to satisfy their needs. It is important for retailers to fully understand the motivations which drive their customers and the different types of utility that a particular retailer can offer.

Since the early 1990s there has been a substantial re-structuring of retailing in Europe. The restructuring has occurred alongside substantive changes in strategies, operations and relationships. These changes have encouraged the emergence of an alternative perspective of the role of retailing that places retailing as the initiator of added value activities in the economy rather than in its traditionally role of building added value in manufactory. The new role places retailing in a global framework of international store operations, international sourcing of products, international flows of management and managerial know-how, and international retailer brands.

The nature of the changes that are taking place in European retailing during current phase of major restructuring are illustrated as following:

The large firms are growing faster than the Sector as a whole. The large firms have been able to increase their output through entering new markets, diversifying their retail offer, acquisition and importantly like-for-like sales growth. „The speed of growth has quickened in many of the large firms. For example through the early 1990s Carrefour was opening fewer than 20 stores per year but by 1999 was opening more than 50 per year, albeit with the majority outside Europe. The result was that by 2001 over 20 % of the

hypermarkets operated by Carrefour did not exist three years previously.” (Krafft, Mantrala, 2010, p. 67).

A more strategic approach to managerial decision making. In the large and medium sized companies has been adopted a strategic approach to management more consistently. Strategies are really different but there is a wider presence of a general business strategy that is then made operational through functional strategies for marketing, merchandising, buying, branding, logistics, employees, finance etc.

Increased complexity of organizational structures. The expansion of international operations, for example, has required retailers to develop a structure of country ‘vice president’ and in several cases an international board of directors. At store level the international moves have required different organizational structures in different countries in order to respond to the different customer cultures. A more complex organizational structure are not required only in order to international operations. International sourcing centers have to be accommodated in organizations. The outsourcing of many previously insourced functions also changes organizations. The diversification of retailers into financial and leisure services provides further organizational complexities.

Moves towards retailer coordinated value chains. Retailers have become increasingly involved in coordinating the relationships between retailers and suppliers. This value is created at a variety of places in the value chain, not simply at the point of final sale to the customer. In taking costs out of the distribution channel there is a redistribution of the locus of value generation. An example of this is in the terms of trade that exist between retailers and suppliers such that a retailer’s inventory is financed by supplier. By providing the longer credit days than the inventory turn of the retailer, the retailer operates with negative working capital.

Marketing mix in the retail sector consist of following variables: People, Product, Price, Place and Promotion. The next parts describe the variables that are specific for retailing.

1.1 People

Retailing is a major labor-intensive industry sector. The companies are continually challenged to reorganize and adapt their structures to become more efficient. Human resource management has to provide a coach, not only to organize, but also to support employees and management mentally and professionally in fulfilling their tasks in terms of future company goals.

The figure 1 defines current HR challenges and current general conditions. The following part defines current challenges and conditions more specific.

Fig. 1 Challenges and General Conditions for Human resource management

HR CHALLENGES	<ul style="list-style-type: none"> - Company Strategy - Added Value Management - Change Management - Recruitment and Retention - Employability and Lifelong Learning
GENERAL CONDITIONS	<ul style="list-style-type: none"> - Corporate Governance - Technology / IT Infrastructure

Source: Kraft, Mantrala, 2010, p. 263

Current HR Challenges:

- *Company Strategy.* HRM needs to adapt its entire program to the company's vision and strategy. The organizations with good human capital management generally create more shareholder value than other companies. HR department has to create the strategy which is complex in the sense of addressing all the different personnel and HR activities central to the long-term development of the firm's businesses. HRM departments have to conceptualize and structure business plans with detailed operations extending from the current to the future state of strategy, organization, and action.
- *Added Value Management.* Commitment in the form of personal engagement and belief in the organization and its concepts is important. HRM has to support the commitment by creating concept and criteria for their evaluation. The following behavioral aspects should be included in the HRM concept: personal honesty and integrity, ability to communicate the values and benefits, self-motivation and entrepreneurial style, encouraging others to want to work for the company and share its values, training and developing, coaching and mentoring.
- *Change Management.* Managers have to be able to make changes happen of their own will and also to support the company in its drive for sustained success. Managers have to be able to support and encourage their own staff. The employees will support and contribute to the changing needs if they understand what they do.
- *Recruitment and Retention.* Recruiting and selection the employees is one of the most vital HR functions. The retail industry faces the difficulties with attracting highly educated people. The challenge for HRM is to show the attractiveness of the retail sector and ensure that appropriate training and careers are available, so this sector can take a leading place in the competition for available talent. Retention focuses on keeping well-performing staff in the company. This depends not only on interesting work, fair compensation, and a motivating climate and management culture, but also on transparent and achievable career paths combined with a supportive management that provides guidance.
- *Employability and Continuing Education.* The employees have to take retraining in order to adapt to a constantly changing external environment. It is a question of mind-set, working environment, and attitude towards self-responsibility. The future will be characterized by the following needs, amongst others: the need to handle increasing complexity, the need for continual enhancement of the management skills sets known as life-long learning, the need to communicate regularly and precisely, and transmit meaning and values, the need for a positive attitude to newly emerging opportunities, the need for creative management.

Current General Conditions:

- *Corporate Governance.* The recent case of Enron and the difficulties faced by retailers such as Sainsbury suggest that the governance of these organizations was grossly at fault in permitting the excessive amounts of power vested in their chief executive officers. Expansion, absolute power, soaring costs and misinterpretation of facts and figures caused the presenting stakeholders with a picture that was more positive than the reality. The HR directors need to be more closely involved in the careful examination of candidates integrity and suitability for high office. This will probably slow the decision-making process but it might be a small price to pay for more responsible environment acting in the best interests of all parties. HRM needs to motivate the entire staff of the company, to observe

and evaluate the political situation within the company, and to react in an appropriate way that can influence the retailer's level of success.

- *Technology/IT Infrastructure.* A major change in retailing in the future will be the worldwide use of RFID technologies. The scientific research involves customers reactions to the new shopping methods, and also staff training in the use of intelligent technologies and introductions to available information and changing processes for customers.

HRM has to ensure that the workforce is motivated and trained to satisfy customers' needs. Retailers have to develop an attractive position with the fulfillment of employee needs and expectations and achievement of a good, unique image in terms of recruiting and keeping human capital.

1.2 Product

The assortment decisions must be viewed in the context of other marketing mix variables, such as price, interstore distance, store ambience, and region. Marketing mix variables needs to be decided jointly to maximize profit for the product category and the store.

„Assortment and Price. Some studies have examined the joint effects of assortment and pricing. Since a key goal of product category management is to maximize profit for the category, assortment and pricing decisions are inseparable.” (Kraft, Mantrala, 2010, p. 279).

McIntyre and Miller (1999) propose „an empirical approach for improving optimal assortment/pricing decision combinations. With this approach, retail shoppers are asked to provide information about their reservation prices for brands in their consideration set. Then, a simple choice rule is developed to model and forecast the sales of each item in the set given the stated prices. In an empirical test of this model, this approach resulted in significantly more profitable assortments than a constant markup rule or a regression approach. However this model is more applicable to high-involvement product categories. Research is still needed to develop a model for common, frequently purchased product categories”.

Assortment and Other Marketing Variables. Current studies have focuses on how assortment overlap, price differentiation, and interstore distance impact on the sharing of customers between stores. A key finding is that assortment overlap and interstore distance are the key determinant of customer overlap. The assortment decisions rather than price are critical in differentiating a particular store and giving customers a reason to shop there.

Assortment and Regional Differences. The assortment adjusted by region is a key way to achieve competitive advantage. The regional differences may complicate the assortment planning process and also the evaluation performance of individual stores. Retailers need to be able to measure merchandise performance for each individual store level.

To address this problem, Grewal et al. (1999) „employ data envelopment analysis (DEA) which enables retailers to plan and evaluate the performance of similar stores. The performance of individual stores is compared to best practice stores, which are similar in terms of certain characteristics (region, categories). Thus, similar best practice stores can be examined to determine which assortments and practices make their stores successful”.

Assortment and Sales Promotion. The experimental studies have highlighted the importance of interaction between assortment and sales promotion. For example, the possibility of switching from a low-quality, low-price brand to a high-quality and high-price brand is greater than the possibility of switching from a high-quality to a low-quality brand. The manipulating assortment by adding another price tier can eliminate this effect. Also the number of purchased items can be increased by encouraging the purchase of multiple items in a category through the use of various promotions.

1.3 Price

Profitability in retail pricing has become a main goal. Retailers, especially, grocery retailers, are operating on low margins. On average, a supermarket's margin is about one percent of net sales. A typical supermarket today is bigger than even before, with several thousands of items – and, due to mergers and acquisitions, it is part of an even larger retail chain. Prices are set on weekly bases, so supermarkets are challenged to develop a profitable pricing strategy.

„We believe that customized pricing will be increasingly adopted by retailers in the coming years. However, we also predict that customized pricing will become increasingly profitable due to the following four trends” (Kraft, Mantrala, 2010, p. 316):

Evolution Away from Traditional Trade Allowances. Retailers will develop a better understanding of their unique features (scale, product assortment, service, etc.) for which customers are willing to pay, and alter their pricing practices accordingly. The conversion to dead net cost – required to implement more sophisticated pricing practices – may not be easy for traditional retailers. However, software systems offered by outside suppliers may be particularly useful during the transition period.

Increased Adoption of Pricing Customized to Local Market Conditions. Retailer pricing software tends to ignore the competitor's pricing strategies and customer's characteristics. We predict that retailers will eventually adopt customized or variable pricing. The future pricing practices will reflect a better balance between the cost efficiencies obtained over the past decade and the revenue benefits that can be derived from increased flexibility to respond to local market conditions. We do expect grocery retailers to continue testing personalized pricing within the context of their loyalty programs.

Greater Pricing Flexibility. We expect the retailers to increase a pricing flexibility across brands, categories and stores as well as over time. The use of Electronic Shelf Labels (ESL) is sometimes offered as an example of how retailers are trying to improve customer service. The ESL also enables retailers to change prices anytime and on any item. The implementation of ESL has been slow based on costs.

More Multi-channel Price Consistency. Retailers are interested in optimizing prices on each item across channels: Internet, catalogs and direct mail. Despite price dispersion across retailers within a channel and across channels, we believe that the same retailer will price consistently across its different channels. There are many opportunities for retailers to compete on non-price attributes.

The retail landscape is being altered by retail consolidations, changes in manufacturer practices, technology development, the emergence of e-tailing, and channel blurring. In the future, we predict a movement away from heavy trade allowances, increased customi-

zation to local conditions, greater pricing flexibility, and more multi-channel consistency of retailer pricing.

1.4 Place – Distribution

The customers are currently faced with many varieties of retail formats to satisfy their needs and wants. The reason for the emergence of new retail formats, it is certain that new formats offer opportunities for traditional and new retailers to increase their market share and their profitability. On the other hand, it may also cause erosion in the retail landscape. Those players who are unable to take the chances that come with a change in the market may lose market share or even disappear.

The customer is served by following retail formats in retail industry: cash and carry stores and warehouse clubs, convenience and forecourt stores, discount stores, hypermarket and superstore operators, supermarket and neighborhood store operators.

Kraft and Mantrala (2010) anticipate three related trends:

Gaps in the National Retail Landscape. A closer look at the dissemination of retail formats in the G8 countries (Japan, Germany, UK, USA, Russia, Italy, France, Canada) leads to two major conclusions: the dissemination of convenience stores and of discount stores is unevenly, across nations and there may therefore be opportunity for competitive advantages. Convenience stores have enjoyed steady growth in Japan over the years. It can be anticipated that convenience stores will gain market shares especially in countries that have a tradition in higher service orientation in retailing, such as the United States and the United Kingdom. The format convenience store may turn into a profitable niche in less service-oriented countries, especially Germany. There is a gap between discounter and supermarket. Legal restrictions in some countries may encourage cooperation between filling stations and convenience stores. It can be anticipated that discount stores will gain market shares from supermarkets – as has been the case in Germany – especially in Russia and Italy. Russia is still searching for a national retail landscape and it is the fastest changing G8 market. The slow economic growth in Italy may also mean an opening for discount stores.

Retail Branding. In retail practice can be found two options: mainly large retailers have developed a strong private-label merchandise, while others have such a strong brand name that the average consumer does not make a difference between store and brand. The rise of the retailer as a brand is one of the most important trends in retailing. Understanding the image of a retailer as a brand and an appreciation of how brands impact on its image and ultimately on customer loyalty and profitability are important issues both for retailers and for the manufacturers of branded products.

Trends Emerging from New Technology. The Internet Technology will redefine the role of retailing. It will open up the way for new retail formats and new retail strategies. The world-wide increase in e-commerce activity is most evident for certain product categories, such as books, music CDs, videos, electrical and electronic goods, sports equipment, toys and for services such as consumer banking, finance, health information.

1.5 Promotion

Sales promotions have an important role in the marketing programs of retailers. A large percentage of retailer sales are made on promotion. Retailing is currently facing opportunities from a variety of new technologies.

Kraft and Mantrala (2010) expect following technologies to have the largest impact on promotions in the future:

- *Loyalty Cards.* Metro Group in Germany is a participant in the "Payback" loyalty program. Once consumers have collected a certain number of points they can exchange them for a cash payment or a premium. For Metro Group, Payback provides valuable data for promotion analysis and planning. The retailer has data on consumer purchase behavior at the household level, as well as in-store data on the promotion environment at the time when purchases are made. The disadvantage relative to single-source data is that loyalty card data only concern purchases within the chain. The purchases made in a competitor's store cannot be registered.
- *Personal Shopping Assistants (PSA).* The PSA can be attached to customer's shopping carts when they enter a store. At the future store, the PSA reads the Payback card of a shopper, so that it can access the purchase history of the customer's household. The PSA display shows an electronic shopping list. It initially proposes a shopping list based on the favorites from previous purchases. The consumer can then modify that list. If the customer scans the products and put into the shopping car, the PSA calculates total price and indicates savings from products.
- *Electronic Shelf Labels (ESL) and advertising displays.* The ESL are directly connected to the price administration system and the checkout system. The prices on the shelves are always identical to prices at the checkout. Electronic advertising displays can display advertising messages or show videos.
- *Radio Frequency Identification (RFID).* This auto-identification technology uses radio waves to identify individual physical objects. Many experts expect RFID to develop further and replace identification through UPC/EAN in the future. The tests of RFID have focused on optimizing the supply chain and reducing costs in logistics. The RFID also offers potential for servicing the customer better, particularly when tags are attached to individual products, and for better analyses of the impact of retailers in-store merchandising activity.

Conclusion

The paper output is characteristic of current trends in European retailing. The paper also describes the marketing mix variables that are specific for retail sector. Trends in the development of retail trade show the growing importance of the business expansion and innovation in information technology. For achieving the retail success is important to continuously adapt strategies to changing consumer demands. Accelerating lifestyles and the need for shopping under one roof encourage growth of already large companies, but also stimulate the expansion of small size stores.

We are currently witnessing a consumer society in which the products have been manufacturing, selling and consuming in large quantities. However the customers have

began to search for smaller retail formats and have started to return to the traditional values. In our opinion it will be important for the customer to purchase in the small sized stores in the future, especially in the grocery retail. It will become really important for the customers to save time. We do share our opinion with the authors Dunne, Lusch and Carver.

„Furthermore, retailers have found out that some consumers actually prefer smaller stores, since these stores provide the convenience of being able to get in and out more quickly. Therefore, retailers have recently begun reducing their store size. If they were locked into a lease or owned their building, they expanded their scrambled merchandising policy. For example drugstores have recently added medical clinics, and supermarkets have added banks and dry cleaners inside their stores” (Dunne, Lusch, Carver, 2009, p. 11).

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The Phenomenon of Private Labels

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Abstract

The purpose of this paper is to investigate the perceived risks that customers associate with private labels and to understand which of these risks significantly influence their purchase intention. It may provide direction on how best to entice customers to trial and adopt private labels in a largely commodity-driven environment. This paper also examines the incidence of consumers' rejection of private labels and reasons for this rejection. The findings highlight the importance of extrinsic cues for private labels to minimise the incidence of consumer rejection.

Key words

Private label, rejection, brand, consumer, retailer

JEL Classification: M 11, M 21

Introduction

Private label brands (PLBs) may be defined as brands that are owned, controlled, marketed and produced by a particular retailer, or according to its specifications, and sold under its specific name. PLBs have grown in developed countries to such an extent that they now compete with national brands in almost every product category (Herstein, 2007). Whereas PLBs were once associated with poor quality, low prices and substandard performance, the emergence of Premium PLBs has resulted in such brands challenging, or even outperforming national brands. In fact, many international retailers now perceive the adoption and diffusion of PLBs to be one of their foremost priorities (Baltas, 2007).

National brands represent manufacturer brands that are generally owned by companies with significant resources, marketing of national brands typically focuses on brand differentiation rather than feature or price positioning (Lincoln, 2008).

1 Perceived risks

Traditionally, PLBs carried the stigma of substandard quality when compared to national brands (Mieres, 2006). However, over the past two decades, a dramatic improvement of PLBs in terms of perceived image and quality has become evident (Au-Yeung, 2009).

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Nonetheless, it would appear that many consumers still associate PLBs with sub-standard quality and believe these to be second-rate alternatives. This inferiority stems from consumers' perceived risks associated with PLBs. Previous studies consistently reveal that greater perceived risk translates directly into lower proneness to purchasing PLBs (Glynn, 2009)

Laforet (Laforet, 2007) promote the notion that there are five recognised types of perceived risks, namely:

- functional
- physical
- financial
- social
- psychological

1.1 Functional risk

Functional risk is described as the uncertainty that the outcome of a product purchase will not meet consumer expectations (Agarwal, 2001). It is also expressed as a performance risk as it demonstrates the consumer's fear that a product will not perform to its promised abilities. This risk specifically illustrates a customer's suspicions of the quality of the product, and whether it can be relied upon and trusted to operate accordingly.

Mieres (Mieres, 2006) report that PLBs are perceived to be considerably more risky than national brands, largely due to uncertain functional performance.

The next aspect that increases functional risk is whether a product is a search or an experience product. These two categories are determined by the product attributes, whether one has to search for information on the product or actually experience the product before evaluating and purchasing it (Glynn, 2009).

1.2 Physical risk

Physical risk is argued in the literature to have three different descriptions. The first refers to the possibility that the product may harm the consumer and others in a physical sense. The second is that the store in which one is purchasing the product could potentially hurt the shopper. The third refers to the physical effort spent on one's shopping expedition (Schiffman, 2004). However, the most commonly cited is probably the first description, i.e. a consumer's fear that certain products can damage their health or physically injure their person.

Semeijn (Semeijn, 2004) argues that physical and functional risks are the same thing with regard to groceries. If such a product does not function properly, it could potentially physically cause harm to the consumer.

1.3 Financial risk

Financial risk may be defined as the possibility of a monetary loss from a poor purchase choice (Zielke, 2007). In other words, losing money by purchasing an inadequate or unfamiliar brand. This definition can, however, be extended to include the risk the product's quality does not match its price (Schiffman, 2004).

1.4 Social risk

A possible perceived loss of image or status through the purchase of a particular brand or product is referred to as social risk (Zielke, 2007).

Social risk is also defined as the extent to which a customer believes that (s)he will be negatively evaluated due to his/her product (brand) choice (Semeijn, 2004). Social risk is an important element of perceived risk as it takes into account how society influences a consumer's decision.

Zielke (Zielke, 2007) conducted a study on PLBs and their associated risks, concluding that consumers' readiness to accept PLBs differs between product groups depending on the typical risks associated with the category.

1.5 Psychological risk

Psychological risk may be defined as a consumer's disappointment in making a poor product or service selection (Ueltschy, 2004). Social and psychological risks are, at times, combined and referred to as psychosocial risk. The reason for this is that in the case of low-involvement and low-value purchases, consumers actually struggle to distinguish between the two types of risk.

1.6 Risk reduction remedies

Past experience leads to familiarity with specific products and brands. In turn, this familiarity serves to reduce perceived risk for future purchases, assuming the experience was a positive one (Mieres, 2005).

Sethuraman (Sethuraman, 1999) suggests that in the supermarket industry, as consumers' knowledge of PLBs increases, uncertainty decreases and, in turn, perceived risk is reduced.

Adding to this, Kunze (Kunze, 2007) found that offering samples or trial periods, as well as money-back guarantees, plays a significant role in reducing this uncertainty.

A favourable retail image may improve the perceived image and quality of the retailer's PLB, thus reducing the associated risks. Quality perceptions, leading to reduced risk perceptions, can also be altered through increased safety, cleanliness and convenience within the store environment. Consumers' perceived risk may therefore be controlled and managed throughout the decision process.

2 Rejection of private labels

Brand rejection happens when a consumer claims no desire to buy the brand in the future (Lee, 2009b). Understanding the nature of brand rejection is important, as it can help identify current barriers to customer acquisition, as well as provide ideas for future marketing tactics to overcome, or minimise, this rejection. The focus of most brand rejection studies is on national brands (NBs). To date, the literature has largely ignored one of the largest areas of growth in the grocery sector: private label brands (PLBs). Private labels are brands sponsored or owned by retailers and sold exclusively in their stores. PLBs are being introduced by more retailers and span more categories, with penetration growing at a far greater pace than manufacturers' brands (Lincoln, 2008). This makes them of greater strategic importance to retailers and an increasing threat to NBs.

Traditionally PLBs differ from NBs in many of the core elements of the marketing mix, including branding, labelling, price, distribution, and the level of advertising. However, with greater investment comes a change in strategy (Kumar, 2007). Today, PLBs have changed their position, moving from cheap "me too" brands, to brands offering a quality alternative (De Vulf, 2005).

Background

Brand rejection is a conscious decision not to buy a brand. This differs from the behaviour of simply not buying the brand, which can be due to a lack of awareness, resources, or availability. When a consumer rejects a brand, they are actively deciding against buying it. Therefore, they must have formed a negative opinion or belief about the brand, which acts as a barrier to purchasing.

2.1 Reasons for brand rejection

Nenycz-Thiel (Nenycz-Thiel, 2011) have identified five reasons for the formation of negative brand beliefs:

- a negative past experience with brand
- moral rejection
- information from extrinsic cues
- high perceived risk
- spillover effects

2.1.1 Rejection based on negative past experience with the brand

There are many theories that explain why consumers may be dissatisfied with a product post-experience. One of these is the theory of expectancy disconfirmation (Wu, 2006). According to this theory, consumers are dissatisfied with a brand because post-experience with the product did not match pre-formed expectations. The theory

suggests that negative past experience with a product will lead to dissatisfaction, which in turn is likely to cause future rejection of the brand.

2.1.2 Moral rejection

Consumer can reject a brand if they do not agree with the policies of the brand's company and believe that these policies have a negative impact on society (Lee, 2009a).

2.1.3 Rejection based on low perceived quality inferred from extrinsic cues

There is evidence that negative beliefs can cause rejection prior to purchase, specifically in the consideration or selection stages of the consumer decision-making process. These negative beliefs can form via extrinsic cues, such as advertising (Kirmani, 1990), price (Rao, 2005), and the brand name itself. In the absence of advertising, lower prices lead potential customers to infer low quality in PLBs products.

2.1.4 Rejection based on high perceived risk associated with the purchase

Mieres (Mieres, 2006) found that consumers can perceive a high social risk in buying private labels. This is evident in reported refusals to buy PLBs for a gift or for when guests are present.

2.1.5 Rejection based on spillover effects

Janakiraman (Janakiraman, 2009) showed that consumers are likely to transfer consumption experiences across similar products. There are two spillover aspects, specific to PLBs, which may influence the incidence of PLBs rejection. The first of these is the umbrella branding of PLBs within a store. Umbrella branding, where PLBs' offerings across different categories have the same or similar brand name, is common to PLBs. Therefore, perceptions of PLBs in one subcategory are likely to spillover to perceptions of PLBs in other subcategories. The second cause of a spillover effect is the perception of PLBs as a homogenous subcategory of brands across stores. There is evidence that consumers perceive PLBs from different stores as a single subcategory of PLBs, with very low differentiation between brands (Nenycz-Thiel, 2009). Therefore, perceptions of PLBs in one store are likely to spillover to perceptions of PLBs in other stores. These two aspects enhance the likelihood that there will be a spillover of any unfavourable associations from one PLBs in one category to that same PLBs in other categories, and to all PLBs across all stores. This will be particularly evident for non-users, who do not have any positive experiences in other categories to countermand the negative perceptions of one specific PLBs. This should increase the magnitude of the effect of a negative brand perception / experience to stimulate rejection for options that the consumer knows almost nothing about, other than it is a PLBs.

Conclusion

In this paper we have examined empirically the perceived risks that may influence consumers' intention to purchase grocery PLBs in supermarkets. It was found five types of perceived risk that have significant negative effects. Retailers can decrease perceived risks through increasing consumers' confidence in purchasing private labels. Retailers should continue to invest in research and development of these products so as to improve product quality through innovation.

We also examined the issue of PLBs rejection in this paper. Findings show that a substantial part of rejection happens prior to purchase. This has implications for retailers when marketing private label brands. Retailers not only need to work on the objective quality of their PLBs, but also need to accelerate the translation of changes in objective quality to more positive in perceived quality. This involves investment and improvement of the extrinsic cues, such as packaging or the level of marketing activity, which people use to form quality perceptions before trial. The finding is in line with modelling research on private labels, which found perceived quality as the main driver of private labels penetration (Steenkamp, 1997). Only then can any improvements to the private labels affect consumer behaviour and encourage trial.

The results support practice that price of PLBs should not be too low in comparison to other products in the same category, as this cue will then be utilised by customers to make inferences about the PL's quality.

The findings also suggest that it is important for retailers to understand spillover effects. The existence of spillover effect for PLs implies that a segment of consumers perceive all PLs as a homogenous group. This segment makes inferences about PLs based on stereotypes, such as all PLs are cheap and nasty. This point highlights the importance of differentiating a store's PLs from other store's PLs. This is also a key objective if the desire is to build store loyalty via PLs.

National brand marketers can also benefit from information about the reasons consumers reject PLs. These reasons for rejection can help marketers compete more effectively by providing a basis for targeting any messages about the relative value of PLs versus national brands.

The finding that a large proportion of private label rejection is due to low perceived quality implies that having acceptable levels of quality is an important factor when making a purchase decision. Therefore national brands manufacturers need to watch the quality of PLs as well as maintain the quality of their own products. Relying in the long-term on any differential quality to separate PLs from national brands presents a challenge for national brand manufacturers as often they are contracted to supply the raw materials for PLs. As well as objective quality, the perceived quality of PLs is likely to improve in the near future. More people trying PLs will realise that PL quality matches that of national brands. Mitra (Mitra, 2006) makes the point that process of matching objective and perceived quality happens faster for low reputation brands, such as PLs. Therefore, simply maintaining the quality of national brands would not be enough to justify the price premiums. Therefore national brands will need to see other means to compete with PLs. One option to maintain the competitive advantage is to invest in innovation and they also should closely monitor these reasons

for rejection after trial of a new brand or innovation, as they may provide early warning signals as barriers to sales growth.

Limitation and future research

The main limitation of this paper is its focus on grocery products only. In the interest of establishing sound empirical generalisation, future research on PL rejection in other categories would be useful.

Future research should link claimed rejection to real buying behaviour data and examine how much of claimed rejection really happens and how much is just expressed attitude. Future research should also investigate if rejection of PLs in one category leads to rejection of PLs in other categories. Finally, future research could also investigate whether rejection is situation-specific and the situations in which private label rejection is higher or lower.

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Quality of the Rural Tourism Services in the Czech Republic

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Abstract

The local specifics including special product connected with the natural and cultural background of the territory are highly appreciated by the tourists but in the same they are expecting a certain quality and tempting offer of services. The assessment of the rural tourism services in the Czech Republic is not unique but some globally used demands are applied. The contribution deals with the results of an inquiry investigation focused on how some quality standards are met by the Czech providers of the rural tourism services. The results are quite positive whereas no particular criteria for rural tourism were used.

Key words

rural tourism, quality assessment, inquiry investigation

JEL Classification: L83

Introduction

During recent years, interest in tourism activities in rural areas has grown in many countries. The same trend we can observe in the Czech Republic, maybe even more intensive due to inhibited development of all private activities before 1990.

The rural tourism is considered to be sustainable, competitive with positive impact to the territory and its inhabitants. Activities developed around rural tourism enable specific areas to enjoy economic progress, particularly those affected by migration to larger towns and cities with more job opportunities (Albacete-Sáez et al., 2007).

The rural tourism can be recommended to areas with special protection, to nature preservations, national parks etc. It contributes to the preservation of the territories with dispersed settlement, improves their promotion and attractiveness (Šuhajdová et al., 2013).

The deepening globalization, more experienced and better informed travellers (thanks to the Internet), and extensive offer let survive only those with high quality services, goal directed marketing and segmentation (Pěč, 2012). The enterprises presenting the care for environment, employees and local inhabitants can be successful in the competition because the clients suppose the same care for themselves (Bučková, 2012).

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The sustainability of the rural tourism business depends on many factors. The European Commission (2006) calls for a broad cooperation of all stakeholders in the development and implementation of the conception of Tourism learning area. One of the globalization result is that the tourism services providers have to cooperate because the offers for the customer should cover the destination as a whole (Holešínská and Jezdínská, 2013).

By Enright and Newton (2004) the success of tourism destinations in world markets is influenced by their relative competitiveness. A good knowledge of global trends and their implications is important for managers in all tourism destinations but perhaps more so for those in transition from one political structure to another (Dwyer et al., 2012). Many authors have focused on the destination management and the role of individual enterprises and entrepreneurs is largely underestimated (Komppula, 2014).

It is a question which attributes and dimensions should be considered when evaluating service quality in rural accommodation. The dimensions of hotel quality have been widely studied, but their analysis in the sphere of rural tourism is limited (Albacete-Sáez et al., 2007).

The lack of clarity in the assessment criteria is leading to no uniformity in the certification process and assignment of the tourist services into certain categories.

The contribution deals with results of the inquiry investigation focused on some quality measures of the rural tourism services. The responders were the services providers in the Czech Republic. The measures were chosen by the authors because the clear and unique methodology for rural tourism evaluation does not exist.

1 Materials and Methods

The contribution is based on an inquiry investigation. The inquiry forms were personally distributed to the providers of the rural tourism services (including accommodation) in the Czech Republic. It was also possible to fill in the on-line questionnaire.

The question form has two parts. The first non-public part focuses on the general description of the facility, its legal form and business activities. The second, public, part targets to the exact specification of each facility. The questionnaire contains namely closed questions with several pre-prepared answers. The responder can choose one or more answers. We got answers from 286 respondents. After the analysis of missing values 5 question forms were displaced and the final data matrix for the statistical analyses contained 281 completely and correctly filled in forms.

For this contribution the questions indicating the quality of services were chosen. Several questions on possible or intended future development of services were also included.

The statistical analysis was based on a simple analysis of qualitative signs in frequency distribution tables. (Řezanková, 2007). The statistical computations are made in software SPSS, version 18.

2 Results

The first contact with the clients is usually handling with the order or inquiry. The reservation of accommodation then follows. The Table 1 shows that 38.7 % of respondents make remarks to their calendars and guests pay in cash. Only 5.8 % uses some kind of professional reservation system.

Tab. 1 In which form do you accept the orders for accommodation?

	Valid Percent
I do no reservations, coming guests can overnight	7.3
I write the orders in my calendar, the guests are paying in cash when leaving	38.7
I send postal orders, bookings are made by phone	15.7
I have my own system of booking and payments including confirmations of payments and cancelation terms	20.4
I have bought professional booking system	5.8
Other	12.0
Total	100

Source: own research

The Internet services are quite frequent. Majority of providers are ready for an on-line communication. The Table 2 also shows intended improvements which illustrate that the responders consider these services to be important. The e-mail is used by 92 % of rural services providers and own web pages have 87 %. The on-line payments are used only in 14.9 % probably due to lower confidence in this way of payment. Both the clients and the entrepreneurs in the Czech Re-public find it less secure.

Quite many clients intend to bring with them their pets. It is permitted in 77.9 % objects but sometimes the previous talking-to is required. The permission than depends on the kind and size of the pet. Nevertheless this can be taken as one of the advantage of the rural tourism.

Tab. 2 The Internet services

	I use %	I plan %	I plan but I need help %	Not Interested %
E-mail	92.2	2.6	1.5	3.7
Web pages of the object	87.3	9.0	1.9	1.9
Link on some travellers portal	82.6	9.5	3.3	4.6
On-line reservations	30.0	18.4	13.4	38.2
On-line payments	14.9	15.4	11.9	57.7

Source: own research

The tourists can find some additional services including the rental services in many objects (see Table 3). Among the standard equipment belong for example depository room for skis and bicycles, swimming pool, etc. Very important guests are families with children and the providers pay special attention to the welfare and satisfaction of the small clients. Sometimes the whole offer of services is focused on children.

The catering offer 44.5% objects, full pension 71.1% of them, half pension 23.1%. The more detailed analyses showed that the prevailing form of the breakfast is a buffet; the lunch and dinner are served. The choice from menu is possible.

Tab. 3 The equipment and rental services

	Valid Percent
Depository for skis and bicycles	21.4
Drying room	8.2
Sauna	12.1
Children's playing ground	35.9
Outdoor pool	19.2
Indoor pool	4.3
Table tennis	23.8
Other playgrounds	24.6
Bicycle rental	28.5
Other sport equipment rental	32.0
Lending books	22.4
Lending of table games	36.3

Source: own research

The barrier free access has only 33.3 % of objects, what is not satisfactory. The reason is that quite often old buildings are used. The reconstruction implementing better accessibility for disabled might be too expensive for small firms, exceeding the owner's budget. On the other hand it should not be under evaluated.

Another important point in the evaluation of the tourism capacities is the accessibility by the public transport. The results in this point were outstanding due to a thick network of bus and train lines. The average distance from the bus stop is 0.74 km, from the railway station 5.37 km. More than one half of providers offer the transport of the client to the accommodation place; 40.9 % ensure the transport of luggage.

The Table 4 is concerned with planned changes in the equipment of the accommodation places or in the offer of services. The most frequent are the planned changes in accommodation and in catering. Among other services only the riding got above the 10%, all other services were represented only by a small percentage. The providers expressed that they are mainly interested in improving the quality of the accommodation and catering.

Tab. 4 Planned changes

In which service I plan the change	Valid Percent
Accommodation	36.7
Catering	18.1
Shop	8.2
Guidance	8.2
Handicrafts	3.9
Riding	18.1
Extra paid services	8.2

Source: own research

3 Discussion

The biggest shortage of this investigation, as well as of generally all the assessment methods of the rural tourism services in the Czech Republic, is the lack of specialized criteria typical for the rural tourism. All the criteria used in this contribution are similar to those used for hotels and other conventional tourism services. The more precise assessment which takes into consideration the expectation of both guest and hosts should include different criteria. By our view, the emphasis should be put on:

- Extraordinary customer services, friendly and individual treatment.
- Environment-friendly behaviour, respect to nature, community, traditions and culture.

The best solution would be to join some of proved system operating in other countries or better on the international platform. The European Centre for Eco and Agro Tourism (ECEAT), founded in 1993, is focused on the rural tourism in Europe. Among other activities it provides certification called ECEAT label quality. The additional quality to usual measures is dressing the environmental, socio-cultural and economical sustainability of the accommodation and connected services. By the ECEAT (PRACTICAL, PROFITABLE, PROTECTED A starter guide to developing sustainable tourism in protected areas, 2012) accommodation should:

- provide relevant "eco" information to its guests,
- support of environmental friendly agriculture,
- use water and energy in an efficient and conscious/responsible way,
- follow the green building policy,
- reduce production of waste,
- support soft mobility,
- contribute to nature protection,
- contribute to sustain cultural heritage,
- contribute to support the local economy,
- improve the environmental performance.

The ECEAT certification of new providers in the Czech Republic has been stopped recently (ECEAT, 2008).

Definitely there are another ways for rural tourism assessment with different criteria. For example, Albacete-Sáez et al. (2007) proposes a scale of 7 dimensions and

36 items. The dimensions are: Personnel response, Complement offer, Tourists relations, Basic demands, Tangible elements, Security, and Empathy.

The problem is mainly with the evaluation of the services. Reichel et al., 2000 uses the gap analysis (expectation level versus experienced level) based on 15 criteria.

Reid et al., 2004 describes the creation of a self-assessment instrument implemented as part of a community-centred tourism.

The decision problem (i.e. the quality assessment) can be understood as a multiple criteria one (29 criteria) and can be hierarchically decomposed into less complex individual problems (Rozman et al., 2009).

Another multiple criteria access, a score method for 29 attributes in 7 groups (Tangibles, Reliability, Responsibility, Assurance, Empathy, Price and Perceived value) uses Akama et al., 2003.

The multiple criteria decision making is supported by many quantitative methods. The problem is with the definition of criteria (the most important, most appropriate, understandable, etc.). Many similar criteria can be found in the studies of the different authors. The practical purpose of the quality assessment, which is providing information on the quality of services to the public, calls for rather simple but wide spread and well understood methodology. Unified certification of the rural tourism objects remains as an exacting task for all the stakeholders.

Conclusion

The rural services in the Czech Republic are quite good from the point of view of the traditional assessment criteria. The on-line services and the equipment and services offered are on an acceptable level and the owners plan their expansion. Some shortcomings are connected probably with lower financial sources of the entrepreneurs. Prevailing number of the firms are small, operated only by the family members. Because the private business is legal only since 1990 many firms exist less than 10 years and no firm is in operation more than 20 years. Many clients are not used to this type of vacations and the providers must build new contacts and find proper way of their promotion. Several organizations have tried to introduce the certification of the rural tourism objects. This certification is not possible without application of the particular criteria which can reflect the distinguishing character of this type of business.

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The Determinants of Venture Capital and Private Equity as a Tool to Improve Economy's Competitiveness

Martin Jurek¹

Abstract

This paper analyzes VC/PE investments in the Czech Republic between 2002-2011 and examines the determinants affecting them. Our empirical model includes many parameters already tested in previous studies. The main contributions to the preceding approaches are a focus on a single market, calculation of the entire risk capital market and the implications of exits/divestments as explanatory variables. Using a best-fitted regression model combined with the ordinary least squares method, we find that the real growth of gross domestic product is the main determinant of VC/PE activity in the Czech market.

Key words

venture capital, innovative businesses, global competitiveness

JEL Classification: G24, M13, O16, O31

Introduction

Venture capital (VC) and the private equity (PE) industries have their origins in the United States of America. In some countries in Europe and especially in the central and eastern parts, the common term risk capital is mainly applied. In the Czech Republic, such capital represents a fairly new and a relatively rarely used form of entrepreneurial financing activity. The definition of risk capital varies and even the applied terminology is not united (Černohlávková et al., 2007).

A broader definition used by the European Private Equity and Venture Capital Association (EVCA) defines this industry as an entrepreneurial financing form in various development phases. According to EVCA, investments can in general be divided into venture capital and private equity. Under venture capital, the following three stages are classified: seed, start up and early growth financing. Growth, rescue and replacement financing, together with buyouts, are considered private equity. Both venture capital and private equity share similar organizational structures regarding their management fee structure and longevity. However, they differ in investment strategies. Private equity funds tend to focus on more mature companies and are larger in size (Talmor and Vasvari, 2011). Divestments, or so called exits, are the processes of selling an asset, as a direct opposite to investment. EVCA distinguishes these types of exits as: trade sale, initial public offering, write-off, repayment silent partnership, repayment of principal loans, sale to another VC/PE firm, sale to financial institutions, or sales to management.

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The VC/PE industry is distinctive among its peers in the following way. In comparison to consultants, who provide only strategic advice, risk capital investors provide both guidance and monetary support (Wright et al., 2005). Next, in contrast to banks, they provide equity capital that is designed for use in risky settings, where it is costly for lenders and borrowers to interact due to the problems of asymmetric information (Jeng and Wells, 2000). Investors, however, not only pursue short term investment value appreciation, but strive for a firm's total evaluation increase. They share this common interest with company owners and, as a result, serve as business partners.

This partnership is based primarily on financial support and secondarily on management experience and providing industrial knowledge. General partners take an active role in the companies and are part of the management boards. Before investing, investors perform a due diligence process with an extensive insight into the businesses in which they invest. Talmor and Vasvari (2011) argue that private equity funds operate with much better information and stronger controls over portfolio companies than, for example, mutual funds holding quoted equities.

The aim of this paper is to analyze the determinants behind Venture Capital/Private Equity investments in the Czech Republic. It answers the following research questions:

- What is industry's position and what drives VC/PE investments in the Czech Republic?
- What are the main determinants behind investment attraction?
- Are there any policy implications for government in order to stimulate the supply of these investments?

The article is set out as follows. First, the VC/PE industry is introduced and the position of VC/PE investment in Czech Republic is displayed. Next, the relevant literature is presented. The main determinants of VC/PE investments applied and the research methodology are shown in next section. The main body of the article is built upon empirical results and their commentary. In conclusion, final findings and their implications for the next area of research are drawn.

1 Literature review

Our study contributes to answering the research questions by characterizing the determinants of venture capital/private equity investments in the Czech Republic. There are many studies analyzing these causal factors on a large scale of countries or regional focuses. Due to the specifics of the VC/PE industry and heterogeneity and immaturity of the majority of European markets, we find that more attention should be given to single markets. In this respect we see the work of Diaconu (2012) as a pilot model regarding the Central and Eastern European region. We intensify this study, bring new parameters and focus on a different market. Based on the investment structure in the Czech market (Table 1) and its relatively insignificant proportion of VC investment, we further consider the VC/PE market as a single and integrated joint risk capital market.

In their paper, "What drives Venture Capital Fundraising?" Gompers and Lerner (1998) examine the rapid growth of venture capital funding in the US between 1972

and 1994. A list of industry-specific and macro-economic factors is outlined, that influenced both the demand and supply of venture funds. An attempt is made to identify the importance of these factors using unique data on venture capital commitments in the US. Their series of reduced form regressions suggests that tax rates, rule changes in federal pension law and real growth in gross domestic product seem particularly important predictors of commitment. The success of venture capital companies at raising funds is also examined. The main findings come from a series of discrete and continually variable models that look at whether a firm raised funds and if so, how much it raised. The results are mixed. The authors offer evidence that reduction in maximum capital gains tax rates in the 1980s helped stimulate demand for venture capital. Gompers and Lerner consider spending on research and development as a factor with the strongest influence. It is a highly significant variable and a predictor of venture capital activity.

Jeng and Wells (1998) analyze in their paper the determinants of VC/PE over a 21 country sample. In particular, they consider the importance of initial public offerings, GDP and market capitalization growth, labor market rigidities, accounting standards, private pension funds, and government programs. They find that initial public offerings are the strongest driver of venture capital investing. Private pension fund levels are a significant determinant over time, but not across countries. Surprisingly, GDP and market capitalization growth are not significant. Government policies can have strong impacts, both by setting the regulatory stage and by galvanizing investment during downturns. They also indicate that various types of venture capital financing are affected differently by these factors. In particular, early stage venture capital investment is negatively impacted by labor market rigidities, while later stages are not. Initial public offerings have no effect on early stage venture capital investment across countries, but are a significant determinant of later stage venture capital commitment across countries. Finally, government funded venture capital has different sensitivities to the determinants of venture capital than private venture capital. Jeng and Wells' insights emphasize the need for more specialized approaches to venture capital, both from research as well as policy perspectives.

Groh et al. (2010) calculate composite indices to compare the attraction of all 27 European countries to risk capital for institutional investments. They use 42 different parameters and propose an aggregation structure that allows benchmarking on more graduated levels. The United Kingdom leads in their ranking, followed by Ireland, Denmark, Sweden, and Norway. While Germany is slightly above the average European attraction level, the scores are rather disappointing for France, Italy, Spain, and Greece. The major differences ultimately affecting United Kingdom attraction are its investor protection and corporate governance rules and the size and liquidity of its capital market. The authors found the state of a capital market is also a proxy for the professionalism of its financial community, supporting deal flows and exit opportunities. These factors also determine a reasonable correlation between attractiveness index scores and actual fundraising activities.

The determinants of VC/PE investments based on European countries are presented by Cherif and Gazdar (2011). Their empirical model covers 21 European countries (over 1997-2006) and includes many macroeconomic determinants already tested in previous studies. In addition, they introduce variables for the first time that intend to capture the institutional environment. Using a panel data technique of estimation,

they find that GDP growth, market capitalization, research and development expenditures and unemployment are the primary macroeconomic determinants for European venture capital investment.

In a very recent study, Diaconu (2012) presents a study of the venture capital investments in Romania during the 2000 through 2010 period. It is among the first papers to focus solely on a single country within the Central and Eastern European region. With a view toward assessing the intensity of impact of various factors on the supply and demand of venture capital, the author employs an econometric model of macroeconomic variables, already tested in the literature above. Her results indicate that total research and development intensity is the main determinant of venture capital investment during this period for both early and expansion phases. A significant incidence (mainly on the supply side) also shows that annual long term real interest rates, effective marginal tax rates on corporate income and annual inflation or unemployment rates do not impact venture capital. Diaconu's recommendations, in terms of the formation and development of venture capital markets, define a priority over strengthening demand for resources, respectively encouraging enterprises to innovate, creating conditions for capital concentration in seed and start-up stages, as well as making compatible the need for resources with prudential rules, by adapting regulations for institutional investors.

2 Methodology of Research

A statistical methodology is applied to answer the research questions presented in introduction. Investments, as a dependent variable accompanied by seven explanatory variables, are included in our approach. The best-fitted regression model explaining these investments is then built and described. Our contribution to current research is presented in the literature review section.

For the empirical analysis of the determinants with the strongest impact on the venture capital and private equity investments in the Czech Republic between the 2002-2011, a linear regression model is used, with the ordinary least squares method (method of least squares). The basic equation is defined as the following:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \dots + \beta_i X_i$$

Where Y is defined as the dependent variable – the amount of private equity and venture capital invested; $X_1 + X_2 + \dots + X_i$ are independent variables, made up of GDP growth, GDP per capita, real interest rates, foreign direct investments, market capitalizations, research and development expenditures and private equity/venture capital exits (divestments). For detailed explanation of variables see chapter 4.

3 Position of the Venture Capital and Private Equity Industry in the Czech Republic

First, we present a general description of the country, as observed in the next two paragraphs. Then an introduction is briefly drawn of venture capital/private equity development in Europe and in its central and eastern European (CEE) area. The main

thrust of this section analyzes the 10-year history of VC/PE investment in the Czech Republic, a comparison with its peers in the region and the stages of investment focus.

The Czech Republic is among the most successful CEE countries in terms of attracting foreign direct investment (FDI). Over 173,000 Czech firms across all sectors are now supported by foreign capital. According to the Czech National Bank, a total € 74.4 billion worth of FDI has been identified since 1993 (Czech National Bank, 2011). This country is fortunate to be located very close to Europe's industrial backbone. It is considered the best choice for investments in transport and logistics, because of its perfect location regarding consumption and production zones. This, together with its EU membership, makes the country a perfect gateway to the single European market, which covers an area of 27 European countries with a total 502 million consumers. The Czech Republic combines an outstanding level of general education with strong science and engineering disciplines. Technical education has a long tradition within the Czech Republic and enjoys a strong reputation throughout the world. The availability of technically educated graduates (at a fraction of the cost of western labor) creates a perfect environment for both manufacturing and R&D-oriented companies (Czechinvest, 2012).

Prior to the 1990s, Venture Capital and Private Equity were essentially a US-only phenomenon. The globalization of IT activities induced the US VC/PE industry to mature and to begin exporting its unique skills as VC managers (Aizenman and Kendal, 2008). Thus, the profile of the venture capital and private equity industry in Europe increased dramatically in recent years, growing to become a sizable asset class. A discussion of the risk capital landscape in European economies is inherently difficult, due to the very large variation in their characteristics. Despite the positive impacts on their economies, the industry in the Central and Eastern part of Europe began first to grow in the late 90s of the last century, with official reports presented shortly before 2000. Thus the CEE market still belongs among the group of emerging markets.

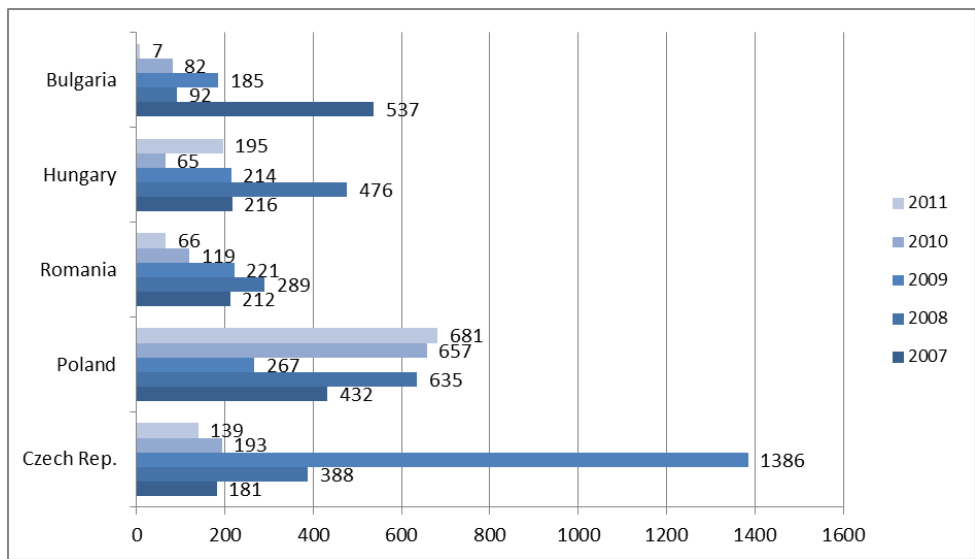
With respect to the VC/PE industry, the Czech Republic belongs among the top five countries in the CEE region so far as attracting investment. In the past five years, the Czech Republic is the second ranking country, following Poland (Figure 1). The country has yet to reach the level of Western European countries. Risk capital investments over the past decade are displayed in Figure 2. Since 2002 when data reporting became official, there has been a growing trend in investment, peaking in 2009 and followed by a decrease over past two years. The exceptionally high level of investment in 2009 has, in general, already been described above. Investments in the current year in the Czech Republic evidenced the following patterns (EVCA , 2010):

- Investment was three times 2008 levels, driven by one mega and one large buyout (totaling € 720 million)
- The total number of companies financed remained stable, at 21
- Venture deals more than doubled in value, driven by a doubling of the average later-stage size of venture deals
- One replacement capital transaction was recorded, worth € 140 million

The period 2007-2011 illustrates a very surprising pattern. The trend in investment level in the Czech market is in an inverse relationship to the European trend. For example, between 2008 and 2009, where the already mentioned tremendous increase in the Czech market is seen, European markets declined by a significant 60%. This 5-

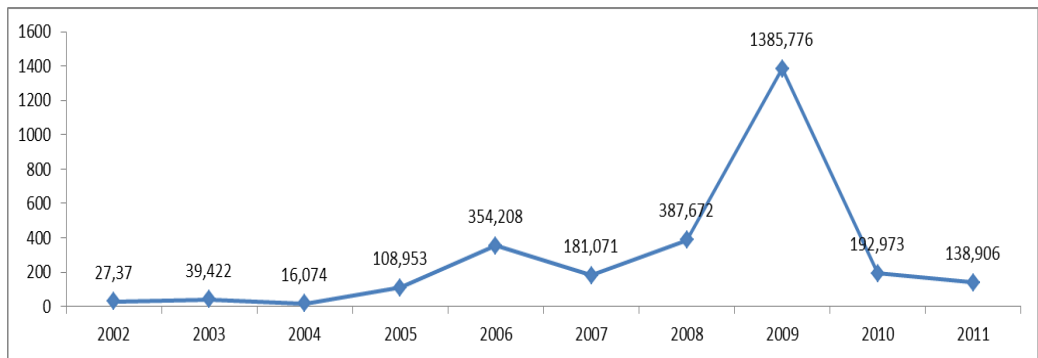
year anti-cyclical trend (with regard to European markets) provides an incentive for further research.

Graph 1 Investments in the CEE region, top five countries (in € million)



Source: EVCA

Graph 2 VC/PE investments in the Czech Republic 2002-2011 (in € million)



Source: EVCA

Table 1 shows the 5-year structure of venture capital/private equity investment in the Czech Republic. We observe that the venture capital stages (seed, start-up, later stage) account only for a slight (3.3) percent of total investment. During the entire period, no investment was allocated to the seed phase of entrepreneurial activity. The main forces were growth financing and buyouts. Whereas the proportion of buyouts increased, the growth stages headed the opposite direction.

Tab. 1 Stage focus in the Czech Republic 2007-2011 (in € million)

	2007		2008		2009		2010		2011	
Seed	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%
Start-up	500	0,3%	281	0,1%	0	0,0%	13 139	6,8%	2 713	2,0%
Later stage	3 692	2,0%	12 543	3,2%	29 987	2,2%	9 910	5,1%	2 783	2,0%
Growth	116 238	64%	205 815	53%	192 027	14%	84 779	44%	7 733	6%
Rescue	75	0%	0	0%	400	0%	0	0%	0	0%
Replace.	0	0%	0	0%	139 965	10%	0	0%	0	0%
Buyout	60 566	33%	169 032	44%	1 023 397	74%	85 146	44%	125 678	90%
Total VC/PE	181 071		387 671		1 385 776		192 974		138 907	

Source: Author, based on EVCA yearbooks and EVCA special papers on CEE 2002-2011

4 Determinants of venture capital and private equity Investments

In this paper, data on private equity and venture capital investment in the Czech Republic is used as the dependent variable. The investments cover the last decade (2002-2011) period. The data are obtained from the European Private Equity and Venture Capital Association (EVCA) yearbooks, as well as EVCA Special Papers on Central and Eastern Europe. The following indicators are used as explanatory variables:

- GDP growth, X1: The annual percentage growth rate of gross domestic product (GDP), at market prices based on a constant local currency. Aggregates are based on constant 2000 U.S. dollars. GDP is the sum of gross value added by all resident producers in the economy, plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without deducting depreciation of fabricated assets or for the depletion and degradation of natural resources (World Bank, OECD database). Based on the researches of Cherif and Gazdar (2011), Groh et al. (2010) and Gompers and Lerner (1998), there is an expected positive relation to these investments.
- GDP per capita, X2: GDP per capita is the gross domestic product, divided by midyear population. GDP is the sum of gross value added by all resident producers in the economy, plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. Data are in current U.S. dollars. Data are taken from the World Bank and OECD database. At first sight, this indicator corresponds to the previous one, however an opposite impact is expected. This parameter shows the wealth of a country which, as a static figure, need not be connected with the dependent variable. Thus, the relationship is ambiguous.
- Real interest rate, X3: The real interest rate is the lending interest rate adjusted for inflation, as measured by the GDP deflator. This rate is collected from International Monetary Fund Statistics. Gompers and Lerner (1998) found that interest rates positively affect investment demands. However, Cherif and Gazdar (2011) have shown no significance of this variable in their paper. As a result, the effect of this indicator might be ambiguous.

- FDI net inflows, X4: Foreign direct investment represents the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long and short-term capital, as shown in the balance of payments. This series shows net inflows (new investment inflows, less disinvestment) in the reporting economy from foreign investors and is divided by GDP. Foreign market investments accounts are provided from International Financial Statistics. This indicator is defined as one of the indices of economic activity positively influencing country attractiveness for venture capital and private equity investment (Groh et al., 2010). However, its impact was not proven in other studies. Thus its relation to the dependent variable is only partially expected to be positive.
- Market cap, X5: Market capitalization is the share price, times the number of shares outstanding. Listed domestic companies are those domestically incorporated companies listed on a country's stock exchanges at the end of the year. Listed companies do not include investment companies, mutual funds, or other collective investment vehicles. Data comes from the Standard & Poor's Global Stock Markets Factbook and the World Bank. Jeng and Wells (1998) have not found this indicator to be significant. More recent research, for example Cherif and Gazdar (2011), have proven its positive effect on investments.
- R&D exp., X6: Expenditures for research and development as a percentage of GDP are current and capital expenditures (both public and private) on creative work systematically undertaken to increase knowledge, including knowledge of humanity, culture, and society, and using this knowledge for new applications. R&D covers basic research, applied research, and experimental development. Values are collected from OECD, Eurostat and the Czech Statistical Office Database. This variable belongs to the entrepreneurial culture indices (Groh et al., 2010), with a significant positive relationship towards investments as proved in many researches (for example Diaconu, 2012).
- Exits, X7: Exits, or so called divestments of venture capital and private equity, are the opposite of dependent variables. That entails a partial or complete sale of investments. To the best of our knowledge, there has been no empirical research done that includes this variable. Diaconu (2012) argues in her article that divestment is one of the factors affecting risk capital. However, she does not dwell further on this factor, nor does she include it in her study. Due to the logical prerequisite that exits must be preceded by investments, higher exits should indicate higher initial investments and the relationship is thus positive.

Tab. 2 Dependent and independent variables overview

Variable	Symbol	Source
Venture Capital/Private Equity invested	Y	EVCA
Real Growth of Gross Domestic Product	X1	World Bank, OECD
Gross Domestic Product per Capita	X2	World Bank, OECD
Real Interest Rate	X3	International Monetary Fund
Foreign Direct Investments Net Inflows	X4	International Financial Statistics
Market Capitalization as a percentage of GDP	X5	S&P's Factbook, World Bank
Research & Development Expenditures relative to GDP	X6	OECD, Eurostat, CSU
Venture Capital/Private Equity Exits - Divestments	X7	EVCA

Source: Author

5 Empirical Results

All our calculations and the values presented are computed on OxMetrics PcGive software. The descriptive analysis characterizes the statistical distribution of variables (Table 3). The results show the mean values of the variables, as well as their standard deviation, showing how much dispersion from the mean exists. Further distributions, with generally positive values of the skewed (asymmetry coefficient) are displayed. A positive skew indicates that the tail on the right side is longer than the left side and the bulk of values lie to the left of the mean. The excess kurtosis, describing the shape of a probability distribution, has mainly negative values. This indicates a lower, wider peak around the mean and thinner tails. The distribution is thus platy-kurtotic. The table also shows the minimum and maximum values of variables. The chi-square asymptotic and normality tests are presented in table 4.

Tab. 3 Descriptive statistics

	Y	X1	X2	X3	X4	X5	X6	X7
Observations	10	10	10	10	10	10	10	10
Mean	2,83E+08	3,2964	3,15E+05	4,6934	4,5815	25,693	1,4608	7,68E+07
Std.Devn.	3,87E+08	3,1984	29848	1,7099	2,9237	6,8281	0,18637	1,13E+08
Skewness	2,2108	-1,2407	-0,56874	0,062974	1,0624	0,82763	0,44602	2,2662
Excess Kurtosis	3,6532	1,2644	-1,2371	-0,76656	-0,19598	-0,19807	-0,15418	3,8065
Minimum	1,61E+07	-4,6952	2,63E+05	1,9163	1,4623	17,82	1,1991	4,57E+06
Maximum	1,39E+09	7,0204	3,49E+05	7,7504	10,834	40,673	1,86	4,02E+08

Source: Author, based on EVCA yearbooks and EVCA special papers on CEE 2002-2011

Tab. 4 Asymptotic and Normality tests

	Asymptotic test		Normality test	
Y	13,707	[0.0011]**	16,559	[0.0003]**
X1	3,2317	[0.1987]	5,2194	[0.0736]
X2	1,1768	[0.5552]	4,1192	[0.1275]
X3	0,25145	[0.8819]	0,24142	[0.8863]
X4	1,8971	[0.3873]	4,8867	[0.0869]
X5	1,158	[0.5605]	2,0883	[0.3520]
X6	0,34146	[0.8431]	1,9814	[0.3713]
X7	14,597	[0.0007]**	18,755	[0.0001]**

Source: Author, based on EVCA yearbooks and EVCA special papers on CEE 2002-2011

The correlation matrix among variables considered in the model is shown in Table 5. First, we comment upon statistical relationships between dependent and independent variables, then the relationships among independent variables. Regarding the first relationships, the level of venture capital/private equity invested (Y) is best correlated with the real growth of GDP (X1), followed by foreign direct investment net inflows (X4) and by GDP per capita (X2). In the opposite, the lowest correlations with dependent variable show venture capital/private equity exits (X7), real interest rates (X3) and market capitalization as percentages of GDP (X5). The middle position is occupied by research & development expenditures relative to GDP (X6). An inverse relation is shown by X1, X3, X4 and X7.

Regarding correlation among independent variables, the strongest correlations can be spotted between GDP per capita (X2) and research & development expenditures relative to GDP (X6); and between research & development expenditures relative to GDP (X6) and venture capital/private equity exits (X7).

Tab. 5 Correlation matrix

	Y1	X1	X2	X3	X4	X5	X6	X7
Y1	1							
X1	-0,75452	1						
X2	0,39372	-0,1337	1					
X3	-0,08025	-0,02051	0,25412	1				
X4	-0,44816	0,38301	-0,49528	-0,13998	1			
X5	0,12967	0,40036	0,26106	-0,46309	0,19239	1		
X6	0,26143	-0,16735	0,83931	0,4664	-0,4494	0,055525	1	
X7	-0,05484	-0,12332	0,36243	0,49667	-0,25618	-0,31424	0,78965	1

Source: Author, based on EVCA yearbooks and EVCA special papers on CEE 2002-2011

Selecting the best regression model explains the level of venture capital/private equity invested, thus including indicators correlated with this variable and maintaining the level of statistical significance, the following model was built:

$$Y = -5,55E+08 - (8,49E+07) X1 + (3,63E+03) X2 - (5,43E+06) X4$$

Tab. 6 Model with parameters correlating with VC/PE investments

	Coefficient	Std. Deviation	t-value	t-prob	Part.R ²
X1	-8,49E+07	3,14E+07	-2,71	0,0353	0,5497
X2	3,63E+03	3,57E+03	1,01	0,3494	0,1464
X4	-5,43E+06	3,91E+07	-0,139	0,8942	0,0032
Constant	-5,55E+08	1,22E+09	-0,455	0,6649	0,0334
sigma	2,92E+08	RSS = 5,13E+09			
R ²	6,58E-01	F(3,6) = 3,843 [0.076]			
Adj.R ²	0,486569	log-likelih	-206,568		
no. of observations	10				
no. of paramters	4				
mean(Y1)	2,83E+08				

Source: Author, based on EVCA yearbooks and EVCA special papers on CEE 2002-2011

In this model, we further eliminate the variables that least explain the level of venture capital/private equity invested, until we receive the best values of significance and probability. The results show that the best determinant explaining these investments is the real growth of GDP (X1) as the only independent variable, showing the highest sensitivity relationship. The model built and its values are displayed in the table below.

Tab. 7 The best model explaining the variation of VC/PE Investments

	Coefficient	Std. Deviation	t-value	t-prob	Part.R ²
Constant	5,84E+08	1,29E+08	4,53	0,0019	0,7195
X1	-9,13E+07	2,81E+07	-3,25	0,0117	0,5693
sigma	2,84E+08	RSS	6,45E+17		
R ²	0,569295	F(1,8)	10,57	[0.012]*	
Adj.R ²	0,515457	log-likelihood	-207,717		
no. of observations	10				
no. of parameters	2				
mean(Y1)	2,83E+08				
AR 1-1 test:	F(1,7) =	1,1016	[0.3288]		
Normality test:	Chi ² (2) =	0,62977	[0.7299]		
Hetero test:	F(2,7) =	1,1938	[0.3580]		
Hetero-X test:	F(2,7) =	1,1938	[0.3580]		

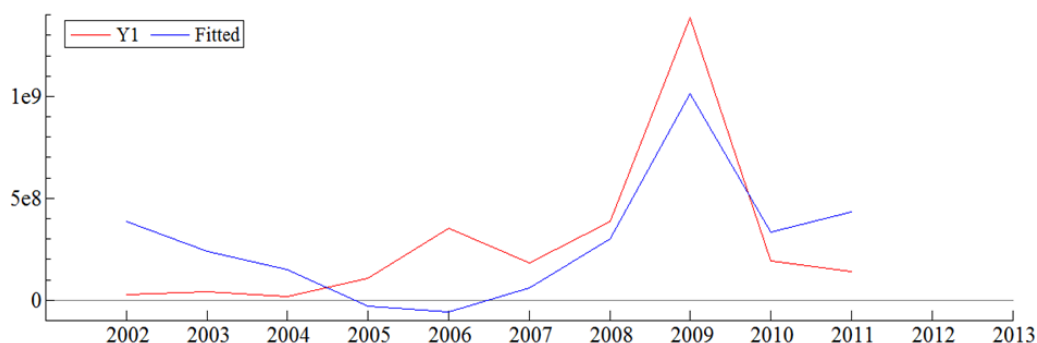
Source: Author, based on EVCA yearbooks and EVCA special papers on CEE 2002-2011

The adjuster R- squared obtained for this model is 0,515, meaning that the real growth of GDP as a predictor explains 51.5% of the variation of the investments. This reflects a significant incidence, according to Diaconu (2012). The values of t-

probability of the constant 0,0019 and of the X1 0,0117 show, that there are only 0.19%, resp. 1.17% chance that the actual values of these parameters could be zero.

Figure 3 presents a graphic visualization of the comparison between the levels of investment (observed variable) and our final model estimate. Due to numerous models, the dependent variable is abbreviated as Y1, corresponding to the variable Y from the model. The estimated model is the blue line "Fitted". We can observe that, except for a few periods (especially 2006), our estimated model very closely follows the observed variable.

Graph 3 Comparison of the observed variable and the model estimated



Source: Author, based on EVCA yearbooks and EVCA special papers on CEE 2002-2011

6 Summary

Investment insensibility to foreign direct investment net inflows determinant is not surprising, as a result of the specifics the venture capital/private equity asset class possesses. They provide strategic advice, guidance, monetary support and equity capital that is designed for use in risky settings, where it is costly for lenders and borrowers to interact, due to problems of asymmetric information (Jeng and Wells, 1998; Wright et al, 2005). For a very similar reason, the real interest rate is also not a determinant having an impact on VC/PE investments.

The market capitalization of listed companies also has no influence over VC/PE investments. This independent variable was applied as a proxy of the size and liquidity of the capital market, being one of the possible requirements for an exit strategy. However, as in similar markets in the CEE region, initial public offerings (resulting in an increase of market capitalization level) occur rarely. This fact also explains the relationship with the determinant VC/PE exits (divestments), where the majority of exits are executed by buyouts or initial public offerings. The logical prerequisite, that exits (divestments) are connected to initial investments, is not proved in our case. Table 3, with descriptive statistics, shows that the aggregated mean value of exits is approximately one quarter (27%) of the aggregated mean value of investments over the time frame observed. VC/PE firms investing in the Czech market hold their investments and tend to enlarge their portfolios. Regarding the determinant research & development expenditures relative to GDP, the insensibility to VC/PE investments corresponds with

the stage focus of investments in the Czech Republic. In general, R&D intensive enterprises are innovative ones, seeking both financial and guidance support from VC/PE investment. These businesses, coming from various industry focuses, have their position in seed or start-up stages in common. In this respect, Table 1 reveals investment volumes of different types of VC/PE stages. We can see that the start-up phases account for 0.73% of the total VC/PE investment, while businesses in the seed phase have not attracted any investment at all over the past five years.

The parameter of gross domestic product per capita has also failed to prove its influence on VC/PE investments in the Czech Republic. The probable explanation is again connected with the characteristics of the industry observed. As already mentioned above, VC/PE investments do not necessarily seek deals in wealthy economies. Some authors (Lerner et.al, 2009) argue that lower development of financial, operational and governance management creates more opportunities for VC/PE firms to overcome these difficulties and to add value. A simple logical formula leads us to hypothesize that this might more often be the case in less wealthy countries. From the best explaining regression model, with a constant and single independent variable, the final equation is:

$$Y(\text{VC/PE invested}) = 584\,177\,000 - 91\,292\,700 \cdot X_1(\text{the real growth of GDP})$$

This means that the level of venture capital/private equity invested in the Czech Republic is negatively dependent upon the real growth of its GDP. According to this, a decrease in the real growth of GDP by a single percentage point implies an increase of investment by 675,469,700 Euro. In the determinant descriptive portion of this paper, we noted that, based on research of Cherif and Gazdar (2011), Groh et al. (2010) and Gompers and Lerner (1998), there is a positive relation to the investments expected. However, our results proved the opposite, using datasets for the Czech Republic. There are three explanations for this fact that we now present.

First, the size of the observed sample needs to be critically assessed. Due to the limited number of official venture capital/private equity investment reports, we dealt with only ten observations, whereas at least 15 observations were planned initially. In spite of this small sample, our model proved statistically significant and reliable. In our defense, research mentioned in the literature review also deals with low numbers of years observed, e.g. Diaconu (2012) with 11 and Gompers and Lerner (1998) with 22. Nevertheless, we see the lack of observations as an opportunity for further research.

The Next explanation brings us to the already mentioned Lerner et al. (2009) Hypothesis. They argue that nowadays deals are more likely to fail in wealthier countries worldwide. On the other hand, a lower development of financial, operational and governance management creates more opportunities for VC/PE firms to overcome these difficulties and add value. In other words, obstacles attract VC/PE investors. VC/PE investment is actually, by its nature and historical background, a source of finance and guidance where the traditional forms of entrepreneurial financing fail to fulfill the need. The inverse impact of real GDP growth on VC/PE investments is thus in compliance with this. This fact might also stand behind the anti-cyclical development of VC/PE investments in the Czech Republic, compared to the European countries already described above.

Last, as stated earlier and despite the fact that the Czech Republic belongs among the top five CEE countries attracting investment (or even being no. 2), the

country has yet to reach the stability levels of western European countries. As of 2009, two buyouts (out of 21 deals overall) totaled € 720 million, more than double the 10-year investment mean value. Such large deals influence the small Czech market, thus being very volatile. This immaturity of the Czech market complicates any research and our results should be interpreted very cautiously.

The result of our empirical study shows that the only parameter with an impact on the level of VC/PE investment is the real growth of GDP. However, this relationship is negative. Based on this result, we cannot draw any serious implications for policy makers. From Table 1, we see a very low level of Venture Capital investment in the Czech Republic. This type of investment contributes to sustainable economic growth by bringing productivity growth, innovation and employment. To encourage financing cycles for these seed businesses, start-ups and spin-offs, coherent support policies should be implemented. The thorough implementation of currently discussed regulations is also highly recommended.

Conclusion

The objective of this paper was to identify the determinants of venture capital/private equity investments in the Czech Republic, to describe the industry position in the market and to introduce government policy implications to stimulate the growth of these investments. Venture capital and private equity (or the so called risk capital industry) is a fairly new form of entrepreneurial finance in Europe. Being situated in the Central and Eastern European region, the Czech market belongs to a group of emerging markets. In the CEE region, the Czech market is second best at attracting VC/PE investments, following Poland. The vast majority of investment occurs in the growth financing and buyout stages, leaving venture capital aside and insignificant. Despite the fact that the position of the industry in the Czech Republic has grown to become a sizable asset class, the market has yet to reach the levels of western European markets.

A linear regression model using the ordinary least squares method (method of least squares) was used for the empirical analysis of the determinants with the strongest impact on venture capital and private equity investments in the Czech Republic between 2002-2011. Our model includes many determinants already tested in previous studies. In addition, we tested whether the level of exits/divestments is an important factor in explaining the dependent variable. The explanatory variables were: real growth of GDP, GDP per capita, real interest rates, FDI net inflows, market capitalization of listed companies, research & development expenditures and the levels of exits/divestments. We built a regression model with correlating parameters. We further eliminated the variables least explaining the levels of venture capital/private equity invested, until we received the best values for significance and probability. Our empirical results can be summarized as follows: the best determinant explaining investment is the real growth of GDP as the only independent variable, showing the highest sensitivity relationship. However, the relationship was negative and thus did not correspond with earlier studies.

This inverse influence of real GDP growth to the observed investments was supported by three following explanations: limitation of datasets, anti-cyclical patterns in the Czech market and, finally, the immaturity of the market, resulting in high volatility.

Concluding recommendations for policymakers are not based on our empirical study, but on the structural distribution of investments. There is a very low level of venture capital investment, mainly in the seed and start-up stages. These types of financing entrepreneurial activity especially contribute to innovation and productivity growth. In order to secure sustainable economic growth, policymakers should draw their attention to coherent policies supporting such activities. The general regulations on financial instruments should be applied cautiously to these niche markets.

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18. Database Sources: Eurostat, EVCA, International Financial Statistics, International Monetary Fund, OECD, Standard & Poor's, World Bank

The Innovative Marketing of Starbucks and its Appeal on Young Consumers in the European Union¹

Šárka Kličková²

Abstract

Starbucks is a worldwide brand that uses marketing tactics and methods that have a great positive effect on the popularity and image of this specific brand. This article outlines the main characteristics of the coffee industry and basic information about this company and its main mission. The next part provides specific innovative marketing methods that Starbucks applies in order to attract more customers. Lastly, we provide the results of a survey among young people in the European Union and their Opinions about Starbucks.

Key words

Social Media, Innovative Marketing, Marketing Methods, Consumer Behaviour, Starbucks.

JEL Classification: M31

Introduction

People all around the world drink coffee every single day and therefore the level of competition among places that provide it is enormous. However, Starbucks is one company that was able to distinguish itself from all the other „coffee and cake“ providers out there and it is almost impossible to find a customer from a developed nation who has never visited this coffee place at least once. But how is it possible? How can someone make coffee so special and different that customers prefer it to other providers? Is it the unique taste of the coffee and its high quality? Does it depend more on the baristas that prepare the coffee or is it the best coffee blend from South American plantations? Is it the friendly approach of the staff or that incredible impact of social media that Starbucks uses in an unprecedented way?

There are a lot of factors that might be the hidden secret behind this global success. This article will try to show some specific and interesting methods that this analysed company uses in a day to day practise. Its use of social media sites that are incredibly popular nowadays with the massive use of smartphones and Internet is one thing that really shows the impact of this communication channel between the company and its customers.

The original idea for the Starbucks concept was introduced to the CEO, Howard Schultz on a trip to Italy back in the 80's. „While on a trip to Milan during his early

¹ VEGA č. 1/0047/11 „Konceptia európskeho marketingu a segmentácia spoločného trhu so zameraním na výber a implementáciu marketingových stratégií pre zvýšenie konkurenčnej schopnosti slovenských podnikov na trhoch EÚ“

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days at Starbucks, Mr. Schultz saw what it could become in the atmosphere of Italian cafes: a "third place," after home and work, that would sell a new menu of cappuccinos and lattes for the masses. His bosses didn't go for the idea, so Mr. Schultz started his own company; in 1987, he bought Starbucks for nearly \$4 million and kept the name for his new concept based on Italian cafes. "What we saw in Italy was this unique relationship that coffee bars had to the community and people," he says." (Wolfe, 2013)

Curious about this is the fact that there are absolutely no Starbucks locations in Italy. It is said that the main reason is probably the fact that the tradition of coffee in Italy is so strong and different from the Starbucks approach which even though it originates from Italian heritage is much closer to American lifestyle that Italians just refuse to accept it.

This is also the inspiration for the realized survey that gave some basic questions about Starbucks to young Europeans and tried to observe their opinions and feelings about this brand and especially catch the difference between young Italian people and other Europeans.

1 The Coffee Industry

The official Securities and Exchange Commission paper published on the Starbucks Corporation in 2012 shows that Starbucks has to face numerous competitors in the specialty coffee beverage business in almost all markets in which they do business. Starbucks believes that their customers choose among specialty coffee retailers primarily on the basis of product quality, service and convenience, as well as price.

Starbucks representatives told for the official reports that, „We continue to experience direct competition from large competitors in the US quick-service restaurant sector and continue to face competition from well-established companies in many international markets and in the US ready-to-drink coffee beverage market. We face intense competition in each of our channels and markets, which could lead to reduced profitability. The specialty coffee market is intensely competitive, including with respect to product quality, service, convenience, and price, and we face significant competition in each of our channels and markets. Accordingly, we do not have leadership positions in all channels and markets. In the US, the ongoing focus by large competitors in the quick-service restaurant sector on selling high-quality specialty coffee beverages could adversely affect our sales and results of operations. Similarly, continued competition from well-established competitors in our international markets could hinder growth and adversely affect our sales and results of operations in those markets." (Securities and Exchange Commission, 2012)

Coffee nowadays is a little different to what coffee used to be in the past. There are so many types and flavours of coffee it is very easy to get confused and companies that sell coffee products need to be aware of the changing demands of their markets.

„As the coffee industry experiences some of the lowest green bean prices of the past hundred years (in real terms), high-quality and niche coffees are among the few receiving a more substantial remuneration. Organic, Shade, and Fair Trade coffees –

collectively known as sustainable coffees – fill a market niche that is often rewarded with a premium price and can provide superior environmental, economic and social benefits to producers.

The marketplace is very much aware of these particular specialty coffees and a majority of firms carry at least one type. Substantial price premiums are currently earned for these coffees and most companies believe that these will continue in the near future.

In 2000 most firms experienced similar or increased sales of sustainable coffees compared to 1999 and approximately half expect these to increase over the next two years." (Giovannucci, 2001)

„Because Starbucks focused heavily on the quality of its coffee beans, the company paid an average of \$1.20 per pound – well above the market price – in 2000." (Argenti, 2004)

„Coffee prices slipped further in September 2013, with the ICO composite indicator falling 4% to its lowest level since April 2009. The sharpest decline was observed in Robustas, which dropped by 6.6% to their lowest monthly average in nearly three years. At the end of coffee year 2012/13, total production is estimated at 145.2 million bags, 9.6% higher than the previous year." (International Coffee Organization, 2013)

1.1 Starbucks, the Coffee Shop Legend

The whole Starbucks story began back in 1971 when it was just a roaster and retailer of whole bean and ground coffee, tea and spices with a single store in Seattle's Pike Place Market.

„Today, Starbucks is the premier roaster, marketer and retailer of specialty coffee in the world, operating in more than 18,000 retail stores in 60 countries. It was officially formed in 1985, Starbucks Corporation's common stock trades on the NASDAQ Global Select Market under the symbol „SBUX". Starbucks purchases and roasts high-quality whole bean coffees that they sell, along with handcrafted coffee and tea beverages and a variety of fresh food items, through company-operated stores." (Starbucks Company Profile, 2012)

People wonder what Starbucks means – it is named after the first mate in Herman Melville's Moby Dick. As well as the name, the logo is also inspired by the sea – featuring a twin-tailed siren from Greek mythology.

A company's mission often makes it unique and special and formulates what distinguishes them from all the other players on the market. Starbucks states that their mission is:

„Our mission: to inspire and nurture the human spirit – one person, one cup and one neighbourhood at a time."

The main long term Starbucks' goal is to establish itself as the premier purveyor of the finest coffee in the world while maintaining their uncompromising principles while they grow.

Here are some examples of the standards that Starbucks believes will help to achieve their mission and goals (Starbucks Mission Statement, 2013):

- „Provide a great work environment and treat each other with respect and dignity.
- Embrace diversity as an essential component in the way we do business.
- Apply the highest standards of excellence to the purchasing, roasting and fresh delivery of our coffee.
- Develop enthusiastically satisfied customers all of the time.
- Contribute positively to our communities and our environment.
- Recognize that profitability is essential to our future success.“

Starbucks offers a range of exceptional products that customers enjoy in their stores, at home or on-the-go. They offer more than 30 blends and single-origin premium coffees.

According to the Starbucks information materials, other products include:

- Hand crafted Beverages: Fresh-brewed coffee, hot and iced espresso beverages, Frappuccino®coffee and non-coffee blended beverages, smoothies and Tazo®teas.
- Merchandise: Coffee-brewing and tea-brewing equipment, mugs and accessories, packaged goods, music, books and gifts.
- Fresh Food: Baked pastries, sandwiches, salads, oatmeal, yogurt parfaits and fruit cups.

1.2 The Innovative Marketing of Starbucks

On September 27, 2013, The Wall Street Journal published an interview with the CEO of Starbucks. „It was a great timing according to the fact, that Starbucks' company's stock price reached \$76.24 a share, the highest it had been in its 42-year history. It is Mr. Schultz's second stint as CEO of Starbucks, a company he has led since he bought it in 1987. He took an eight-year hiatus as chief executive from 2000 to 2008 to become chairman, and by the end of that time the company's stock plunged 43% in a single year. Since 2008, Mr. Schultz has been focused on turning the company around, a feat that has finally started to bear fruit—and, lately, juice, yogurt and pastries.

Under Mr. Schultz's leadership, Starbucks has become a global consumer brand that isn't only a coffee shop but increasingly an all-day restaurant, design concept and health-food conglomerate. Mr. Schultz is the first to admit that rapid growth caused the company's crash a few years ago. He's determined not to let that happen again. "In 2006 and 2007, I think growth covered up a lot of mistakes," he says. "Hubris and a sense of entitlement set in." (Wolfe, 2013)

Graph 1 Starbucks Corporation NASDAQ Index



Source: Google Finance, 2013

It might be no coincidence that the most difficult and critical years for Starbucks were during the time when Howard Schultz was not in the CEO chair. It is obvious that Starbucks is a company strongly influenced by a strong persona that is able to lead the company in a unique way and achieve greatness with an appropriate growth strategy and new ways of attracting customers.

Social media. Another important part of the Starbucks story. With a strong presence on multiple social networks, the brand has set a high bar for other businesses when it comes to content quality and customer engagement.

Starbucks on social media sites

Platforms on which Starbucks is active with at least one "handle":

- **Facebook:** 51 pages, including 43 in foreign countries. Others are for Starbucks, Starbucks Partners (employees), and brands it owns: Frappuccino, Seattle's Best Coffee, Tazo Tea, Teavana, Evolution Fresh (Juice) and La Boulange Bakery, 35,315,537 fans
- **Twitter:** 31 handles, including 19 international. Among them are Starbucks Jobs, Starbucks Card and My Starbucks Idea.
- **Instagram:** 22 names, including 14 international.
- **Google+, Pinterest, and YouTube:** One "Starbucks" account each.
- **Foursquare:** Almost all cafes have a presence, managed from one central account. (Starbucks, 2013)

„As shown in this infographic, Starbucks is at or near the top of nearly every major brand ranking in social media. The coffee chain was also voted "most loved" out of 3,400 food brands in a survey." (Grubstreet, 2012)

An article in the Seattle Times published back in April 2013 shows some interesting facts about social media marketing that Starbucks adopts in their strategy.

„One of the most successful brands using social media, Starbucks wins more than a popularity contest with its vast numbers of online fans. The sites have become an

important way to advertise daily and, occasionally, drive huge numbers of customers into stores.

Fig. 1 Fast-Food Restaurants’ Social-Media Power



Source: GrubStreet, 2012

The fifth-largest brand on Facebook, with 34 million fans, Starbucks trails only Coca-Cola, Disney, Red Bull and Converse.

Starbucks executives figure that through Facebook fans and their friends alone, they have access to nearly 1 billion people — a seventh of the world’s population.” . (SocialBarkers, 2013)

Although having followers is important, the real test is interaction and sales, and Starbucks has been winning there as well.

„Starbucks was holding Facebook promotions before most restaurants even figured out this was a space they needed to be in,” said Alicia Kelso, senior editor at Networld Media Group in Louisville, Ky., parent company of FastCasual.com and other online trade publications that track the restaurant business.

Starbucks’ first big social-media promotion came in 2009, about a year after it launched on Facebook and Twitter. It offered a free pastry with drink purchase before 10:30 a.m.

A million people showed up, proving „the channels are not just about engaging and telling a story and connecting, but they can have a material impact on the business,” said Alexandra Wheeler, who’s in charge of Starbucks’ global digital marketing. (Allison, 2013)

Another article published online in 2013 shows how effectively Starbucks uses its social media power to engage its fans and followers in their promotion activities.

„Starbucks is no stranger when it comes to social media campaigns. Many of their campaigns are initiated using Twitter, Facebook and their own website. Starbucks wants to increase brand awareness as much as possible, and they work hard to do just that.

Starbucks is a very popular place for coffee lovers worldwide. Thousands of people go to Starbucks everyday for a quick pick-me up or just for the many varieties of coffee they sell. In May 2009, in an attempt to get Starbucks lovers involved, Starbucks launched an online/offline campaign. They noticed that daily people are on Facebook or Twitter posting pictures and chatting with friends about what they have been doing during the day. Taking that into consideration, Starbucks placed pictures in major cities of the US. They then challenged fans to be the first to post those pictures on Facebook and tweet about them. They used common knowledge of what people do daily and turned it into a game. Starbucks was sure this campaign would be successful, knowing they have 1.5 million Facebook fans and 183,000 Twitter followers.

Starbucks had an advantage over competitors with this campaign because people wanted to talk about it online with their friends. They did not have to spend millions of dollars for advertising because the millions of fans they already have on Facebook and Twitter did all the advertising for them. According to the New York Times, this campaign was the biggest marketing effort Starbucks had undertaken.” (Grand Social Central, 2013)

Many companies concentrate social media efforts on getting as many fans as possible, but focusing just on the number of fans misses their true value – they are loyal customers who have raised their hands to say they want a relationship. The real win is achieved by engaging with customers.

„Starbucks is a great example of a company taking the right approach. In an interview with Adweek, Starbucks’ Alexandra Wheeler said that „the firm’s social media strategy isn’t a marketing initiative. It isn’t a PR initiative. It’s cultivating and creating great consumer value and great consumer relationships.” Starbucks treats its fans to a steady stream of special deals and a richer experience than they’d get solely by going to a store, including interesting background stories on coffees and great photography of merchandise. Starbucks also encourages fans to share all of this with their friends, which spreads the good will and increases the likelihood that posts will appear more widely in newsfeeds.” (Roman, 2013)

The newspaper is full of articles that try to summarize the most important determinants that are behind the social network success of Starbucks. In our opinion the factors that really count are:

- 1) Loyal customers and followers who share – Instead of solely focusing efforts on accumulating new customers, it cultivates its current relationships. This ensures more fans/followers in the long run, as well as the continued existence

of brand advocates. Those happy customers are eager to share good experiences and offers. For example, the Starbucks holiday promotion "buy 1 get 1" garnered an extraordinary amount of engagement on Facebook through comments, "likes," and shares.

- 2) Individual and customized marketing approach – Consumers want to feel like valued individuals, they don't want to feel like anonymous dollar machines. Starbucks' mission is "to inspire and nurture the human spirit—one person, one cup, and one neighbourhood at a time." Taking the focus of money has helped it make more – lifting customers up will lead to loyalty. People want to feel as individuals not as just money piggy banks. Starbucks provides that through programs such as My Starbucks Rewards, personalized "signature" drinks, and localized store experiences.
- 3) Cross-promotion – Starbucks uses all its social media sites equally, so when they decide to post a picture they do it simultaneously on Facebook, Instagram, tweet it on Twitter or pin it on Pinterest. „Social cross-promotion gains importance as the world becomes more digitally focused. Each network provides an opportunity to reach a new audience, and integrating your strategy on each is crucial to increasing visibility. Just remember that those distinct groups respond to different marketing messages, and each message should be optimized in relation to the network.“ (Gibb, 2013; Schoultz, 2013)

1.3 Europeans and their Opinions about Starbucks – Results of a Survey

In order to characterize the position of Starbucks as a brand in the minds of young European customers, a study was undertaken in the months of September and October 2013. The applied questionnaire was distributed online and sent to individual respondents that have a permanent residence in some of the countries of the European Union.

The final results represent the opinion of young European residents in their 20's. Most of the people in the survey are from Slovak republic, other respondents live in Italy, Great Britain, Switzerland, Denmark, Holland, Czech republic, Hungary, Poland, Lithuania, Germany, Finland, Spain, Sweden, Romania and Portugal. The total amount of people that participated in this survey is 126, of which 70 are women and 56 are men, with the average age of 25,3 years.

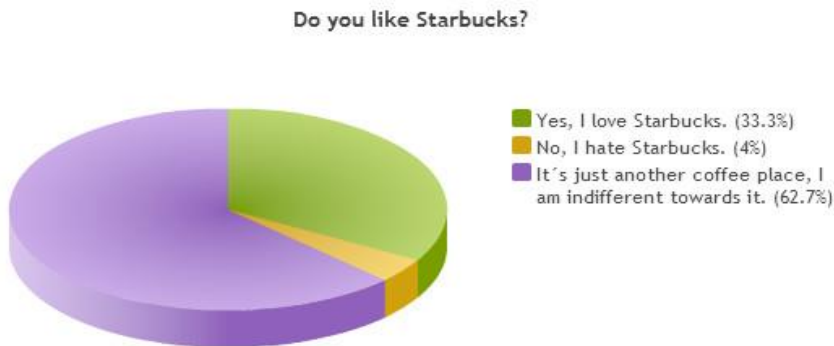
The survey tried to capture some real opinions and feeling towards Starbucks among young people who are considered to be the main target group of social media marketing.

The next part offers the results of each question in order to reflect the actual state of mind of consumers in the European Union.

Question 1: Do you like Starbucks? (Possible answers: Yes, I love Starbucks. No, I don't like Starbucks. It's just another coffee place, I am indifferent towards it.)

The first question was meant to provide basic information about customers' immediate reaction and feeling towards our analyzed company.

Graph 2 Answers to question 1



Source: Author's own processing

According to the graph, the majority of respondents view Starbucks just as another coffee place with no specific positive or negative feelings towards it. Very positive attitude towards the social media marketing expert was observed in more than 1/3 of the participants, where 42 respondents out of 126 say they „love“ Starbucks. Only 4% were absolutely against this company and chose the answer „No, I hate Starbucks“. This question shows that Starbucks is a popular place, because according to the graph 96% of our respondents would have no problem to have a coffee in Starbucks. Interesting is that most agree on the fact that Starbucks is just another place to have coffee which is a little confusing because according to most rankings Starbucks is the „it“ place when it comes to having a cup of coffee.

When we looked deeper at our results, we can say that the „Starbucks lovers“ are mostly young women with a few male respondents. We were especially curious about Italian people and their opinions on Starbucks. As a matter of fact, most of them were either indifferent or big fans of Starbucks. The haters were mostly men, from which are 2 Italian boys, one Italian girl and 2 men, one residing in Prague and one in London.

Question 2: What are the main things you like about Starbucks?

This next inquiry was formulated as an open question to gather all the possible aspects that people like about Starbucks.

Some examples of the benefits of having a coffee in Starbucks opposing to having it somewhere else are:

„Wide range of coffees (types and flavours) – I can always find the one I want in a specific moment... wherever I am in the world, it tastes the same – so I know what to expect – that is the reason why I usually go there. And I just simply like Starbucks coffee.“

„The coffee. The atmosphere. How they work in a good and quick way, the working system.“

„That it is „in“ to drink coffee there nothing else.“

„It represents the western way of life, has tasty drinks and snacks, pleasant staff.“

Ironical is that coffee was not the most favourite thing about Starbucks. Obviously it was one of the most frequent things mentioned, but things like cookies, pastries, atmosphere, friendly staff, coffee mugs, take-away coffee, special flavours, names on cups, free Internet, chairs and furniture and other „non-coffee“ aspects were mentioned more often. The things that really mattered to the people in this survey were those that help create a special moment at the cafeteria – the atmosphere in a cosy place where you can get a cup of coffee with your favourite flavour with your name written on it from a friendly barista plus a piece of cake that is tasty. Customers want more than just a cup of plain old coffee which is a fact that Starbucks know really well.

Question 3: What are the main things you don't like about Starbucks?

On the exact opposite to the previous question, this inquiry was formulated to gather all the possible aspects that people dislike about Starbucks.

Some examples of the negatives of having a coffee in Starbucks opposing to having it somewhere else are:

„I think the coffee doesn't taste so great as well as the price is too high for what you are getting.“

„Annoying customers and waiters, too sugary drinks full of ice instead of the actual content.“

„Nothing.“

„The coffee isn't as good as the Italian one here, in my country, sorry to say that, but that's another way to make coffees.“

A lot of respondents didn't have any negative comments at all, but mostly the things that bother consumers the most are high prices of coffee, overcrowded place and long waiting lines, the poor taste of the coffee and the absence of a Starbucks coffee near the place they live (which is not a negative fact for Starbucks overall). Some mentioned also problems with the tax paying incident connected with this company, the dislike of some groups that go to Starbucks or uncomfortable chairs and dirty environment.

Question 4: Is the whole Starbucks concept just a big marketing trick?

The marketing strategy of Starbucks is definitely inspiring, because it was able to distinguish itself from other coffee places and cafeterias in order to become one of the most popular in the industry. Marketing is known to offer a great instrumentarium to achieve a desired market position but sometimes it might be too obvious and it could be a reason why people refuse to support brands that do a strong and aggressive marketing practice.

This question was intended to show what people think about marketing in our case. More than $\frac{3}{4}$, specifically 78% of respondents know that the Starbucks concept is massively dependent on their marketing tactics and the way they promote the brand worldwide, but it is not a thing that would bother them. 18% also agree that Starbucks

uses marketing too much and it is the main concern they have about it. Only 5% of respondents don´t think that the marketing of Starbucks is either too strong or bothering.

Graph 3 Answers to question 4



Source: Author´s own processing

This part shows that even though people know that the hype around Starbucks might be heavily promoted by Starbucks itself and has not so much in common just the quality of their coffee, they don´t mind and would have a coffee there without any hesitation.

Question 5: Have you ever posted a picture of yourself with a Starbucks product or tagged yourself in a Starbucks store on a social media site?

Question 6: Have any of your friends posted a picture with a Starbucks product or tagged themselves in a Starbucks store on a social media site?

As shown in a previous section of this article, social media marketing is a modern toll in informing customers and attracting new ones by getting to the target group through a channel that they use very frequently.

Question number 5 showed interesting results, where 99 respondents, which is approximately 80% reacted that they have never posted a picture of themselves on a social media site, whereas in question number 6, 80% of respondents said that their friends did post a picture of them with a Starbucks product on a social media site. This interesting fact shows that posting, tagging or pinning posts with anything connected to Starbucks is very popular among young people who want to manifest their positive approach towards Starbucks.

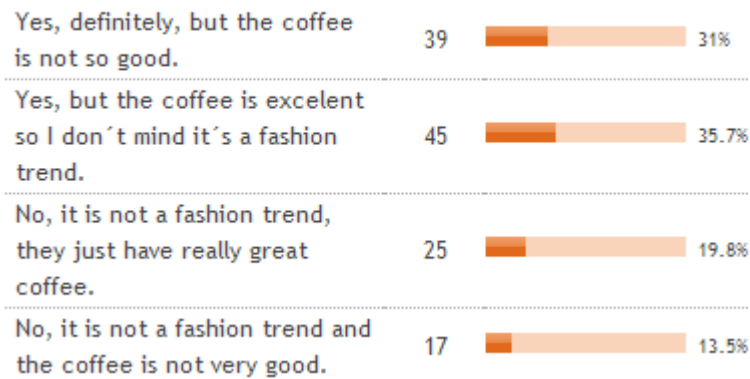
Question 7: Would you like to have a Starbucks store close to where you live?

In order to see how consumers really feel about our analyzed company, we incorporated this question. Logically, there should be a connection between question number 1 and question number 7. Therefore, the people who „love“ Starbucks should want to have it in their city. 33,3% love Starbucks, but 38% want to have it close to where they live. We assume that the Starbucks haters definitely don´t want a Starbucks location near them, so therefore some of the indifferent from question number 1 want to have this coffee shop near them. Anyway, more than a half, 54%, don´t care if there is or isn´t a Starbucks in their city and 8% don´t want it at all.

Question 8: Would you consider having a coffee in Starbucks as a fashion trend?

Graph 4 Answers to question 8

8. Would you consider having a coffee in Starbucks as a fashion trend?



Source: Author’s own processing

The last question wanted to find out if consumers view having coffee in Starbucks as a fashion trend. 66% feel that having a cup of Starbucks coffee is a fashion trend among young people. If we look deeper on the results, we can see that in fact 45% respondents don't feel the quality of the coffee is high and 56% feel the coffee is really high standard. Most are believers that Starbucks coffee is a fashion trend.

Conclusion

Starbucks. Almost every young person who is a member of the developed society knows this company. Even without ever visiting this coffee place or drinking its coffee, they have heard of it. Our survey showed it is not just the coffee that makes this place so special. It is the combination of a lot of factors that make the consumers who visit Starbucks feel unique. The atmosphere, the staff and other complimentary products are among the highest rated things that differentiate Starbucks from other coffee shops.

Our survey in general showed that Starbucks is popular and people like to have a cup of a hot drink there, it even has a base of very strong fans that would always choose Starbucks over any other coffee place. But the majority of respondents just feel indifferent about it, often they don't understand what is all the hype around Starbucks about.

In our opinion, Starbucks is extremely popular in the United States and European people and their coffee drinking habits are a little different. The fact is that if we hear a lot about something, if we see a lot of it on television, if we see it on our social media sites, if we see our favourite popular celebrities with a specific product, our sub-conscious mind wants to at least try it.

Starbucks in USA is everywhere, people in TV shows drink it, people in magazines drink it, and therefore, the young American population wants to drink it. American teens use their smartphones from dusk to dawn at every occasion and Starbucks mastered the social media world as no other.

The article in Huffington post shows the incredible results of Starbucks:

1. „Starbucks continues to add 300K+ fans every week to its already huge 33 million strong base on Facebook. It also has over 3 million followers on Twitter.
2. According to a joint study by comScore and Facebook, Starbucks organically reaches more non-fans than fans with its posts on its Facebook brand page. This means that fans engaging with or forwarding content more than doubles the reach of the fanbase - a process Facebook calls amplification.
3. The same study also shows that exposure to a Starbucks post leads to 38 percent increase in in-store purchases.” (Roman, 2013)

To sum it up, we can consider Starbucks as a company that uses their brand image to attract consumers all over the world. It is incredibly popular in USA, whereas Europe is a little more conservative in their coffee drinking habits. Starbucks offers people more than just a cup of hot drink, the typical atmosphere of this coffee shop in combination with all the complementary products and services plus a huge cross-promotion in social media and television are all factors that created the global popularity of this company.

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Trade and Capital Imbalances in EMU – Implications for Banking Systems

Pavel Knotek¹

Abstract

During existence of European monetary union few macroeconomic imbalances were inside created and the most discussed is imbalance which has fundament in balance of payments. Elimination of exchange rate risk made movement of capital or liquidity and all trade easier. This paper contains analysis of mainly Greek banking sector. Main characteristics as balance sheet, credit, deposit, risk premium are also discussed following phenomenon in Greek balance of payments.

Key words

banking sector, Greece, Germany, deposits, credits, euro

JEL Classification: E51, G21, F34

Introduction

Eurozone (European monetary union – EMU) exists for more than ten years, belongs among most remarkable projects of twentieth century, when euro as electronic currency, primarily for interbank transactions, was introduced in 1999. Three years later, from January 2002 European common currency is used also in cash transactions. During this, from economic point of view, long period we could observe comparatively a lot of interesting economic affairs, for example recession in some member states of EMU (Germany in 2003), banking crisis, debt crisis (PIGS countries), price bubble on real estate market (Spain) and we can continue.

Adoption of euro should bring to all member states stable macroeconomic framework for future development. Process of common European currency adoption can be definitely considered as success, if we look at technical part. From the introduction of euro, there were emphasized mainly its benefits for newcomers in form of exchange rate risk elimination (it means elimination of fluctuations in asset or liabilities value which are denominated in currencies of European trade partners), minimization of transactional costs, increase in intra-trade (trade inside new monetary union). Many papers have been published about this theme since 90s, for example Baldwin (2006), Wyplosz and Baldwin (2012), Lacina (2007).

There is no need for deep discussion to say, European monetary union is not optimal currency area (OCA). The concept of rules, which should be kept to function without serious troubles as member of monetary (currency) union with other countries, was created few decades ago. Research conclusions of Mundell (1961), McKinnon (1963) and Kenen (1969) are simple. Very shortly, inside monetary union

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should be easy labour mobility (Mundell criterion) and each part of monetary union (members economy) should be open (it means to participate in trade with partners who are sharing common currency) with price and wage flexibility (McKinnon criterion). Last economic criterion is connected with production diversification, which helps in case of asymmetric shocks (Kenen criterion). In literature we can also find next criterion which are connected more with political side (homogenous preferences in economic policy, solidarity). The latest development has shown these criteria are not fulfilled.

However, we can observe divergence of key macroeconomic indicators among member states from introduction of euro, which differ in real GDP growth, rate of inflation, public finance balances and in next indicators. Remarkably, nominal convergence has still been the only condition of European monetary union entry (so called Maastricht convergence criteria).

From the perspective of financial transactions and real flows (goods and services flow), Eurozone can be divided into several blocks, among which imbalances are created. Probably, the most discussed among economists, imbalance is that, which we can see in individual Eurozone member balance of payments (or in national current account, national trade balance). In reality there are export oriented economies (for example Germany, Netherlands) and against them stand countries, which are cumulating balance of trade deficits or current account deficits (for example Greece, Portugal).

EMU members and some other EU countries (or their banking system) use payment system TARGET2, which is interbank payment system for settlement of cross-border payments between banks from different countries. Economists in Germany pointed out creation of imbalance in payment system TARGET2. The first reason is some countries have surpluses of their balance of trade (or current account) and some have countries have deficits. If we talk about external balance (or topics connected with balance of payments), we must have still in mind, that country, which adopt euro, cannot use exchange rate for settlement of imbalances (absence of exchange rate settlement process). The second main reason are cross-border banking operations, it means cross-border flows of money in from of deposits and credits.

As German economists show, we can see accumulation of unsecured claims (creditor positions) of selected national central banks against TARGET2. Problem with TARGET2 imbalance was not widely mentioned till outbreak of financial crisis in world economy (till year 2008), because deficits in balance of payments were settled by inflow of capital (deposits, purchases of assets – for example national bonds). Situation became different from the period of 2007/2008. We can still observe deficits of national current accounts (despite their decrease due to negative GDP growth development), but inflow of capital stopped. Assets are sold, creditors are pushing on repaying of cross-border credits, liquidity is pointed back to core countries. Mentioned processes are strengthened by clients deposit outflow in selected countries, which is result of fear about deposits in banks and about future participation of selected country in EMU (for example Greece). This deposit outflow was called "deposit flight".

Above mentioned imbalance, which is based on trade and finance flows has visible consequences. The first one is that amount of central bank claims and liabilities against TARGET2 is growing and we can discuss risk profile and repayment probability of these liabilities. Secondly some central banks change their position from creditor to

debtor against their national banking systems (some central banks are taking back liquidity). Finally we can see in some banking systems surplus of liquidity, which was obtained by deposit flight or capital flows, and on the other hand problems with insufficient liquidity.

The aim of this paper is to analyze banking system of country participating in EMU which has current account deficits connected with significant capital outflows and inflows. Main banking sector indicators will be discussed (interest rates on asset/liabilities side, volume of credits and liquidity of banking sectors). We will use example of European monetary union members, which are in discussions on different sides – especially Greece and Germany.

1 Theoretical outline

Discussion about imbalance inside payment system TARGET2 is comparatively new and was started mainly by German economists in 2011. Sinn and Wollmershaeuser (2011) described main features of TARGET2 imbalance and principle of problem. The authors defined problem which consists of unsecured claims and liabilities cumulation between EMU member countries, they tried to quantify them and suggest solution for this situation from monetary policy position. Abad, Loeffler, Schnabl and Zemanek (2012) analyzed causes of imbalance creation, and made conclusion that problem was caused by different fiscal policy and wage growth divergence in euro “user” countries. These authors also theoretically described, with help of bank balance sheets (ECB plus national central bank and national banking sector) payment principle and deposit flight on example of Greece and Germany. Abad, Loeffler, Zemanek (2011) concentrated on banking sectors, this time on example of Germany and Ireland. They demonstrated, that involvement of German against Irish banking system was increasing till 2008 and examined various types of asymmetric liquidity management solution. Ambition of this paper is go from level of central banks to banking sector, because none of above mentioned papers analyzed commercial banks sector aspects.

2 Flows inside Eurozone – exporters vs. importers

As was mentioned above, we can divide EMU countries into two main groups – countries which are export oriented and countries which are mainly importers. Table below contains data about external position of EMU countries (which adopted euro before 2002) during 2002-2011. The first column shows sum of current account balances during 2002-2011. Countries which have positive balance are exporters – Germany, Netherlands, Austria, Finland. On the other hand we see countries which are mentioned for their problems with competitiveness and balance of payment imbalance – Greece, Portugal, Italy. Average current account/GDP ratio (between 2002 and 2011) was deeply below limit, which is considered by economists as acceptable.

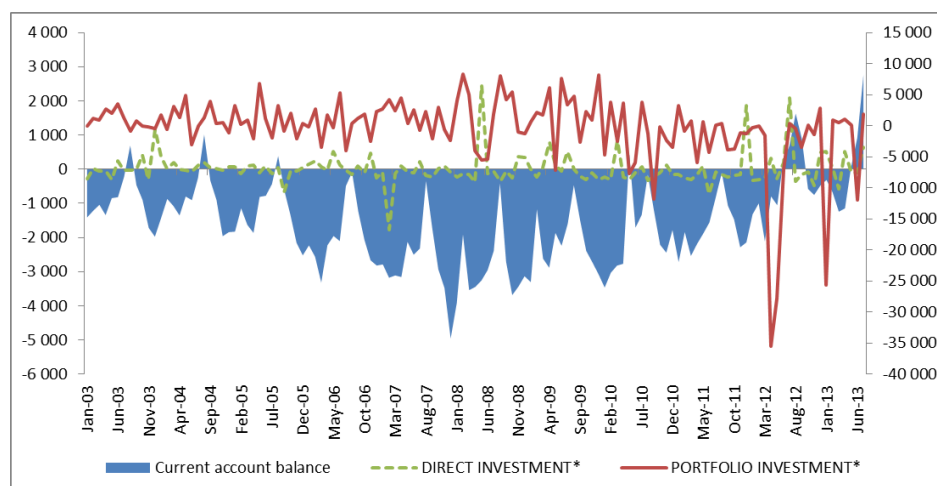
Tab. 1 EMU12 – Current account (CA), Trade openness, CA/GDP ratio

COUNTRY	CA - Cumulation, mil. EUR	Trade - openness in % (2010)	CA/GDP in %
Belgium	36 203	81	1,5
Germany	1 421 586	46	5,2
Ireland	-26 471	91	-1,9
Greece	-212 984	21	-9,9
Spain	-609 329	26	-6,1
France	-170 612	26	-0,6
Italy	-265 179	27	-2,1
Luxembourg	32 114	177	9,0
Netherlands	425 700	78	6,6
Austria	77 483	55	2,8
Portugal	-156 398	31	-9,5
Finland	52 690	39	3,5

Source: Data from Eurostat, OECD, own calculations.

Note: CA-cummulation = sum of current account balances in 2002-2011, Trade-openness in % = volume of export/GDP ratio in 2010, CA/GDP = average current account/GDP ratio in 2002-2011.

If we look at Greece in more detail, we see absolutely growing deficits of current accounts till 2008 year. In 2007/2008, when financial crises and economic problems started widen, there was breaking point and deficit is slowly decreasing. Massive deficits of Greek current account between 2003 and 2008 were financed by capital inflow, which was registered on financial account. The capital inflows had especially form of portfolio investment and other investment. Share of direct investment share in financing current account balance was minimal. This combination is considered by economists as dangerous for external balance, because of its sustainability. After 2008 outflow of capital in form of portfolio investment and decreasing deficit of current account are evident.

Graph 1 Greek current account balance, direct and portfolio investment balances, mil. EUR

Source: monthly data from Bank of Greece, own calculations.

Note: (+) = inflow direct or portfolio investment, (-) = deficit of current account

Position of Germany during 2003-2012 years was completely opposite. Germany had permanent surplus of current account with European trading partners (which is also Greece), moreover as we can see in next table, positive balance grew by high rates. One of the reactions inside German banking sector was in increase of cross-border claims (claims on non-residents) which also include investments, lending abroad. We can agree with conclusions of Abad, Loeffler, Schnabl and Zemanek (2012) in statement, that countries, as for example Germany, financed deficits of current account of periphery countries by cross-border operations (for example lending, buying bonds).

Tab. 2 German current account balances, external position of German banks, mil. EUR

Period	2003-01	2004-01	2005-01	2006-01	2007-01	2008-01	2009-01	2010-01	2011-01	2012-01
CA - balance	6 782,5	14 595,4	20 566,9	28 763,8	40 168,1	42 431,3	26 025,2	27 089,2	33 321,7	25 966,8
CA - balance, y/y change	-	115%	41%	40%	40%	6%	-39%	4%	23%	-22%
Bank claims on non residents	894,7	1 016,2	1 167,1	1 157,1	1 323,2	1 436,0	1 275,9	1 227,4	1 185,5	1 083,5
Bank claims on non residents, y/y change	-	14%	15%	-1%	14%	9%	-11%	-4%	-3%	-9%

Source: data from Bundesbank, own calculations.

Note: CA balance with EU27, Claims of German banking sector against European countries in euro currency.

3 Impact on Greek banking sector

Every banking sector, as a complex, works and reacts on surrounding environment and it can also significantly influence this environment. It means, for example, in period of low interest rates, banks register increased demand for credits. If banking system react and start providing credits in significant volumes, it can support GDP growth. On the other hand, often negative feature of credit booms can be inflationary pressures.

Above we described features, connected with balance of payments, which Greek economy and its banking sector faced during 2002-2012 after adoption of euro. Current account deficits financed by inflow of portfolio investment till 2008, then outflow/return of deposits (investments) to countries of origin which was caused by risk-averse attitude caused by financial crises. Of course, we cannot ignore internal development of Greek economy, which can be described by set of main macroeconomic indicators. The most important indicators for banking sector are GDP growth, inflation rate, money supply growth (represented by aggregate M3), level of key monetary policy rate and finally government bond yields. In general, Greek economy development was above average values of Eurozone, if we look at time series of real GDP growth, inflation rate, and monetary aggregate M3. Adoption of euro helped to bring down interest rates – basic monetary policy rates and government bond yields decreased, because country which became a EMU member was considered as more trustworthy by financial markets. From today perspective it is clear, that acceptance of euro and common monetary policy itself cannot be guarantee of stable economy.

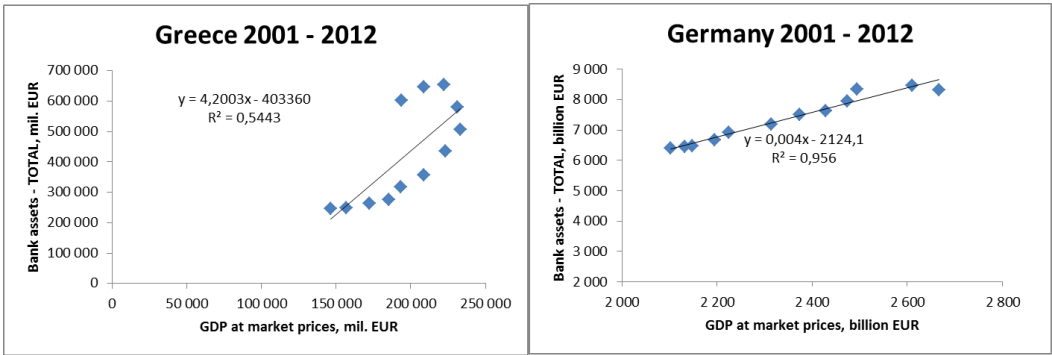
Nowadays Greece is given as example of country which suffered after 2008 year by serious problems and is discussed in connection with exit from EMU.

Main indicators, which characterize development, size, importance of banking sector are total volume of assets, credits and deposits. We will analyze these indicators deeper.

3.1 Balance sheet – absolute development

Banking sector can be defined as a system of commercial banks which is providing services to clients on area of exact country. In Greece there is not such significant banking sector, if we compare assets of banking sectors to GDP, which is under average of EU due to Liikanen report about structure of the EU banking sector (2012). Total assets to GDP ratio (we count at market prices) was in period 2002-2012 over 140 %, in Germany about 300 %. Despite under average size of banking sector, growth rates were high. Average annual growth of bank's assets during 2002-2008 in Greece was 11.1%, in Germany it was much less only about 3.2 %. Of course, logical idea tells us banking sector is procyclical and his development is closely related to national economy development. If economy, measured by GDP is rising, banks develop more activity. They provide more credits, more take part in trading on financial markets, because of low level of risk (prices are increasing, companies have good financial results, etc.). On the other hand, during recession, risk premium rises (willingness to providing credits into real economy decreases), there can be some concerns about deposits (withdrawing deposits by clients, decrease of savings due to higher unemployment). Average real GDP growth was in Greece higher than in Germany between 2002 and 2007. This connection, between development of banking sector and economy we can confirm in next graph.

Graph 2 Connection of GDP and assets of banking sector



Source: data from Bundesbank, Bank of Greece, own calculations.

3.2 Relative structure of banking balance sheet

Structure of banking sector in Greece, if we look into consolidated balance sheet, is traditional, which reflects main business of classic commercial banks and it is accepting deposits and then providing credits into real economy. That's way major share on assets side have claims (credits) on non-banks, it means credits to firms and households. The share was constantly above 42 % during 2002-2008 and was cumulating in 2005 and 2006, when was obvious boost in credits. Increase in credits and in claims on other MFI can be explained by inflow of capital (portfolio investment mentioned above), banks had a lot of liquidity which was placed in financial markets. From balance sheet is also clear trend in decrease of securities hold by banks and also deterioration of their immediate liquidity as reaction on outflow of deposits. If clients start to withdraw their deposits, firstly bank uses own cash reserves and then starts to sell securities to have enough reserves. Majority of assets is in credits, but money means in credits are fixed and they are not liquid. Claims on Bank of Greece, which is central bank, step up till 2008 which is in contrast of current account imbalance and rising TARGET2 liabilities (payments to exports through accounts in central bank).

Major role on passive (liability) side have deposits of clients. It is main source which is used for financing of bank activities. We can confirm sharp fall in client deposits toward 2011 year. It is definitely consequence of fear about deposit safety, in connection with discussion about bank's financial health and Greek exit from Eurozone, and "deposit flight" which was described by German economists. Deposits/balance sheet ratio decreased by 15 % in period 2008-2011. Fall in client deposits was financed mainly by Bank of Greece (BoG) and liabilities to BoG reached almost 20 % of banking balance sheet.

Tab. 3 Consolidated relative balance sheet of banking sector in Greece (composition, weights)

ASSETS	2002	2005	2008	2011
Cash (held by credit institutions)	0,74%	0,68%	0,51%	0,37%
Claims on Bank of Greece	0,69%	1,37%	1,48%	0,78%
Claims on other MFIs	16,79%	13,86%	24,29%	30,78%
Claims (Loans) on non MFIs	42,00%	51,24%	43,82%	42,71%
Securities	25,65%	20,95%	17,92%	14,39%
Other assets	14,13%	11,90%	11,99%	10,97%

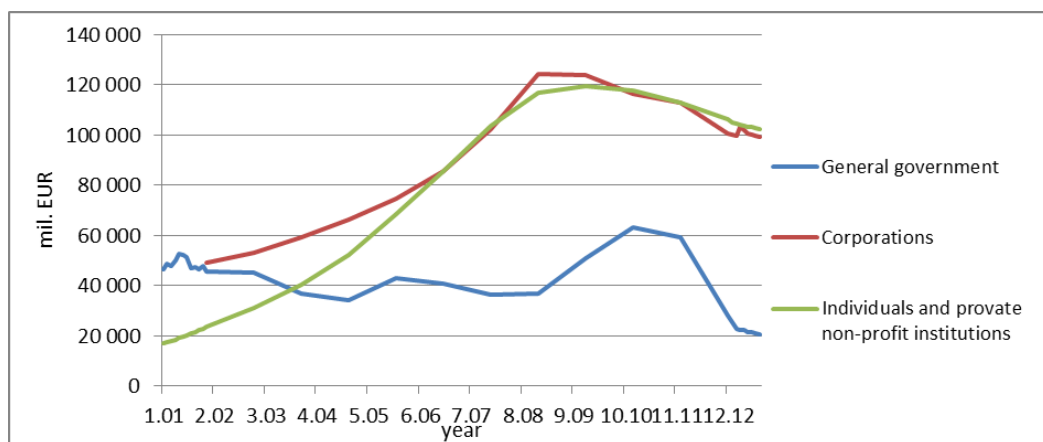
LIABILITIES	2002	2005	2008	2011
Liabilities to Bank of Greece	1,22%	0,76%	7,57%	19,95%
Liabilities to other MFIs	20,82%	15,41%	22,58%	23,89%
Deposits and repos of non MFIs	54,18%	59,28%	52,57%	36,76%
Debt securities issued	0,80%	0,18%	0,57%	0,24%
Capital and reserves	8,87%	7,35%	5,41%	8,48%
Other liabilities	14,11%	17,02%	11,31%	10,68%

Source: data from Bank of Greece, own calculations.

3.3 Credits

Main business of commercial bank on asset side is to provide credits into real economy, which is also main source of bank's returns. Main sectors financed by banks by Greek methodology are private sector (which consists of households and corporations) and general government sector. From previous text we know development of relative credit share in balance sheet of banks. Relative increase of credit share in balance sheet had direct relation to growth of credit amounts, which were lent (next graph). Data of credit outstanding amounts shows dynamic growth in credits to real economy till 2008 year. Average annual growth rate during 2002-2008 of bank claims (credits) was 13 %, but in credit segments, housing credit (+26 %) and consumer credits (+25 %), it was much more. This credit growth resulted in rise of money supply in Greek economy, because monetary institutions are creating new cashless money by providing new credits (generation of money is at the moment of principal write down on client's current account). Monetary supply is in EMU measured by monetary aggregate M3 (which is defined by ECB). Average M3 aggregate annual growth till spread of financial crisis (2008) was above 10 %, which is over annual quantitative reference value for monetary growth (+4.5 %), which was set by ECB in 1998. If we have in mind boost in credits and in aggregate M3, we can express hypothesis that, common ECB's monetary policy was too expansive for Greece. After 2008 year we observe absolute decrease in volumes of credits which were provided into real economy (measured by outstanding amounts of credit). The biggest fall was in value of claims on general government, which are mainly purchased government bonds. The fall was because of participation in the securities exchange programme agreed by EU Summit in 21st July 2011, which meant reduction in the value of government bonds.

Graph 3 Credits to basic segments of Greek economy – outstanding amounts at end of the period



Source: Source: data from Bank of Greece, own graph.

We can discuss factors influencing rapid credit growth. Two sides of business, client and bank, must be always considered. Determinants of demand for credits, by client's view, are definitely interest rate (nominal and real), which is a cost for client.

On the other hand, for bank is most important to see ability for repaying credit which is also supported by risk perception.

By creating common currency and progressive expansion of Eurozone there was also created new common banking market next to united labour, capital, goods and services markets. Certainly it was not and still it is not the same traditional banking system as we know for example in Great Britain or Czech Republic – EMU do not have one regulatory body, united deposit insurance fund and other things. The biggest progress was in elimination of exchange rate risk, so fluctuations in values of capital flow between two moments were took away and was easier and more transparent to invest abroad or move liquidity to areas with highest possible yields. Main interbank interest rate on EMU banking market is EURIBOR which is average rate counted from panel of mainly big commercial banks. If we are speaking about Greece, EURIBOR is obviously also used for their banking sector but it is not rule than at every moment banks are obliged to lend money for EURIBOR at all. Situation, which was on financial markets after 2008, when financial crises spread and it was time of increased distrust and uncertainty, Greek banks had problems with getting liquidity on European banking market. Interest rates of banking operations in EMU are connected with EURIBOR.

Economic theory emphasizes difference between nominal and real interest rates, for example Kaderabkova (2003) write that economic subjects decide about their consumption, amount of work and savings due to real interest rate, instead of nominal. For calculation of real interest rate can be used formula published by Czech national bank (CNB):

$$r = [(100 + R)/(100 + i) - 1] * 100$$

where

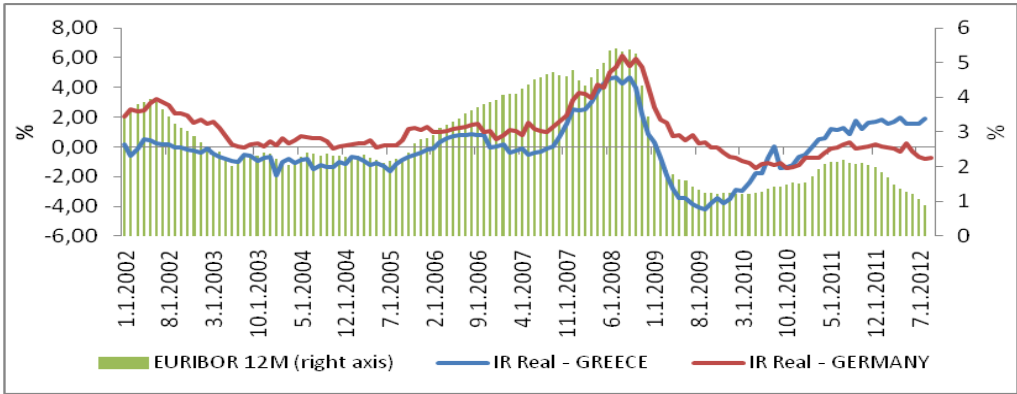
r = real interest rate (in %)

R = nominal interest rate (in %), in our example EURIBOR 12M at certain time t

i = real or anticipated inflation (in %), in our example y/y inflation at time $t + 12$ months

Although level of EURIBOR was slowly rising to peak in 2008 and then decreased, which responded to monetary policy rate set by ECB, development of real interest rate was different. In next graph we show level and dynamics of real interest rate, counted with formula above, in two completely different economies of EMU – Greece and Germany. While between 2002 and 2007 real interest rate were on low levels, in Greece there was negative value of this indicator. We can explain rising credit activity in time of rising nominal interest rate by negative real interest rates. Real interest rates were below zero due to higher inflation in comparison with other EMU countries. In times of higher inflation is rational for clients to take credit, because repayments are in money with less purchase power. Low real interest rates in Greece can be part of explanation of credit boom in period 2002-2008. If we had perfect common European banking system, it would be at these conditions the most favourable thing to take credits in countries with negative real interest rates. It would be pressure on capital inflow and on local interest rate. Today we see, that is unreal and hard to imagine for example German clients asking for credits behind borders in Greece.

Graph 4 EURIBOR, real interest rate (IR real) in Greece and Germany

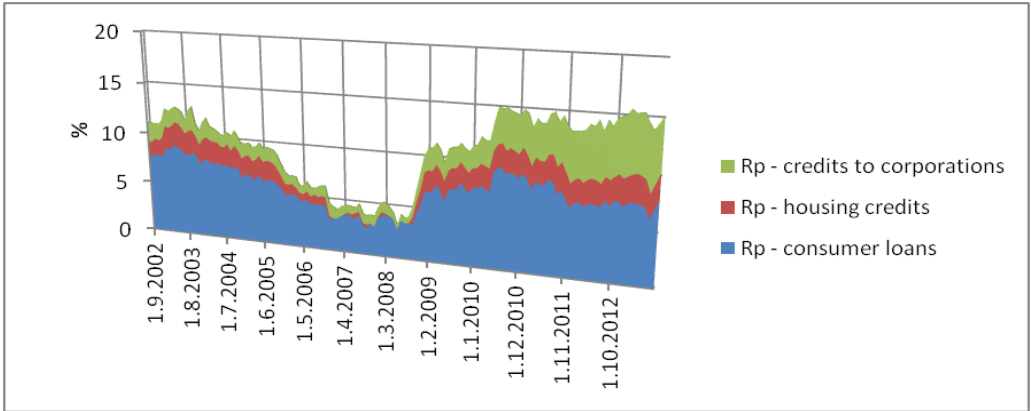


Source: data from ECB and Eurostat, own calculations.

By observation of nominal and real interest rates we covered main demand factor for credits and remains to explore supply side – banks. As was mentioned above, willingness of banks to provide credits, *ceteris paribus*, is determined by ability to repay credit and in general on evaluation of risk and banks are rather risk-averse subjects on financial markets. Few ways how can be approximated level of risk in an economy are available. Let's use risk premium which is in financial theory in general defined as difference between defined yield and risk-free yield, which can be written by formula:

$$\text{Risk premium (r}_p\text{)} = \text{yield (rate of return)} - \text{risk free yield}$$

Graph 5 Risk premium (Rp) on Greek banking system – basic segments



Source: data from Bank of Greece and ECB, own calculations.

Note: Consumer and housing loans (Floating rate or up to 1 year rate fixation), non-financial corporations (loans over an amount of EUR 1 million, Floating rate or up to 1 year rate fixation).

On financial markets analysts use also this risk premium to evaluate level of risk which is counted as spread (difference) between Greek government bond yields and risk-free yields (often yields of German bonds). We are on banking market and we can

compute risk premium as difference between interest rates of real credits and EURI-BOR 12M, which we will consider for risk-free rate. Results are in next graph. Euro adoption by Greece brought not only general decrease in level of general interest rates (by accepting common monetary policy), but also fall in risk premium which was constant till 2008 year. Decreasing risk premium (rising willingness of banks to providing credits) helped to credit boom between 2002 and 2008. In general, after adoption of euro currency till present, cross-border activity (involvement) of Greek banks was low, so it meant the low or almost none export of capital from Greece by banks. Above mentioned data about volumes and interest rates of credits are connected with domestic subjects. From asset side of banking balance sheet there was not strong influence on balance of payments, especially on financial account and vice versa.

3.4 Liability side – deposits

Capital inflow from external environment into Greece until 2008, which was financing deficits of current accounts, should also take shape in banking sector, in balance sheet mainly on side of liabilities. We can assume growing balance sheets of banks (i.e. amount of money in administration) and their cross-border liabilities. Increase in balance sheet of banking system was proved above. We also assume, that if somebody wants to lend money or invest (buy shares, bonds, property,...) in other EMU country he uses for payments bank's services. Even if cash money would be used for paying the purchase price, sooner or later, transaction would be reflected in bank's balance sheets, because Greek counterparty would deposit at least small part of money in a bank.

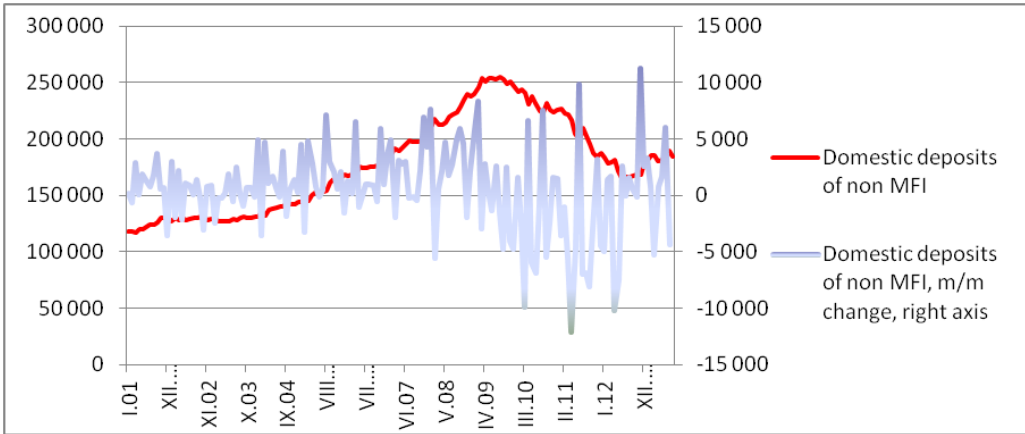
On liability side, the biggest importance (above 50 % of total liabilities) have deposits of non MFIs (majority have individuals, households, corporations). These deposits from foreign countries are naturally very low and are not significant. It is hard to imagine and it does not make a sense, that individuals and corporations from one EMU country would open accounts and use bank's classic services in other Eurozone country. But after 2008 people in Greece started to withdraw their money and outstanding volume of client's deposits started to fall. If we think about this situation, potential reasons could be:

a) psychological reasons: fear about liquidity of banking sector (debt crisis) and about future of Greece as the member of EMU (so called "Grexit") started to move their deposits to countries, which were at the moment evaluated as less risky, for example Germany.

b) economic reason: due to deep recession of Greek economy and high unemployment rate people started to use money from their accounts for consumption.

This all resulted in fall of volume of deposits in banking sector and part of this shrink was due to "deposit flight". From the end of 2008 till the end of 2012 year banking sector lost nearly 60 million EUR of client's deposits.

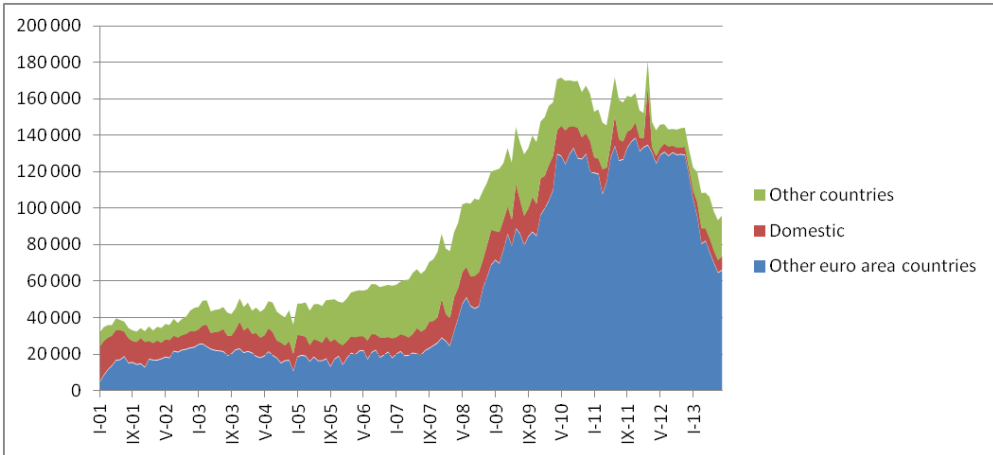
Graph 6 Domestic deposits of non MFI, mil. EUR



Source: data from Bank of Greece, own graph.

If we speak about role of foreign deposits, opposite situation can be observed in liabilities to other monetary and financial institutions (MFI). In chapter with relative structure of balance sheet this item was not discussed in more depth, but it is the second most important source on liability side for banking business. If we look at data, we can find few surprising conclusions. In time of client's deposit outflow after 2008, banks more rely not only on credits from central bank (Bank of Greece), but also on inter-bank financing, which is the second most important source in balance sheet. Second interesting thing is increasing involvement of banks from other euro area countries in Greek banks after 2009, in spite of bad condition of Greek economy (fall of GDP, high unemployment, indebtedness of government). Greek banks did not lend each other huge volumes of liquidity, foreign liabilities have been at higher level since 2001 (liabilities to both other euro area countries and other countries with their own currency) in comparison to liabilities to other bank in national economy.

Graph 7 Liabilities to other MFI – geographical view, mil. EUR

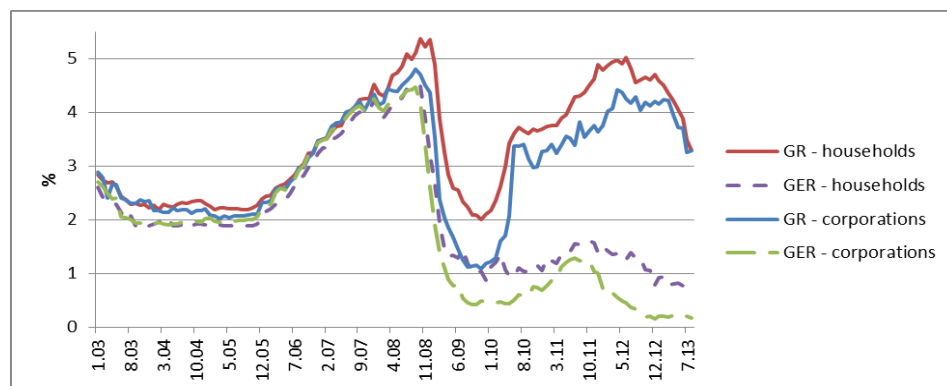


Source: data from Bank of Greece, own calculations.

There must be some reasons, why was liquidity moved into Greece. All economic subjects, banks and institutional investors, consider on financial markets three factors – risk, return and liquidity. Till 2008, every country which adopted euro was considered as very credible by financial markets and differences in risk between investments for example in German or Greek bonds were blurred. And this was also applied on liquidity (capital) movement. Furthermore exchange rate risk stopped exist, there was certainty in no more fluctuations in value of investment due to exchange rates. Participants of financial markets saw risk on low levels. Moreover European economies were in very good conditions, GDP was growing and unemployment was not so serious problem. On side of returns (interest rates), we see after euro adoption convergence of interest rates (in next graph between Greece and Germany). In time of inflow of capital into Greek economy and increasing volume of domestic deposits in banks until 2008, interest rates on deposit market were growing. We see strong correlation with monetary policy rate and rate EURIBOR. Between 2008 and 2010 deposit's interest rates fall by approximately 3 %, what was reaction to monetary policy rates cut by ECB. Until this moment Greek rates were strongly correlated with rest of EMU (in our case represented by Germany). After 2010 year, when started "deposit flight", liquidity in form of client's deposit was more valuable on Greek banking market, which is in accordance for economic theory. This process resulted in increase of interest rates on deposits to make deposits more attractive for clients. Nowadays interest rates have been still on significantly higher levels than in Germany. From 2002 Greek banks offered higher interest rates to clients and it is very probable that higher returns were offered also to banks from other euro-area countries for their deposits.

Similar situation was on side of credits. Significant spread could be observed in segments of credits to corporations and consumer loans. Different situation was in credit segment for housing purposes. In period from 2002 to 2010 interest rates for mortgages and other credits were under levels in Germany. Lower interest rates in combination with significant inflation supported credit boom until 2008. Possibility of potential higher yields in connection with low-risk was two main factors which supported capital inflow to Greek economy.

Graph 8 Interest rates on deposits of households and corporations



Source: data from Bank of Greece, own graph.

Conclusion

Banking system is in each country important part of economy which reacts to development in surrounding environment. Adoption of euro currency in Greece meant big turning point for this economy and their banking system. In this paper we analyzed development of Greek banking sector, characterized by most important indicators, in connection with balance of payment framework (considering mainly capital flows).

Greek after euro adoption experienced economic growth, current account deficits which were financed by inflow of capital mainly in form of portfolio investments. After 2008 started outflow of capital from banks, what is known as "deposit flight". These events had consequences to banking sector.

Consolidated Greek banking balance sheet was growing quickly until 2008 and had traditional structure. On asset side the main component are credits and their weight in balance sheet reached top during 2006-2007. By analyzing credits after euro adoption we can see, that monetary policy set by ECB was too expansive which resulted in rapid increase in providing new credits and in monetary aggregate M3. One of the factors which supported credit growth was negative interest rate on Greek credit market until 2006. Euro adoption itself meant convergence of interest rates/yields (also with Germany) and decrease of risk premiums.

We confirmed decrease of deposit volumes which was caused by "deposit flight" and bad condition in Greek economy after 2009. Client deposits were substituted by liabilities to Bank of Greece and to financial institutions from other euro countries. In general, interest rates on deposits were strongly correlated with EURIBOR and converged to EMU average. "Deposit flight" caused increase of interest rates.

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Modern Trends in Logistics¹

Josef Košťálek²

Abstract

This article describes the latest trends in logistics. Logistics is here presented as a discipline to make use of a number of other areas. Without a properly functioning logistics company can not effectively use its financial capital and production capacity. There are described some tools such as inventory management, MRP, Kanban.

Key words

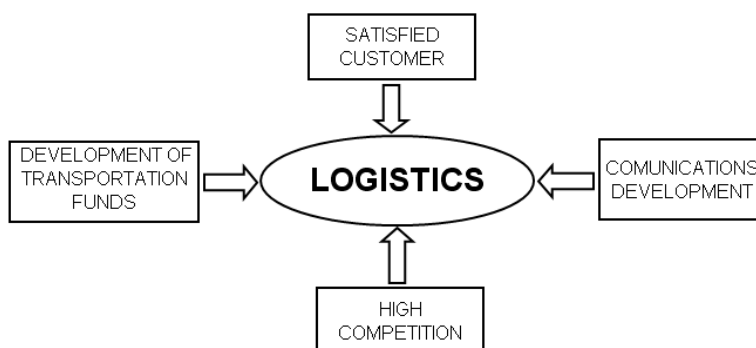
logistics, inventory management, MRP, kanban

JEL Classification: D29

Introduction

Logistics is a discipline with a very quickly development in this time. There are a number of causes this situation: dynamic development of trade, logistics routes connecting the world, customers demand comprehensive impeccable service etc., as mentioned Kavan (2007, p. 176). Logistic routes are a combination of maritime, rail and road transport. The development in telecommunications technology helps in further developing of logistics. In our world, there is an offer greater than a demand. Customers require not only a superior product, but also top service (transportation, delivery, orders over the internet, packaging, etc.) and these are logistical problems, as mentioned Gros (1996, p. 13).

Fig. 1 Logistics in this time



Source: personal

¹ The paper was elaborated in the frame of solving project SGS13/191/OHK2/3T/12, Optimisation algorithms in scheduling of manufacturing processes.

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1 **Inventory management**

The manufacturing management must address issues of the proper production planning in order to avoid unnecessary inventory. The inventory management is a key area of logistics. Stocks are very important for the continuity of production and the transformation of differences between the variable demand. In the production of intermediate storage is used for balancing the different rates of production of individual workplaces. On the other hand high inventory levels also have their negatives. The first problem is the need for high capacity storages. The second very important problem is to reduce the mobility of financial capital, which is inserted into the inventory in the storages. There are inventories in the assets and the financial capital is in the liabilities (passive). The more need of supplies, the more you need financial capital. And the financial capital, which is used for the keeping of storages, the factories can't use for example in innovations, as mentioned Kavan (2006, pp. 83-85).

Fig. 2 Financial balance sheet

THE FINANCIAL BALANCE SHEET	
ASSETS	LIABILITIES (PASSIVE)
MATERIALS	BASIC CAPITAL
FINISHED PRODUCTS	
MONEY	PROFIT
INVENTORY	LOAN
... Etc.	... Etc.
$\Sigma = \Sigma$	

Source: personal

In the past it was established many models for inventory management. All models are only simplified description of reality, and sometimes work better and sometimes worse. The big problem is in the correct estimation of future demand. The future is estimated very badly, because it has many unpredictable effects. The estimate of future demand associated with marketing. On the basis of future demand production is organized. Production needs to purchase raw materials and these need to be put into storage until consumption. Logistics is therefore highly interdisciplinary field, it collaborates with a number of other fields, as mentioned Predlík (2006, p. 5). Logistics also uses a lot of knowledge from other disciplines such as mathematics, statistics, knowledge engineering, production management, communication, management, etc.

Inventories are not only the input material or finished products. But inventories are also all unfinished products, packaging materials, fuel, spare parts, etc. Before, inventory management related to the organization of production. The ideal situation is to buy the input materials and these immediately process into the final product and it sell immediately.

Trying to consistently apply the method of Just in Time and Line production. Here it is very important to work with really reliable suppliers in terms of delivery and quality of delivery as mentioned Kavan (2006, p. 112). Widespread trend in ordering and stocking inventory is use, consignment stores. Consignment store is located in the factory, but it does not supply the factory. These inventories include external suppliers, and he is responsible for their replenishment. Company pays an outside company which addresses the issue of supply of offices. advantage is the reduction of administrative and financial capital invested in inventory in assets.

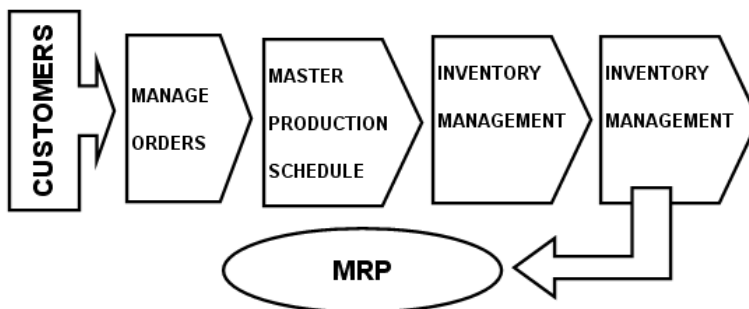
The importance of logistics is still growing because of the deadlines are met and there is a need to produce in small batches according to customer requirements of current consumption. Logistics uses increasingly more expensive and more sophisticated technology such as bar codes, bar code scanners, specialized software, etc. To manage all logistics processes should be a high degree of specialization. Many industrial companies and other companies a solution to their logistics hire highly specialized logistics companies.

2 Modern tool for production and operation management

In this chapter I will try to describe the characteristics of current production and their impact on logistics. The company can not produce only one type of product, but it must produce in the market a wide range of products exactly according to individual customer requirements. This increases the number of types of stocks. This again raises the importance of logistics and supplies the perfect stock records and an elaborate system of ordering supplies. At a time when production stops because supplies run out there is a delay, which is expensive.

Material Requirement Planning (MRP) is an information system designed to manage orders, inventory scheduling, production planning in date with regard to the production capacity as mentioned Kavan (2006, p. 88).

Fig. 3 MRP system

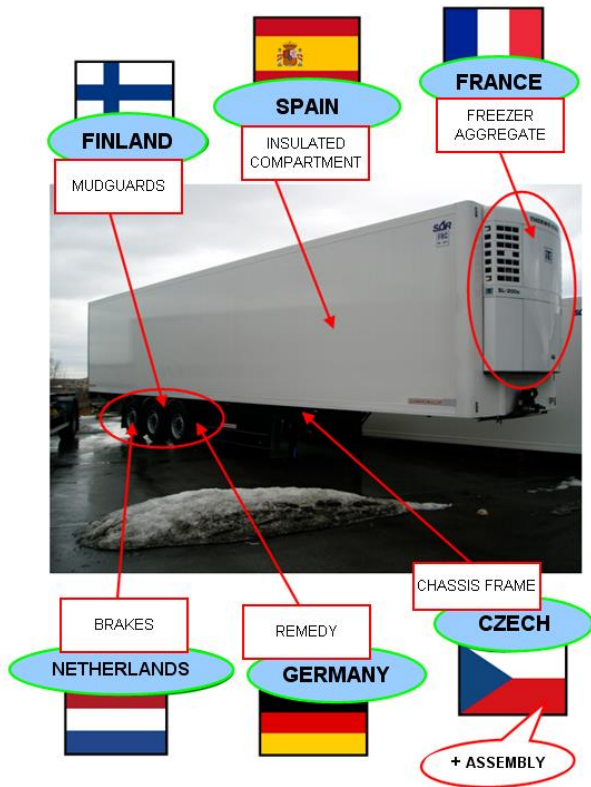


Source: Kavan (2006, p. 88)

Positives MRP system are shortening the time needed to solve the orders. Further information about the course of production at different time phases. Savings in the amount of required reserves.

Because production is constantly demanding and technically sophisticated in this time. Every company must properly decide on what will be his specialty and what will just buy. For example, in the production truck is a company specialized to the production of major components, which itself produced in the welding technology. Welding technology is its specialty. These components are then covered with paint and shipped to the assembly hall. You will begin to assemble truck. Truck contains many other components that the firm purchases. This situation is described in figure 4.

Fig. 4 Cooperative links in production



Source: personal (information from Schwarzmüller company)

There is a need for a large number of suppliers and manufacturers. This creates a need for communication and coordination. All components must be ready to assemble the right place at the right time, in the right quantity and the right quality. If logistics is not functioning properly in manufacturing arise serious problems.

The figure 4 shows a situation where the production of a complex product components to be transported across Europe. This creates a high demand for truck and rail transport and logistics organization.

Truck manufacturer Kögel has developed long tandem truck (truck with trailer). This extremely long meet the needs of many customers because it has a great carrying capacity. The whole tandem is 25.25 meters long. This device significantly increases the efficiency of road transport of goods, as describes Kögel company (2011, p. 7).

Fig. 5 Long truck



Source: Magazine Logistics - Kögel company (2011, p. 7)

3 LEAN LOGISTICS

Businesses try to eliminate unnecessary costs. This is due to strong competition and post-crisis situations in the world. Optimizing internal logistics can deliver cost savings, space and production time. It is important to plan the logistics route. It is not enough to improvise, but you need to use special software because these issues have a large number of solutions and need to choose the best solution.

Milk run is the term for the internal organization of logistics, where is accurate planning logistics route for supplying individual workplaces. Handling crossed between the workplace at regular intervals as bus. Milk run term comes from England, from the time when milk was gathering from farms. This system is used in many factories producing automobiles and components for automobiles. But just "milk run" works so well for example in Linet, as mentioned Soukup (2012, p. 16).

Other good practice that provides a savings of time and space is Kanban system. It is a scheduling system that is used in manufacturing to help companies improve their production process. The kanban system is a "just-in-time" method that was developed sixty years ago in Japan to improve manufacturing. The method has been adopted by companies all over the world and has been incorporated into many new enterprise resource planning (ERP) systems.

In the traditional kanban method, operators use visual signals to determine how much they run, and when to stop or change over. The kanban also informs staff of when there is a problem and who they can contact when a problem occurs. The process replaces forecasted usage with actual usage so that there is very little work-in-progress (WIP) material. The key to the kanban method is that there is a flow of work. The process is used to achieve efficiency, while minimizing disruptions and distrac-

tions. The work should enter the manufacturing process and proceed through it smoothly and continuously. The just-in-time approach is used to reduce WIP, reduce hand-offs, re-work, and any other delays in the manufacturing process.

Each area on the production line pulls just enough components and the correct type of components that the process requires, at just the right time. The mechanism for doing this "pull" correctly is the kanban card. This can be a physical card or some kind of electronic device. There are two types of kanban cards used, a withdrawal kanban or a production-ordering kanban.

Withdrawal Kanban – this specifies the kind and quantity of the component which the manufacturing process should withdraw from a preceding process. The withdrawal kanban identifies the location in the previous process where the components can be withdrawn from.

Production-Ordering Kanban – this is sometimes called a in-process Kanban or simply a production Kanban. This type of kanban card specifies the kind and quantity of the component which the preceding process must produce. The card will identify the part to be produced and the location where it must be placed.

Each area on the production line has two kanban boxes, one for withdrawal and one for production-ordering kanbans. During a shift, manufacturing personnel takes withdrawal kanbans that have accumulated in an areas box, along with any empty kanban containers, to the location where finished parts from the preceding area are stored. Each kanban container has attached to it one or more production-ordering kanbans which are then removed. They are subsequently put in the appropriate box belonging to the area that produced the parts. Manufacturing personnel attach a withdrawal kanban card to the kanban container and takes it back to their own area. When this new kanban container begins to be used, its withdrawal kanban is put back into the withdrawal box. At each area on the manufacturing line, production-ordering kanbans are periodically removed from their box and this is used to define what components and quantities are to be produced next.

By using a traditional or electronic kanban board it can show the whole process in one area. By making the work visible it allows each person in the manufacturing process what is going on along the production line. It shows all the activities, limits, and blockages along each production line. It will allow anyone to see the cause and effect of changes to that are made in the process. The board will reveal when flow is work successfully and when there are some issues with too much WIP as mentioned Kavan (2006, pp. 79-81).

Conclusion

Today's modern production requires excellent organization in the areas of ordering components, materials management, information management and proper inventory management. This situation needs new disciplines production management, which is called internal logistics. The meaning of this field is growing, as companies seek to high efficiency of its processes.

Another important area of business is customer contact, order and delivery of goods. Today, not enough to produce perfect products, but is also required to know how to quickly and reliably deliver customer. And this is another area of logistics. Logistics is a very promising field that has a major impact on the competitiveness of any company. New communication and transportation means opening up new opportunities for trade and logistics needs new management.

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Seniors' Shopping Decisions and Their Satisfaction with Retail Stores¹

Michaela Krescanková²

Abstract

The ageing population is today's challenge. It brings changes not only in the social sphere, but also in the business one. In order to adequately respond to trend of population ageing, retailers' should first know, where these seniors buy, why they choose a specific store, whether they think, that their stores are "senior friendly", or not and if they are not, if there is space for improvement. The aim of this paper is therefore to analyze the seniors' shopping decisions and their satisfaction with retail stores in Bratislava's urban area Karlova Ves. This realized research is a first step to the research in our dissertation work "Marketing to seniors".

Key words

population ageing, seniors, silver economy, senior friendly business, seniors' shopping decisions, retail stores

JEL Classification: J14, M20

Introduction

The age structure of the population changes – the population is getting older.

Elderly people have their own specific needs, behavioral patterns and preferences in purchasing. They should not suppress this behavior and adapt it to the current state of the environment and retailers' offer. Active in this area would be retailers. If they want to succeed in an ageing market, they should focus their efforts on improving the conditions of seniors' purchase. They should know and understand their customer base and reflect on its diversity and gradually create conditions for the formation of the so-called Senior Friendly Business. This popular concept abroad showed that by using innovative attitudes and approaches to ageing, seniors' purchasing conditions and sellers profits can be both improved.

Older people are able to stimulate the economy by requiring new products and services that help them lead a better and more active life. In the future, it brings new market opportunities. The aim of this paper is to point out these facts and suggest ways to improve and simplify seniors' purchases.

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1 Population ageing

Population ageing is not just an artificially created topic nowadays. It is a fact with which individual countries have to deal with. Table 1 brings a comparison of the age structure in the world, European Union and Slovakia.

We can see different shares in each age group. According to these data, we can say, that the European Union, and the Slovak Republic too, are getting older. The proportion of people aged 15 – 64 years and 65 years and more is higher than the average in the world. For example the world has 8,20 % of 65 years and older people, the European Union 18,21% and Slovakia 13,40 %.

Tab. 1 Age structure in the world, European Union and Slovakia

0 – 14 years			15 – 64 years			65 years and over		
<i>World</i>	<i>EU</i>	<i>SVK</i>	<i>World</i>	<i>EU</i>	<i>SVK</i>	<i>World</i>	<i>EU</i>	<i>SVK</i>
26,00	15,42	15,50	65,80	66,38	71,00	8,20	18,21	13,40

Explanatory: Data are given in percentage shares.

Source: CIA. 2013. Data processed based on information available at <<https://www.cia.gov/library/publications/the-world-factbook>>

The proportion of the global population with less than 15 years of age declined from 34 % in 1950 to almost 30 % in 2000 and it is expected to drop to about 20% in 2050. For comparison, the proportion of people aged 65 and more grew from 5,2% in 1950 to about 7% in 2000 and it is expected to increase to about 16 % by 2050. Globally, the number of people of 60 years and older is expected to increase to nearly 2 billion people by 2050. In 1975, it was less than 400 million (Chawla, 2007).

Tab. 2 Comparison of age groups in years 2001 – 2012 in Slovakia

2001		2002		2003		2004	
<i>65-79</i>	<i>80 +</i>	<i>65-79</i>	<i>80 +</i>	<i>65-79</i>	<i>80 +</i>	<i>65-79</i>	<i>80 +</i>
9,6 %	1,9 %	9,4 %	2,0 %	9,3 %	2,1 %	9,3 %	2,3 %
2005		2006		2007		2008	
<i>65-79</i>	<i>80 +</i>	<i>65-79</i>	<i>80 +</i>	<i>65-79</i>	<i>80 +</i>	<i>65-79</i>	<i>80 +</i>
9,3 %	2,4 %	9,3 %	2,4 %	9,3 %	2,5 %	9,4 %	2,6 %
2009		2010		2011		2012	
<i>65-79</i>	<i>80 +</i>	<i>65-79</i>	<i>80 +</i>	<i>65-79</i>	<i>80 +</i>	<i>65-79</i>	<i>80 +</i>
9,4 %	2,7 %	9,5 %	2,7 %	9,8 %	2,8 %	9,9 %	2,9 %

Source: Eurostat. 2013. Data processed based on information available at <<http://epp.eurostat.ec.europa.eu/tgm/refreshTableAction.do?tab=table&plugin=0&pcode=tps00010&language=en>>

Table 2 completes the table 1 and here we can see the development of the proportion of population aged 65 - 79 and 80+ in Slovakia. The increase of old people

seems to be small. But the Slovak Republic is a very small country and a small percentage increase can lead to big numbers in the long term. In 2001, 1,9% of people had 80 years or more and in 2012 the same age group was represented by 2,9% people in the country.

2 Specifics of this segment of customers

Characteristic aspects of seniors concern their physical, social and psychological condition (Antonides - Raaij, 1998, p. 467).

The most important physical aspects are infirmity, especially for older seniors. Seniors on average have a relatively low activity level, work relatively slowly and soon become tired. For many of them, their sight, hearing and speed of reaction are deteriorating. They frequently have problems concentrating on particular tasks. On the other hand, many remain functioning on a very high level.

Social aspects mainly include retirement, which has important consequences for time structuring and social contacts. For workers, work structures the day – waking up early and coming home in the evening. Because of the increase budget for free time, seniors spend relatively more time on sleeping and relaxing, watching television and listening to the radio, preparing and consuming meals, household work, reading and shopping.

The psychological aspects of seniors are partly due to the physical and social aspects, including (Antonides - Raaij, 1998, p. 469):

- Declining capability to learn.
- Declining ability to adapt to new circumstances and habits.
- Reduced memory, for example, finding it harder to recall one's personal identification number (PIN code).
- Reduced reaction speed, for example, in traffic.
- Reduced ability to perform several tasks simultaneously. Seniors can be easily distracted and frequently have problems concentrating on the main task. For example, seniors are easily distracted by background music.
- Increased vulnerability to manipulation by salespeople. Some seniors are afraid to leave the shop without any purchase.
- Reduced speed of information processing. Many programs on radio or television go too fast for seniors. The external pacing of these media is too high. Media with internal pacing are more appropriate for seniors, because they can read these media at their own pace.

From this discussion, it is evident that seniors differ from the youth regarding the way they process information. Seniors use less processing effort to transfer information from short-term to long-term memory. They can deal less efficiently with large amounts of information and have problems recalling information.

In the case of nutrition, seniors have specific requirements for the composition of products, methods of their treatment, weight and packaging. But if retailers want to catch the attention of potential older customers, it is not enough to offer these satisfactory products. They should reflect on the construction and technical solution of the

store and its layout, which respects customers' increased age and the health status resulting from it.

As an example we note the German company Edeka, which introduced in 2003 the so-called Generational supermarkets. Customers could experience many innovations, such as magnifying glasses on the shelves with goods, big labels, talking scales designed for weighing fruits and vegetables, floor system serving the blind customer orientation, service habitat including buttons for summoning help, toilets for the handicapped, sanitary room equipped defibrillator and quiescent zones. The company has managed to create a business which satisfies the requirements of different age groups, which is also economically successful. In 2004, the company's turnover, was in gross numbers 1,385,200 euros, the following year it was 2,772,500 euros (Reidl, 2012).

According to this example, we can see, that investments in improving shops' equipment can return in the form of customers' satisfaction, better shopping environment and higher turnover. Innovative products and services designed to improve the quality of life with growing age have a big potential in the future.

The so-called "Silver economy" is an adaptation of the economy to the future needs of the growing number of elderly people. This phenomenon creates new market opportunities in development and marketing of innovative products designed for seniors. It is a new opportunity to increase economic growth and create jobs consisting in responding to the needs of older people by providing access to particular products and services that improve their quality of life (Páleník, 2012). We can say that this silver economy brings to emerging and existing businesses a huge range of new products and services. Innovative companies that understand this challenge and will be able and willing to respond to it, may, in the future, benefit from these opportunities.

For companies that want to maintain sufficient competition on the silver market, it is crucial to select an appropriate innovation strategy (Dovářová, 2012) :

- Innovative strategies aimed at developing and promoting products and services specifically aimed at older people (providing unique solutions).
- Innovative strategies aimed at adapting products and services especially for older people (providing extended solutions).
- Universal solutions, which aim to develop age-neutral products and services that provide utility to elderly people, but so are of interest to younger buyers too.

3 Paper goal and methodology

The goal of this paper is to analyze the seniors' shopping decisions and their satisfaction with retail stores (whose offers mainly consist of groceries) in Bratislava's urban area Karlova Ves. We choose this area, because we are living in it and we would like to know the opinions of our elderly compatriots. We would like to know where these seniors buy in, why they choose the specific store, whether they think, that these stores are "senior friendly" or not and if they are not, if there is space for improvement.

This realized research is a first step to the research in our dissertation work "Marketing to seniors", whose main goal is to analyze the specifics of consumer and shopping behavior of seniors, to identify trends in their consumption, to review the impact of economic and value factors in connection to age change in the structure of decision-making process of consumption.

The research was carried with the method of collecting primary data – quantitative research and was formed by the method of interviewing respondents with standardized questionnaires. It was realized in the period from 16. to 30. 09. 2013 with the sample of 76 seniors. For our purposes, we regarded „a senior“ as a person aged 60 and over. Respondents were seniors aged 60 – 86, who spend their free time in seniors' clubs located in our urban area, or who we asked to cooperate in the proximity of retail stores. To better know and understand their opinions, we divided our respondents into 3 age groups: 60 - 69 (n = 21), 70 - 79 (n = 37), 80 + (n = 18). They answered questions in prearranged structure questionnaires with closed and open questions. In addition to basic demographic data (as gender and age), the questionnaires included questions about their shopping preferences and determinants of choice of a particular retail store. They also had the opportunity to rate the selected features of shops which facilitate the purchase of grocery and wrote some recommendations for the improvement of shopping in these stores.

4 Research results

At first, for retailers and marketers it is necessary to know, where their elderly customers make their purchases. So we asked seniors, where they purchase groceries most often – if it's near the place of their residence, or at distance from their residence, but still in "their" urban area, or if they are going to an other urban area.

Based on the results of the research (Tab. 3), we can say, that seniors make most of their purchases in stores located near their place of residence – 63,16 % of our respondents are doing so. In every age group, the biggest percentage of seniors do shopping this way. Most respondents, who like to shop "near the house", are seniors from the age group 70 – 79 (64,86 % of seniors).

Tab. 3 The most common places of purchase grocery

Answers Age groups	Near the residence		In the urban area of the residence		Other urban area	
	Abs.	%	Abs.	%	Abs.	%
60 – 69 (n=21)	13	61,90	4	19,05	4	19,05
70 – 79 (n=37)	24	64,86	2	5,41	11	29,73
80 + (n=18)	11	61,11	4	22,22	3	16,67
Total (n=76)	48	63,16	10	13,16	18	23,68

Source: Own processing on the basis of research

Explanatory: n – number of seniors belonging to the age group, Abs. – absolute value, % - percentage

According to the data given in the table 3, we can see, that 23,68 % of seniors mostly buy food in other urban area, but only 13,16 % distant from their residence. This tendency is good to see in the age group 70 – 79, where 5,41 % of seniors purchase food distant from their residence and at contrast, 29,73 % go outside. In the oldest group a tendency is visible: to shop in the urban area of the residence – only 16,67 % make most of there shopping in other urban area.

We also want to know, if seniors sometimes purchase grocery in other urban areas. Answers are given in the table 4. We can see, that 80,26 % of seniors make their purchase in other urban area and only 19,74 % do not. The biggest percentage shares can be seen in the age groups 60 – 69 (85,71 %) and 70 – 79 (78,38 %). The proportion between people who like to travel and those who do not like it, in the oldest age group, is more balanced that in the remaining – 14 like to travel and 4 do not.

Tab. 4 Groceries' purchase in other urban areas

Answers Age groups	Yes, I do		No, I don't	
	Abs.	%	Abs.	%
60 – 69 (n=21)	18	85,71	3	14,29
70 – 79 (n=37)	29	78,38	8	21,62
80 + (n=18)	14	77,78	4	22,22
Total (n=76)	61	80,26	15	19,74

Source: Own processing on the basis of research

Explanatory: n – number of seniors belonging to the age group, Abs. – absolute value, % - percentage

It is not enough to know, where seniors like to buy, but also to know, what determines their selection of the store where they purchase groceries. We identify 7 crucial elements of choosing a retail store and we asked seniors to rank them from 1 (the most important element) to 7 (the least important element). Table 5 gives an average ranking for each age group and for seniors together. These average rankings served as a basis for making a ranking for every age group (table 6).

Tab. 5 Average rankings of selected crucial elements

Age groups Crucial elements	60–69 n=21	70–79 n=37	80 + n=18	Seniors Total average rating
Price products	1,91	2,08	1,83	1,97
Quality of products	1,81	2,24	2,89	2,28
Retails marketing	4,62	4,46	4,56	4,53
Recommendations of family/friends	5,24	5,76	6,06	5,68
Staff	6,38	5,68	5,83	5,91
Diversity of the product range	2,76	3,16	3,78	3,20

Age groups Crucial elements	60–69 n=21	70–79 n=37	80 + n=18	Seniors Total average rating
Store distance from place of residence	5,29	4,62	3,06	4,43

Source: Own processing on the basis of research

Explanatory: n – number of seniors belonging to the age group

According to the data given in the tables 5 and 6, we can see that for the seniors in general, the most important element for choosing a retail store is the products' prices. The second is the quality of products, the third the diversity of the product range, the fourth the store distance from place of residence, the fifth the marketing of retail store, the sixth are recommendations from family members or friends and on the last place is the staff of the store.

Tab. 6 Rankings of selected crucial elements

Age groups Crucial elements	60–69 n=21	70–79 n=37	80 + n=18	Seniors Total average rating
Price products	2.	1.	1.	1.
Quality of products	1.	2.	2.	2.
Retails marketing	4.	4.	5.	5.
Recommendations of family/friends	5.	7.	7.	6.
Staff	7.	6.	6.	7.
Diversity of the product range	3.	3.	4.	3.
Store distance from place of residence	6.	5.	3.	4.

Source: Own processing on the basis of research

Explanatory: n – number of seniors belonging to the age group

We can see differences between each age group. Seniors from the group 60 – 69 prefer the quality of the product before it's price. They also choose the store according to the diversity of the product range and they are also likely to follow the marketing of the store. Recommendations of family/friends and store distance from place of residence are not so important. The least important element for this group of seniors is the staff in the store. Older seniors (group 70 – 79) prefer the price product to it's quality. Like the younger ones, in the third place, they like stores with the diversity of product range. They also hear the "marketing calling" of the store and the distance of the store is very important for them. Compared to a younger age group, this element is placed above (5th place versus 6th). The importance of the staff increases in this group. Recommendations of family/friends are the least important. The eldest group prefers a good price for the product and it's quality. In the third place of importance is

store distance. After this element we find the diversity of the product range. Retail's marketing is the fifth most important thing in their decision making. The least important elements are staff and family's recommendations.

Seniors also had the opportunity to indicate one retail store, where they buy the groceries most often. According to the results of the research, the seniors' most visited stores are: Billa (Ľudovíta Fullu 1), Billa (Segnerova 4), Lidl (Karloveská 6183), Moja Samoška (Lackova 2), Terno (Zohorská 1), Tesco Expres (Kempelenova 2), Tesco Extra (Lamačská cesta 1C), Tesco My Bratislava (Kamenné námestie 1/A). Stores Tesco Extra and Tesco My Bratislava are located in other city's urban areas. Seniors had to evaluate selected store elements from 1 to 5 (1 = the best, 5 = the worst) in the store, where they buy most often. We identify some of the store elements, which can improve the conditions of the purchase of groceries for older people. Under the construction and technical solution of the store belongs the entry to the store, lightning, and height of shelves. Seniors have specific needs, so it's important to offer various product ranges. Comfort while shopping can be provided by diverse shopping carts, width of aisles, the possibility to check prices and waiting time at the checkouts. Results are given in the table 7.

Tab. 7 Average ratings of selected store elements in the most visited stores

Stores Stores elements	Billa Ľ. Fullu n=7	Billa Segner. n=13	Moja Samoška n=6	Lidl n=11	Terno n=10	Tesco Expres n=11	Tesco Extra n=8	Tesco My n=10
Construction and technical solution of the store	1,57	1,92	1,33	1,91	1,50	1,91	1,63	1,90
Orientation in store	1,14	2,15	2,00	2,46	1,70	2,09	1,38	1,70
Diversity of the product range	1,71	2,46	2,17	2,18	1,30	2,18	1,38	1,40
Quality of products	1,57	2,54	2,00	2,36	1,20	1,82	2,38	1,80
Price products	1,57	3,00	2,17	2,36	1,80	2,09	1,50	1,80
Helpful staff	2,29	2,62	2,50	2,64	2,00	2,09	2,38	2,60
Comfort at shopping	2,29	3,15	2,33	2,82	1,80	2,18	1,75	2,20
Overall atmosphere	2,00	2,77	2,17	2,73	1,70	2,46	1,75	1,80
TOTAL	1,77	2,58	2,08	2,43	1,63	2,10	1,77	1,90

Source: Own processing on the basis of research

Explanatory: n – number of seniors shopping in the store

Based on these results it can be stated, that the store with the best conditions, suitable for seniors is the store Terno at Zohorská 1 Street, with an average mark 1,63. In the second and the third place are stores Billa (Ľ. Fullu 1) and Tesco Extra (Lamačská cesta 1C). The worst place to buy for seniors is Billa at Segnerova 4.

We can see the significant differences in results between the stores from the same retail chain, Billa and Tesco. Store Billa at Ľ. Fullu received better marks, as „her sister“ Billa Segnerova and a similar situation is in the case of stores from the retail chain Tesco, where the best marked store was Tesco Extra, then Tesco My and the last from this group was Tesco Expres.

The best stores in each section are: construction and technical solution of store - Moja Samoška (1,33); orientation in store - Billa at Ľ. Fullu (1,14); diversity of the product range – Terno (1,30); quality of products – Terno (1,20); price products – Tesco Extra (1,50); helpful staff – Terno (2,00); comfort at shopping – Tesco Extra (1,75); overall atmosphere – Terno (1,70).

The worst stores in each section are: construction and technical solution of store – Billa Segnerova (1,92); orientation in store - Lidl (2,46); diversity of the product range – Billa Segnerova (2,46); quality of products – Billa Segnerova (2,54); price products – Billa Segnerova (3,00); helpful staff – Lidl (2,64); comfort at shopping – Billa Segnerova (3,15); overall atmosphere – Billa Segnerova (2,77).

The best rated element in store **Billa** located at **Ľudovíta Fullu** Street is, according to our respondents, orientation, with an average mark 1,14. The worst are staff and comfort at shopping (2,29). Customers would appreciate improvements in the store such as: improve cleanliness in the store; improve the quality and freshness of goods; shorten the waiting time in queues.

Billa Segnerova is strong in its construction and technical solution (1,92) and weak in price products (3,00) and comfort at shopping (3,15). Customers would appreciate improvements in the store such as: reduce prices; improvement in the quality and freshness of fruits, vegetables and meat; a larger offer of Slovak products.

Moja Samoška received the average mark 1,33 for its construction and technical solution and 2,33 for the comfort at shopping and 2,50 for helpful staff. Customers would appreciate improvements in store such as: to preserve the layout of goods in the store; reduce prices; reduce the height of racks; increase the number of staff in the store; place in the option to check the price of goods; offer smaller packages of goods; improve the range of pastries.

Lidl has a good construction and technical solution of store (1,91) and it is weak in helpful staff (2,64), overall atmosphere (2,73) and comfort at shopping (2,82). Customers would appreciate improvements in this store such as: a wider offer of domestic and bio products and preserve the layout of goods in the store.

The best store to shop in, **Terno**, has its strength in its quality of products (1,20) and weakness in the helpful staff (2,00). Customers would appreciate improvements in this store such as: use a bigger font on labels and sell fruit and vegetables originated in Slovakia.

Tesco Expres received an average mark 1,82 for the quality of products and 1,91 for the construction and technical solution and 2,46 for the overall atmosphere.

Customers would appreciate improvements in this store such as: improvement of the cleanliness of the store; the staff should be more attentive to customers and take care of their appearance; continually complement the goods; make a feasible aisle between shelves; preserve the layout of goods in the store.

The best rate's element in store **Tesco Extra** are the orientation in the store and the diversity of the product range (1,38). The worst are the quality of products and the staff (2,38). Customers would appreciate improvements in this store such as: preserve the layout of goods in the store; using a larger font for signs indicating the names of the departments, on the price tags and on the goods.

Tesco at Kamenné náměstí has good diversity of the product range (1,40) its weakness is its staff (2,60). Customers would appreciate improvements in this store such as: using a larger font for signs indicating the names of the departments and on the price tags; place more cash desks, which would shorten the waiting time for payment; preserving the layout of goods in the store; reducing the prices of vegetables; offer more bio-and domestic products; be more willing and more attentive to the buyer and increasing the hygiene in store.

5 Discussion

Seniors make most of the purchases of groceries in stores located near their place of residence – 63,16 % of our respondents are doing so. 23,68 % of seniors mostly buy food in other urban area, but only 13,16 % distant from their residence. So we can conclude, that when they want to/ or they are able to travel to buy food, they are likely to travel to the other urban area, for example, to visit a bigger store. In the oldest group tendency to shop in the urban area of the residence is visible – only 16,67 % shop mostly in other urban area.

80,26 % of seniors make sometimes their purchase in another urban area and only 19,74 % do not. This is due to lower prices in other stores, quality and diversity of product range and more associated services near the stores. So retailers face the challenge to progress their services to maintain current customers and give them a reason to avoid traveling elsewhere. They must create better conditions for the purchase.

For the seniors, in general, the most important element in choosing a retail store is products' price. Then follow the quality of products, the diversity of the product range, the store distance from the place of residence, the marketing of the retail store, the recommendations from family members or friends and in the last place is the staff of the store.

Each age group has its specific order of importance for these elements. Seniors belonging to the age group 60 – 69 years prefer the quality of product, its price, the diversity of the product range and they are also likely to follow the marketing of the store. Older seniors (group 70 – 79) prefer the price of the product, its quality, the diversity of product range. They also hear the "marketing calling" of the store and for them the distance of the store is very important. The importance of the staff increases in this group. The eldest group prefers a good price level for product, its quality. In the third place of importance is the store distance and then the diversity of the product

range. When the customer is older, the products price, quality, location of the store and helpful staff are gaining more importance. So for the retailers it's important to know, how old their customer base is and what they expect. If they want to focus on the oldest groups, they should offer goods at reasonable prices and quality. Their store must be located near their customers' residences. They should regularly organize various marketing activities (for example sales support actions). They also should employ friendly staff, who likes to help and advise.

Seniors also should evaluate selected store elements, such as the construction and technical solution of store, the orientation in store, the diversity of the product range, the quality of products, the price products, the helpful staff, the comfort at shopping and the overall atmosphere.

Under the construction and technical solution of the store we understand the entrance to the store, lightning, and height of shelves. For seniors, it is important, whether the store has disabled access and automatic door opening – for older people the stairs could represent a difficulty, most of them are suffering from mobility problems, while walking they are assisted with various medical devices, they are disabled, or used to purchase special bags on wheels. Lightning in the store should allow good visibility in stores and should not blind them. The height of shelves is important too, because older people, especially women, are small and they can't reach highly placed goods.

A good quality orientation in the store helps them to obtain easier and faster the desired goods and also they will not feel lost. So individual departments in the store should be marked (this marking must be clear and readable) and gives the direction of sales or the direction to the checkout .

Seniors have specific needs, so it is important to offer quality and various product ranges with favorable prices. Staff is important, mainly for the oldest customers, because they want to talk to someone, ask for special features of goods, or be helped to find something.

Comfort at shopping is formed by a diversity of shopping carts, width of aisles, possibility to check prices and short waiting time at the checkouts. The variety of shopping carts and trucks is important in terms of the diversity and the size of purchases carried out, the preferences of buyers and ergonomics when buying. The wide aisles should allow a more comfortable buying and seniors would not feel that anyone interferes. Price scanners allow easy monitoring of prices of selected commodities, so the customer can clearly check product price listed on the price tag to reality. Waiting time at the checkouts reflects the overall impression of purchase and can create positive or negative feelings. So retailers should think about all these elements, because many of them help improve the purchase not only to seniors, but also to the other, younger customers.

The store with the best conditions suitable for seniors is store Terno at Zohorská 1 Street, with the average mark 1,63. In the second and the third place are stores Billa (L. Fullu 1) and Tesco Extra (Lamačská cesta 1C). The worst place to buy in is Billa at Segnerova 4, with the average mark 2,58.

Elderly customers want to refine in visited stores:

- Improve the quality and freshness of goods;

- Offer more Slovak and bio products;
- Offer smaller packages of goods;
- Continually complement the goods;
- Using a larger font for signs indicating the names of the departments, on the price tags and on the goods;
- Preserve the layout of goods in the store;
- Improve cleanliness in the stores;
- Reduce prices;
- Reduce the height of racks;
- Make feasible aisle between shelves;
- Place in store the option to check the price of goods;
- Place more cash desks, which would shorten the waiting time for payment;
- Increase the number of staff in the store;
- Staff that should be more on customer oriented and take care of their appearance.

Conclusion

Retailers face a great challenge nowadays – be profitable in the time of an ageing population. Elderly customers have specific needs – they're looking for specific goods and specific layouts in the store. They are likely to mostly shop near their place of residence and they are also willing to travel into the other urban area to shop. Important elements for choosing groceries are products' prices, their quality, diversity and the store distance from their residence. In the stores, they expect better quality, price and more domestic and bio products, smaller packages of goods, bigger signs and readable labels, preserved layout of goods in the store, better cleanliness, shorter waiting times for payment and better care and services from staff.

Investments in the improvement of shops' equipment can return in the form of customers' satisfaction, better shopping environment and higher turnover. Innovative products and services designed to improve the quality of life in the growing age have a big potential in the future. In Slovakia is this growing space, that is the market of seniors, yet untapped. And therefore any retail, which starts to think in this field, obtains a competitive advantage. Population will still grow old and have specific needs.

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The Benefits of Using CRM in the Tourism Industry

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Abstract

The article deals with customer relationship management (CRM) in tourism industry. The first part is a theoretical explanation of the basic issues related to CRM and its importance in two basic levels, CRM as a strategic marketing concept and CRM technology as a software application. The second part deals with the benefits of using CRM in tourism industry. At work were used methods of analysis and synthesis of theoretical knowledge of literature, articles and other publications about relationship marketing and CRM.

Key words

CRM, customer value management, communication technology, customer, tourism industry

JEL Classification: M15, M31

Introduction

Intensifying competition and increasing customer demands force the companies to make their business processes more efficient. To be effective means being fast, reliable, efficient and especially flexible. Flexibility in the communication with customers is a very important parameter for success. The current customer is very unstable, as well as his varying requirements especially in tourism industry. Therefore it is important so that every company is prepared for daily changes in its activities. Relationship marketing is marketing approach based on relevant information focusing attention on long-term keeping contacts with customers. The tourism world is focusing more and more attention on using information and communication technologies (ITC). Travel and tourism companies have been the first to make a sophisticated use of the possibilities and the capabilities of the applications of the electronic technology to the processing and the management of the data and information. For tourism, as service industry, information is one of the most significant factors to support the operations. The conception based on actual information and relationship principles and customer value is Customer Relationship Management (CRM).

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1 CRM Term

CRM has a lot of definitions. Customer Relationship Management (Payne, 2006) is a strategic approach concerned with creating improved shareholder value through the development of appropriate relationships with key customers and customer segments.

In his opinion CRM unites the potential of information technologies and relationship marketing strategies to deliver profitable, long-term relationships. CRM provides enhanced opportunities to use data and information both to understand customers and implement relationship strategies better. This requires a cross-functional integration of people, operations, processes and marketing capabilities that is enabled through information technology and applications. Dohnal (2002) understands customer relationship management as business strategy combined with technology to effectively manage the complete customer life-cycle.

Another view of CRM is that it is technologically orientated. In the aspect of information technologies, Kubina and Lendel (2008), Sodomka (2006) understand CRM as the complex of software and technologies automating and performing business processes in the following areas: sales, marketing, service and customer support.

Wide explanation variability of the term CRM is documented by theses from several authors. For the purpose of this paper I agree with definition from Buttle (2009) that CRM is core business strategy that integrates internal processes and functions and external networks, to create and deliver value to targeted customers at a profit. It is grounded on high quality customer-related data and enabled by information technology.

2 Types of CRM

Operational CRM – this is area that is concerned (Payne, 2006) with the automation of business processes involving front-office customer contact points. These areas include sales automation, marketing automation and customer service automation. Operational CRM facilitates the customer contacts with organization and subsequent processing and fulfilment of their requirements.

Analytical CRM – this involves the capture, storage, organization, analysis, interpretation and use of data created from the operational side of the business. Integration of analytical CRM solutions with operational CRM is an important consideration. Analytical CRM enables the right customers to be targeted with appropriate offers and permits personalization and one-to-one marketing (Kotler, Keller, 2002) to be undertaken through superior customer knowledge.

Collaborative CRM – this involves the use of collaborative services and infrastructure to make interaction between a company and its multiple channels possible. This enables interaction between customers, the enterprise and its employees. Collaborative CRM enables customers to contact the enterprise through a range of different channels and underground a common experience across these channels.

Strategic CRM - Buttle (2009) recognize this fourth type of CRM. This is a core customer business strategy that aims at winning and keeping profitable customers by

creating and delivering value better than competitors. A customer-oriented company shares a set of beliefs about putting the customer first. It collects, disseminates and uses customer and competitive information to develop better value propositions for customers. A customer-centric firm is a learning firm that constantly adapts to customer requirements and competitive conditions.

3 Pillars of CRM

The concept of CRM is built on four pillars (Payne, 2006) namely information technologies; people themselves, employees, customers and others who come into contact with the organization. Furthermore is important to understand the organization's activities as a sequence of processes and process thinking and no less important is the actual transferred information.

Successful CRM (Wessling, 2002) requires integration of all three of these component parts. Technology without people and people without technology are not effective. Employees have to be understanding with culture in firm. Very important is the view on communications process with customers as a process with many parts. This own part are integrated in one system and misunderstanding are eliminated.

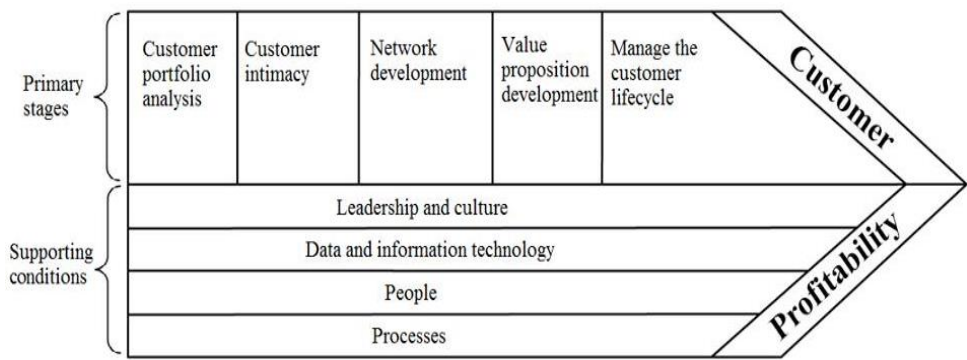
4 The value chain

CRM is based on creating and developing and enhancing relationships with customers. The main role of CRM (Storbacka, Lehtinen, 2002) is deliver profitable, strategic and long-term relationship on base of added value for customer.

4.1 The CRM value chain

The CRM value chain model (Buttle, 2009) shown in Figure 1 consist of five primary stages and four supporting conditions leading towards the end goal of enhanced customer profitability. The primary stages of customer portfolio analysis, customer intimacy, network development, value proposition development and managing the customer lifecycle are sequenced to ensure that a company creates and delivers value propositions that acquire and retain profitable customers. This process support network of suppliers, partners and employees. CRM is not just about relationship between company and its customers. Participating of all partners is very important and this network creates a substitution effect and added value.

Fig. 1 The CRM Value Chain

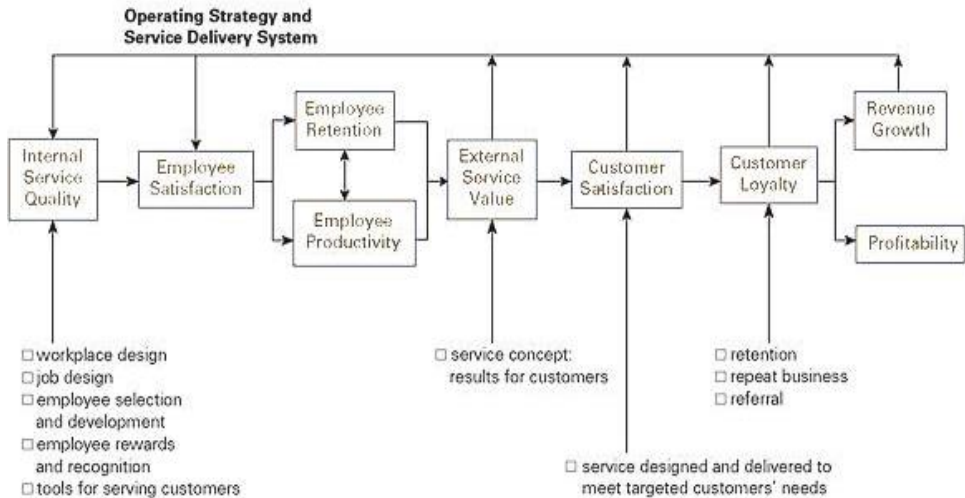


Source: Buttle, 2009

4.2 The service-profit chain

The service-profit chain model (Heskett et al., 1997) shown in Figure 2 establishes the relationships between profitability, customer loyalty and employee satisfaction, loyalty and productivity. The model shows how the linkages between metrics are related and how individually indicators can be leveraged to secure enable results.

Fig. 2 The Links in the Service-Profit Chain



Source: Payne (2006)

Employee value needs to be considering from two perspectives – the value employees deliver to the organization and the value the organization delivers to employees. Further, a motivated employee can add value to the customers.

Customer value is concerned with both the value the organization receives from the customer and the value the customer receives from the organization. (Payne, 2002)

Customer perceived value (CPV) (Kotler, Keller, 2009) is the difference between the prospective customer's evaluation of all the benefits and all the costs of an offering and the perceived alternatives. Total customer value is the perceived monetary value of the bundle of economic, functional, and psychological benefits customers expect from a given market offering. Total customer cost is the bundle of costs customers expect to incur in evaluating, obtaining, using, and disposing of the given marketing offering.

5 The benefits of CRM

The advantages (Burnett, 2002) that a Customer Relationship Management system can bring to communications processes are:

A. Shared or distributed data - Companies realize that customer relationships are realising on many levels. Employees start to understand the need for sharing all available data throughout the organization.

B. Cost reduction - The customer is a partner in your business, not just a subject. As customers are doing their own order entry, and are empowered to find the info they need to come to a buy decision, less order entry and customer support staff is needed.

C. Better Customer Service - All data concerning interactions with customers is centralized. The customer service department have benefit from this, because they have all the information they need. And through the use of push-technology, customer service reps can lead the customer towards the information they need. And, most of the time, the customer can do this on their own, as the CRM system is more and more able to anticipate the need of the customer. The customer experience is greatly enhanced.

D. Increased Customer Satisfaction - The customer feels that he is more "part of the team" instead of just a subject for sales and marketing. Customer service is better, his needs are anticipated. If customers are satisfied that is a good predictor for repeat business. Satisfied customers have a great level of loyalty.

E. Better Customer Retention - The CRM system can help to capture customers, this will increase customer loyalty, and they will keep coming back to buy again and again, hence customer retention.

F. More repeat business and loyal customers - The repeat business is coming from the delighted customers, who are turned from doubting clients into loyal clients.

G. More new business - The ultimate customer experience will make the word-of-mouth advertising, which will start more new business.

Conclusion

Companies large and small across a variety of sectors are embracing CRM as a major element of corporate strategy for two important reasons (Payne, 2006). New technologies now enable companies to target chosen market segments, micro segments or individual customers more precisely and new marketing thinking has recognized the limitations of traditional marketing and the potential of more customer – focused, process based strategies.

Division of labour (Sales, Marketing, Customer Service and Analytics) is necessary for specialization, for each department develops their own role within the company's workflow. However, a company must have a reliable method for sharing and managing business information across these distinct areas.

CRM applications provide a detailed view of the entire business, allowing management to streamline complex processes, automate workflow, and increase productivity. They can be customized to suit the individual needs of any company or industry by creating custom objects and applications.

Travel and tourism companies have been from the first to make a sophisticated use of the possibilities and the capabilities of the applications of the electronic technology to the processing and the management of the data and information. For tourism industry is CRM based on ITC, motivated employees and actual information one of the most significant factors to success.

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Economic Control in Management of Spa Enterprise

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Abstract

The aim of spa management is to ensure maximum performance and profit. This means organizing operations and to achieve the planned operational and strategic objectives at the lowest cost. In October 2012, Ministry of Health issued a new list of indications, which sets out the conditions under which people with specific diagnoses in the spa to take fully paid or subsidized care. In 2010, the health insurance company for the spa treatment three billion CZK, while the amount of money for the spa treatment is not changed since 1996 and for the first time fell to last year. The Ministry of Health through the list of indications suggests further restrictions. Spas are a field that belongs to the category of health tourism. Spas in the Czech Republic are firmly anchored in the health care delivery system.

Key words

spas, list of indications, economic management, costs, revenues, profit, comprehensive spa treatment, contributory spa care

JEL Classification: M 21, H 51, L 83

Introduction

Spas as a type of tourism in the Czech Republic occupies a unique place. Given rich natural medicinal resources in our country and the centuries-old tradition of spas. This form of tourism is also one of the few not limited to a specific portion of a favorable (weather), but it is possible to operate all year round, regardless of weather. This fact has significant economic importance for the regions in terms of benefits and terms of employment. In terms of the national economy has spas economic importance, but also non-economic. Spa industry is of great importance to the health of the population. Patients who have had a spa treatment, before returning to work, do not use the amount of expensive drugs, less visited by a doctor and do not participate in often lengthy outpatient rehabilitation. It all adds up to savings of funds from a macroeconomic point of view. The Czech Republic is currently located 38 spas. Spa are in our area distributed very unevenly, with the exception of Prague and Highlands counties, however, at least one spa is located in each of the remaining regions. Most bath (seven) can be found in the Olomouc region, in second place with a total of five spa ranks the region, then the third place with four baths Usti nad Labem.

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1 Economic aspects of spas in the Czech Republic

Spa tourism is an important part of the national economy, which contributes significantly to the gross domestic product, foreign exchange and tax benefits, creates jobs and positively affects the dynamics of investment. It also affects the balance of payments and the state. Its meaning is given by the fact that multiplies the development of other industries and sectors such as transport, construction, trade, banking, telecommunications, culture, sport, etc.

Natural spas, according to medical law No. 164/2001 Coll. represent a set of medical and other related facilities serving such a care and are legally designated as natural spas. Spa resort means the territory or part of territory in which there are natural health spa for spa is set by law.

Spas as a part of health care is in the public economy and spa charges are transferred to local budgets. State Health Spa as a state enterprise and private spas as a joint stock company or limited liability produce goods or services within the spa treatment activities mainly not sold on the market, and which takes the form of redistribution of income and wealth among citizens (through health insurance on the basis of subsidies and tax breaks). Rules of the market mechanism to govern the activities of accommodation, catering, as well as health tourism, congresses, exhibitions, training, etc.

Economic efficiency of the spa facilities is given by the ratio of income and expenses. This ratio is influenced by specific factors operating in the spa, volume and revenue structure, are particularly affected by localization, size and place of tradition, customer structure, etc. The spa also has certain social benefits, reducing the consumption of drugs, pension benefits for disability, to make savings of sickness insurance for patients.

Spa employ about 11,000 workers directly and generate roughly 22-33 000 jobs through multiplier effect. Spa employ highly specialized professions such as doctors, physiotherapists, nutritional therapists, nurses, but also of course other professions like cooks, receptionists, drivers, maintenance workers, maids, cleaners, but also due to its unusual acquisition of natural resources and miners.

The spa at the expense of health insurance annually treats about 111 000 adults with an average length of stay for ten days and another 250,000 customers who pay for their stay and average spend five days at the spa. Children and adolescents are then in a spa treats about 10,000 with an average length of stay of 32 days. The most common medical diagnoses are musculoskeletal diseases, nervous system and circulatory system. The typical patient is an adult over the age of 40 years, meaning that care is aware of, but also it needs, increasingly, the age group between 20-39 years.

2 Spa treatment in 2011

In 2011, the Czech Republic, there were 88 spa health facilities operational with a total of 26,835 beds. About 10% of bed capacity in Spa are closed facilities of central

authorities, ie the Ministry of Health and the Ministry of Defence of the Czech Republic. Only one spa facility is operated by the local municipality; about 89% of spa capacity is managed by other law entities and individuals.

2.1 Financing Spa and Wellness Treatments

Comprehensive spa treatment (KLP) was used in 2011 by a total of 98,323 patients in 2010, 107,022 patients, which is about 8,699 more than in 2011, a relative decrease of about 9 %. In 2011 adult patients were 89.5 % of all patients in the Comprehensive spa treatment. A total of 57.7 % of patients KLP paid subsistence and treatment for general health insurance (NGA) and the remaining patients to other insurance companies.

Contributory spa care (PLP) a total of 17,084 patients in 2011, and in 2010 was funded treatment provided to 15,077 patients. Contributory treatment was thus totally about 2077 patients , which is a relative increase of about 3%. Of the 99.3 % they were adults. General Health Insurance Company paid the medical expenses of 56.4 % of clients are contributory spa care and the remaining patients to reimburse these expenses other insurance companies.

Another option contributory spa treatment is a possibility to order only outpatient treatment. During 2011 such treatment underwent 44,720 persons, of whom 361 patients in the groups of children and adolescents.

Self-funded treatment, in which all costs associated with treatment and stay paid by the client himself, in 2011 used by 111,141 domestic clients. The numerical data is very difficult to compare or relativize, since length of stay and achieved revenues are variable.

In 2011 at our spa 133,630 foreigners undergo spa treatments. Compared to 2010, it's about 5,180 fewer people than in 2009 and even 10,292 fewer people. In relative terms, is a two-year decline of about 13%.

In the Czech and Moravian spa came during the 2011 total of 360,178 clients in 2010 it was 375,866 clients, which is about 15,688 fewer clients, it expresses the relative decrease of about 6 %, of which 32.0 % were in the spa in 2011, treatment at the expense of public health insurance (Comprehensive spa treatment spa Treatment Allowance + total).

Despite the decline in the wages of spa clientele of doctors, which form a significant part of the cost of spa businesses , on average, increased by CZK 2,206 , an increase of about 10 %, as Table 1.

Tab. 1 The average salary of spa doctors in Czech Republic

Year 2011	24 740 CZK
Year 2010	22 534 CZK

Source: www.uzis.cz

3 Lázně Teplice

Teplice Spa located in Bělský valley between the ridges of the Ore Mountains, protecting them from the north and the foothills of the Bohemian Uplands, which they penetrate from the south at an altitude of between 219 m to 230 m climate is lowland, soothing, with smaller amounts precipitation, especially in the summer. In winter the is a climate wetter and rougher. Teplické springs are one of the oldest in Central Europe. The origins of Teplice are closely linked to local sources of thermal waters.

3.1 Main Activities

The main activity is the provision of spa treatments based on traditional methods, using natural thermal water source. The methodology is the same for hundreds of years and is also supplemented by knowledge of modern medicine. Spa Teplice provide their care and hotel services both domestic and foreign clients. Domestic clientele uses the opportunity to stay especially through health insurance that is comprehensive and subsidized treatment and outpatient treatment. For clients health insurance baths expected decline in the future, and why they work nezískávání Czech outpatient clients. In relation to the new indication list is established for insured persons who are not entitled to spa treatments, Vitality two-week stay. In addition to traditional therapeutic spa stays and offer short weekend stays, which have recently become very attractive.

Tab. 2 Number of employees in each section

Section	Employees	
	Year 2010	Year 2011
Medical staff	149	141,5
Catering	99,5	84,5
Lodging	78	73
Maintenance	55,5	53
Other	7	6,5
Total	389	358,5

Source: <http://lázně teplice.cz>

In 2011 there was a reduction of employees by 7.8% due to the streamlining of some processes, which ultimately led to an increase in wages and salaries of existing staff, as Table 2.

Tab. 3 Salaries and Personnel Costs (thousands CZK)

	Year 2010	Year 2010	Year 2011	Year 2011
	Total	From Management	Total	From Management
Salary	92 205	11 117	87 135	11 605
Social security and other personal costs	34 487	6 314	33 416	6 487
Total	126 692	17 431	120 551	18 094

Source: <http://lázně teplice.cz>

In the spa town of Teplice year wages of all employees rose by an average of 1,598 CZK, which others in relative terms by 4 %, as Table 3.

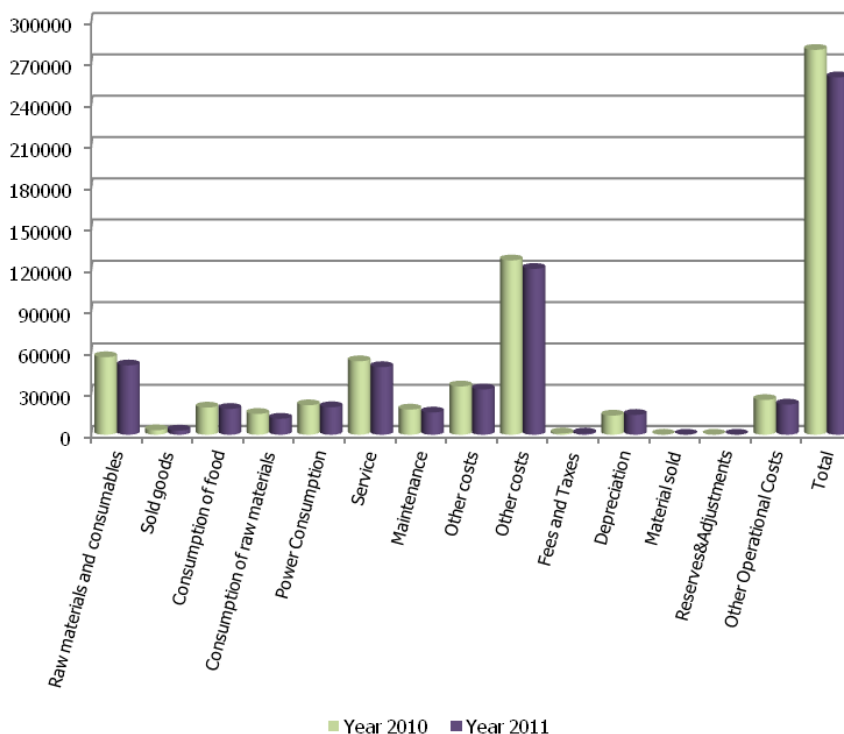
Tab. 4 Operation costs (thousands CZK)

	Year 2010	Year 2011
Raw materials and consumables	56340	50377
Sold goods	3298	3044
Consumption of food	19750	18776
Consumption of raw materials	15156	11627
Power Consumption	21434	19974
Service	53402	49130
Maintenance	18294	16169
Other costs	35108	32961
Other costs	126692	120551
Fees and Taxes	951	873
Depreciation	13892	14412
Material sold	23	8
Reserves&Adjustments	-159	-561
Other Operational Costs	25246	21914
Total	279685	259748

Source: <http://lázně teplice.cz>

The cost of operating activities was recorded savings of 9% particularly for items of material consumption and energy consumption and services, as Table 4.

Graph 1 Costs from operating activities (thousands CZK)



Source: Own work

Financial costs increased in year 2011 by 3785 thousand CZK in absolute terms.

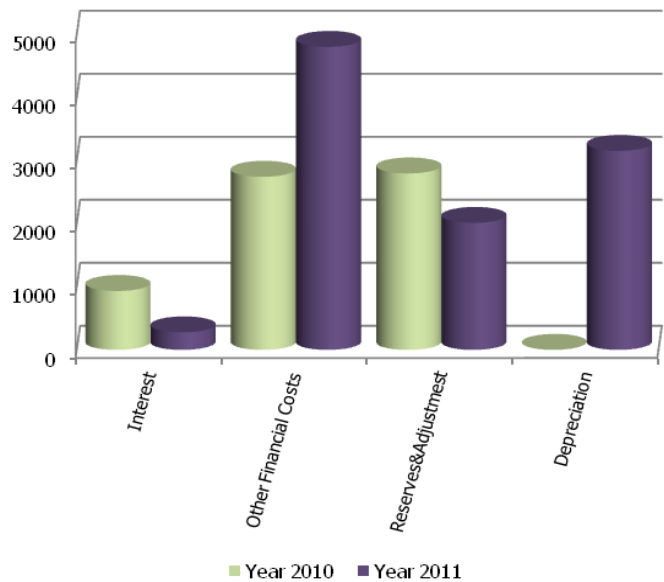
Tab. 5 Financial Costs (thousands CZK)

	Year 2010	Year 2011
Interest	934	278
Other Financial Costs	2746	4806
Reserves&Adjustmest	2799	2014
Depreciation	0	3157
Total	6479	10264

Source: [http://lázňe teplice.cz](http://lázňe.teplice.cz)

Financial costs, on the other hand, tend to rise due to increasing tax burden, as Table 5.

Graph 2 Financial Costs (thousands CZK)



Source: Own work

3.2 Stays paid via health insurance

Komprehensive spa treatment

- Accommodation
- Full board
- Treatment as indicated on the proposal approved health insurance
- 20% discount on buying another procedure of their choice.

Note: The job is staying Comprehensive spa treatment recorded as sick leave.

Comprehensive care is covered by public health insurance covers the cost of testing, individual treatments, accommodation, meals and transportation if necessary (for patients who must use medical transport service). This type of stay, patient draws at the time of his incapacity. Minimum stay is 21 nights. Object of the study in terms of costs and revenues were bathhouses: Spa house Beethoven, Imperial Baths, Stone Spa, Orchard spa.

Tab. 6 Price List

Spa House	Accommodation	Eff. Date 01.01 – 21.12
Spa House Beethoven	Single	250 CZK
	Double	100 CZK
	Suite	No Fee
	Beethoven's room	1 350 CZK
	Double „comfort“	300 CZK
	Apartment	600 CZK
Imperial Baths	Single	300 CZK
	Double	150 CZK
	Apartment	700 CZK
	Cesars Apartment	1450 CZK
Stone Spa	Single	250 CZK
	Double	100 CZK
Orchard Spa	Single twin	80 CZK
	Double	50 CZK

Source: <http://lázně teplice.cz>

Prices are in CZK per person and per day of hospitalization, as Table 6. From the data presented in the text, we see that the complex spa treatment in 2011 decreased compared to 2010 on 8699 patients, the benefit of contributory spa treatment. This allowance spa treatment on the other hand went up by 2,007 patients. Spa management companies actively responding to this fact and creates new marketing conditions for patients with treatment-contributory. Arranges luxurious medical services to its production will integrate other optional medical procedures to meet the demands both patients subsidized treatment, but ultimately the self-payers.

Contributory spa care

- Lodging
- Full Board
- treatment as indicated on the proposal approved health insurance
- 20% discount on buying another procedure of their choice

Minimum stay is 14 nights

Object of the study in terms of costs and revenues were bathhouses: Spa house Beethoven, Imperial Baths, Stone Spa, Orchard spa.

Tab. 7 Price List

Spa House	Accommodation	Eff. Date 01.01 – 21.12
Spa House Beethoven	Single	800 CZK
	Double	700 CZK
	Suite	1 950 CZK
	Beethoven's room	800 CZK
	Double „comfort“	1 825 CZK
	Apartment	950 CZK
Imperial Baths	Single	850 CZK
	Double	1975 CZK
	Apartment	2 725 CZK
	Cesars Apartment	800 CZK
Stone Spa	Single	700 CZK
	Double	600 CZK
Orchard Spa	Single twin	650 CZK

Source: <http://lázně teplice.cz>

Prices are in CZK per person and per day of hospitalization, as Table 7 demonstrates, prices for accommodation allowance treatment for patients are at a much higher level than it is for patients complete spa care. For these patients are generally prepared accommodation services in the reconstructed parts of the bath houses, where they can benefit from special services. This fact is reflected in the increasing income of spa companies and, ultimately, the overall economic performance of the company.

Conclusion

Traditional spa occupies an important position in tourism in Czech Republic. The effectiveness of the invested funds , together with the congress tourism top of the tourism industry both in Europe and in the national comparison. The bed capacity of spa accommodation in 38 spa towns had, at the end of 2011, 26,835 beds and in 2009 approx. 29,000 beds. Although bed capacity decreases , spa represent a significant economic benefits not only for the public budgets of municipalities, but also for long-term employment in the often troubled regions where the spa is located.

Spa industry is economically very important sector of the national economy. Spa tourism is mentioned along Municipal tourism , congress and incentive tourism , holiday trips, sports and active holiday in the " Concept of the State Tourism Policy in the Czech Republic for the period 2007-20013 ." The conceptual approach of the state to promote the tourism supply (especially from the Ministry for Regional Development) can talk to the second half of the 90th years. This support is channeled to the private sector , mainly in support of small and medium-sized enterprises and the public sector (especially attractive tourist municipalities, associations , etc.).

Since the privatization of the nineties new owners year after year invested their profits in the rehabilitation of infrastructure , in skills and client access employees in

the development of new programs and also in marketing. Spa twenty years of systematic work on how to not lose his medical competence. Relying only on customers from Europe and the rest of the world would be a mistake . Our spa should primarily serve the national population, and it is to them by Czech spa should remain even after the restriction of reimbursement available.

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The Current Croatian Economy and Tourism

Igor Kukliš¹

Abstract

The contribution monitors the current state of economy of Croatia. It also deals with the description of the basic parameters of Croatian tourism and its competitiveness. A comparison with some European countries competing.

Key words

Republic of Croatia, Croatia, tourism, competitiveness, economy

JEL Classification: O5, O52, R1, R11

Introduction

Republic of Croatia, a country with the Middle-European and Mediterranean traditions, noted, until the beginning of the global financial crisis, the most prominent growth among transitional countries in this part of Europe. The focal Croatian economic assets include the Adriatic coast, a total of 1,246 islands, substantial agricultural areas, significant fresh water resources along with the traffic infrastructure. The general political and economic stability, free entrepreneurship as well as integrated democratic surroundings are the basic preconditions of economic development. Those attributes were of significant importance on the way towards full European Union membership. Croatia became a full member on July 1st 2013. The aim of this contribution is to map the real status of the Croatian economy and tourism in comparison to the above mentioned sentences presented by official government sites.

1 The current Croatian economy

In the first years of accession talks, which began formally when Croatia applied for admission on February 21st 2003, was evident relatively high GDP growth in the country, although the pace was slightly decreasing. In 2005, when there were interrupted talks resumed, was there an increase in domestic demand. It has become a major factor in the re-acceleration of GDP growth. In the following year also increased the share of private investment, which, together with increasing domestic demand, have provided an impetus for further growth. This trend was also evident for most of 2007, when the engine of growth was domestic demand again. This year has seen household consumption, the largest annual increase since 2002. At the end of 2008, the growth of the Croatian economy slowed down significantly. In the next year the country fully reflect the consequences of the slowdown in the rate of growth in the U.S. and in Europe in the form of beginning of stagnation. This was accompanied by a

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significant drop in GDP. Unfavorable economic situation lingered in the years 2010 to 2012, while for the year 2013 is expected in Croatia, according to forecasts by the Croatian National Bank (HNB) from December 2012 the minimum negative growth of -0,3 % (Hrvatska radiotelevizija, 2012). By contrast, the prestigious Zagreb Economic Institute (Ekonomski institut Zagreb, EIZ) published in January 2013, an estimate of the negative growth of -0,2 % (Hrvatska radiotelevizija, 2013). The bad numbers are dwindling due to the performance of the domestic industry. For example, in September 2012 was recorded a decrease of 3,7 % compared to August 2012, or by 7,7 % compared with September 2011. For the first nine months of the year there was an overall decrease of 5,6 % (Hrvatska radiotelevizija, 2012). The negative effects of a declining domestic consumption also has, for example, that in November of 2012 decreased by 6,1 % (Hrvatska radiotelevizija, 2013). There was a decrease of 5,3% reported for January 2013, compared to the same period of the year 2012 (Hrvatska radiotelevizija, 2013). The Croatian State Statistical Office (Državni zavod za statistiku, DZS) published in September 2013 data, demonstrating a further decline in GDP in the second quarter of 2013, and by 0,7 % compared to the same period of the year 2012.

The economic recovery, which has recorded in the second quarter of 2013, in most European countries, however, the Croatian economy did not. The quarterly decline of GDP was 0,7 % in 2013, the second in a row (Hrvatska radiotelevizija, 2013) and seventh for the past two years. The most important negative factor of the decline was the growth of import, in particular, the positive effect of slightly increasing domestic consumption (0,5 %), and also the increase in service provided by tourism. Consumption increased by 1,3 % compared to the same period of the year 2012. A weaker positive effect was recorded, thanks to investments in fixed capital, while the volume of investments grew by 0,9 %.

2 Obstacles for foreign investment

Just the lack of foreign direct investment (FDI) appear to be long-term and littering the national economy. FDI from the European Union climbed in 2011 to 3.88 billion euro, which corresponds to 9,6 % of Croatian GDP. The greater share FDI to GDP until recently prevented the formation of, among other things, excessive bureaucratic procedures for granting of work and residence permits to foreign experts and investors.

At the beginning of February 2011 signed by Deputy Minister of economy, labour and entrepreneurship Robert Markt and Deputy Interior Minister Ivica Buconjić so called Implementing Protocol to the "Action plan on removing obstacles to investment in the Republic of Croatia". Officials of both ministries with this Protocol undertake to significantly simplify and shorten the procedure for issuing permits for the working and residential aliens who are the founders, or the key persons of the companies investing in Croatia. Such authorization should the authorities issued no later than 14 days after receipt of the relevant request. Just such a path leads, according to the opinion of the author, to boost the inflow of foreign investment, which will contribute, among other things, to increase the low competitiveness of Croatian production so far.

Potential foreign investors are concerned about the high level of corruption, which is associated, among other things, with the granting of building permits.

Requests are often discussed for several years. One of the few successful companies of the last months is a Swedish IKEA, which began to build the first commercial for the Zagreb House on the territory of Croatia. Value of the investment is estimated at 2 billion HRK, approximately 300 million euro, is to be created on 2,500 new jobs (Zagrebcancija, 2011). Negative effect on the reluctance of foreign companies to invest in the Republic of Croatia is the persistence of corruption in public procurement. In September 2013, the Director of the Israeli company Grand Automotive, sent open letters to President of the Republic Ivo Josipović and the Prime Minister Zoran Milanović. Ken Lelo is protesting in them against opaque during the competition for the supply of cars for public administration. Even when handed a menu with price, which was a total of 33.5 million HRK lower than offered by finally selected firm. The company, which is on the Croatian Market since 2004, met with similar negotiations not for the first time (Index.hr, 2013).

3 The competitiveness of Croatia in Europe

On the basis of the evaluation of the results and data of national economies for the years 2009 and 2010, published in the annual report by the World Economic Forum (The Global Competitiveness Report 2011), Croatia finished at 76th location of the 142 countries evaluated. Compared to 2007, when from the perspective of the global competitiveness of Croatia stayed on 57th place unique. From the region of the Western Balkans to better accommodate: Montenegro (60. rank) and Bulgaria (74.), than Romania (77.), Albania (78.), Macedonia (FYROM) (79.), Serbia (95.), Bosnia and Herzegovina (100.) (Hrvatska radiotelevizija, 2011).

Also on the basis of the results of the comparison of the world's major indexes of the World Bank, the World Economic Forum and Transparency International, is the Croatia's position, apart from anything else, in the category of global competitiveness at the end of the rankings of European countries, that are either in or near the size and/or totalitarian past central planning national economies. The following table is presenting the Croatia's ranking clearly.

year 2012	the Index of global competitiveness	the ease of doing business	global innovation index	perception of corruption	prosperity index
Denmark	12	5	7	1	2
Austria	16	29	22	25	16
Estonia	34	21	19	32	35
Portugal	49	30	35	33	26
Czech Rep.	39	65	27	54	28
Poland	41	55	44	41	32
Slovakia	71	46	40	62	36
Croatia	81	84	42	62	50

Source: Respekt No. 18, May 2013, p. 72

4 Tourism, the golden egg of the national economy?

The share of incoming tourism in GDP creation is not dominant. For the Croatia leadership is, however, incoming tourism so important and prestigious, that the Government adopted in June 2013 document exclusively dealing with tourism - Strategija razvoja turizma Republike Hrvatske do 2020. godine. Support towards entrepreneurs in Croatian tourism declared in December 2011, the new incoming Tourism Minister Veljko Ostojić. He said that he will try to let convert the services in the tourism in the reduced VAT rates (Index.hr, 2011).

In July 2012, Minister Ostojić presents project „Inovativni turizam“, through which the innovation should be encouraged in the Croatian tourism. This project was part of a total eight programmes, aimed at the promotion of entrepreneurship and competitiveness in the tourism sector. For the year 2012 has been earmarked to support a total of 32,000,000 HRK (Index.hr, 2012).

In August 2012 Ostojić said that without investment in tourism could not be expected even higher yields from this sector for the State budget. His estimate of the volume of investments for the year 2013 has fluctuated between 2.5 – 3 billion HRK (Index.hr, 2011).

At the beginning of 2013 were estimates of the volume of investment specified to minimum 2.6 billion HRK. Around 2 billion HRK (an increase of 124 % compared to the year 2012) were planned to be investing by the private sector, a total by 25 of the Croatian largest business entities. The largest portion of this amount, 1.12 billion HRK to be used for investment on the peninsula Istra. The largest investor, with the volume of investment in the amount of 388 million HRK, has to be a firm HUP Zagreb (Hrvatska radiotelevizija, 2013). The revenues from the tourism were evaluated at 6.83 billion euro for the year 2012, which is about 3.2% more than in the year 2011. According to Croatian national bank revenue from tourism contributed in 2012 to the formation of the GDP at the rate of 15.4 % (Hrvatska radiotelevizija, 2013).

During the 1990's the tourism sector has boomed for years only, a few most of the sectors development self-conscious copied in the country after its independence in June 1991. The privatization of the former State-owned enterprises took place piecemeal, often using obscure privatization models. From the turn of the Millenium, the development of infrastructure in the sector picked up tourism a clear direction. Even during crisis and turmoil of the past five years the Croatian incoming tourism showed resistance to crisis phenomena and to maintain certain elements of dynamic growth. It is possible to demonstrate it on the growth of the volume of permanent bed capacity in hotels of all categories, in camps, in other common capacities and in households-beds. There was registered 682.721 beds in 2001, a total of 784.600 beds in the year 2005, and even a total of 852.433 beds in 2011 (Institut za turizam - BIST, data of DZS, 2013). According to other statistics presented by DZS, there were 13% of the entire bed capacity in the hotels all categories (1* - 5*), 25 % in camps, in other common capacities 13 %, and in the family homes 49 % of the total bed capacity. In the most lucrative segment of the accommodation infrastructure, hotels, dominated a 44 % share beds hotels category 3*. Hotels category 4* and 5* have bed capacity at the rate a 41%. The remaining 15 % of the capacity were allocated at the hotels 2* and 1*.

Total bed capacity is allocated disproportionately at maritime areas north and south of the Adriatic Sea (the northern Adriatic sea coast is meant from the city Umag of Istria to Zadar, the southern coast of the Adriatic Sea is meant central Dalmatia from Šibenik to Dubrovnik in southern Dalmatia). In the territory of the Northern Adriatic was placed in 2011, 52 % of the total capacity, in the areas of the Southern Adriatic, 45 % of the beds. There are only 3 % of the total bed capacity left for the continental territory of Croatia, including the capital of Zagreb.

This disproportion is due to persistent dull offer of products of the Croatian tourism towards visitors to the country. All the numerous development initiatives in spite of, the concept of the menu is dominated by Sun and sea. The share of the tourism for years is not falling below 85 % of the physical volume of all sales, and moving in the range of 75 to 80 % share of all arrivals to Croatia. The difference is mainly caused by lower profitability of private accommodation, which has 49% of the total bed capacity. This factor, together with the lagging development of infrastructure, so experts see a major competitive disadvantage of Croatia relative to other competitive countries of the Mediterranean area, among which are ranked France, Greece, Italy, Spain and Turkey.

Maritime tourism is on the rise in Croatia, though with some limitations to growth. A country with one of the most rugged coastline in the world, a long 1,753 kilometers, mild climate and favorable wind currents, the supporters of the maritime tourism sought increasingly. By constantly improving it the results of this segment of tourism. These conditions are to lengthen the tourist season in this segment. Further grow is limited by the lack of capacity of sailing berths in when moored, and also the lack of development and the construction of new berths. The situation is mainly caused by the unfavorable investment environment in this field. Cruising has for the past 10 years, to an exception in the year 2012, the growth of ocean-going cruise ship arrivals in Croatian territorial waters. In 2012, there has been a slight decline in the pre-season (January – May) arrivals amounting to 3.4 % compared to the same period of the year 2011. For the first 5 months of the year 2013, an increase was recorded in the number of boat arrivals by 12 % compared with the same period of the year 2012. With regard to the number of tourists was recorded an increase of 21.5 % in the reference period of 2013, total arrived at 260,000 visitors (Hrvatska radiotelevizija, 2013).

Business and Congress tourism is sensitive on both the domestic and global economic trends. There is a stable ratio of 10-15 % share of business clients on the permanent hotel guests in Croatian hotels. Congress tourism is not fully developed yet. The main barrier to the growth of this segment of tourism is the lack of high-quality infrastructure, the lack of a professional leadership of Congress tourism management and marketing of new products on the market.

Strategic document concerning tourism and its development by the year 2020, defines the area of the tourism, which are not sufficiently developed yet. In particular, cultural and health/wellness tourism, biking, golf tourism, eco-tourism, adventure and sports tourism.

The Government and the Ministry of tourism will also have to deal with a significant negative parameter that affects the competitiveness of the tourism sector. It's about that Croatia seems to be a relatively expensive destination for visitors. In a survey of the British portal Post Office Travel Money, was Croatia classified in the category of medium-expensive countries. From a total of 40 reporting countries,

Croatia stayed on 15. rank. Much better ranking was reported for Spain (2), also better was Cyprus (13). More expensive than Croatia was Turkey (17. place), Dubai/UAE (18) or Malta (19. rank) (Index.hr, 2011).

5 The competitiveness of Croatian tourism

In the framework of the research done by World Travel & Tourism Council (WTTC) of London, was Croatia included in it also. Research in detail examines the various parameters on the efficiency of tourism in the national economy. Comparison of data for the year 2012 from a total of 184 reporting countries classified according to Croatian tourism on the total 54. place in the world rankings. A comparison was also made on various competitiveness of Croatian tourism with the tourism of following countries: Bosnia-Herzegovina, Bulgaria, Czech Republic, Cyprus, Greece, Italy, Montenegro, Slovenia and Turkey.

The tables on pages 5 – 6 are highlighting comparisons with competing countries as well as with the world average. The competing destinations selected are those that offer a similar tourism product and compete for tourists from the same set of origin markets. The sole source of all the following tables is WTTC Country League Table Rankings.

Country rankings:

Absolute contribution, 2012

Travel & Tourism's Direct Contribution to GDP		2012 (US\$bn)	Travel & Tourism's Total Contribution to GDP		2012 (US\$bn)
5	Italy	81.9	5	Italy	206.9
13	Turkey	32.2	14	Turkey	86.9
	World Average	17.2		World Average	52.3
26	Greece	15.4	27	Greece	38.9
48	Croatia	5.9	49	Czech Republic	17.1
49	Czech Republic	5.7	54	Croatia	13.8
76	Bulgaria	2.0	66	Bulgaria	6.9
83	Slovenia	1.6	71	Slovenia	6.0
90	Cyprus	1.4	82	Cyprus	4.5
130	Montenegro	0.5	120	Bosnia-Herzegovina	1.5
133	Bosnia-Herzegovina	0.4	138	Montenegro	0.9

Travel & Tourism's Direct Contribution to Employment		2012 '000 jobs	Travel & Tourism's Total Contribution to Employment		2012 '000 jobs
14	Italy	1099.5	18	Italy	2680.8
	World Average	793.7	20	Turkey	2053.6
29	Turkey	516.4		World Average	1975.7
38	Greece	330.6	43	Greece	688.8

Travel & Tourism's Direct Contribution to Employment		2012 '000 jobs	Travel & Tourism's Total Contribution to Employment		2012 '000 jobs
46	Czech Republic	262.1	54	Czech Republic	534.0
68	Croatia	138.6	69	Bulgaria	366.7
84	Bulgaria	102.9	75	Croatia	318.9
123	Bosnia-Herzegovina	33.1	114	Bosnia-Herzegovina	114.0
125	Slovenia	31.6	118	Slovenia	105.7
133	Cyprus	26.1	128	Cyprus	77.4
151	Montenegro	14.3	156	Montenegro	28.8

Travel & Tourism's Capital Investment		2012 (US\$bn)	Visitor Exports		2012 (US\$bn)
12	Turkey	16.9	6	Italy	40.5
14	Italy	14.7	12	Turkey	28.1
	World Average	4.2	24	Greece	16.1
32	Greece	4.0	33	Croatia	10.7
52	Czech Republic	2.0	39	Czech Republic	8.0
57	Croatia	1.3		World Average	6.8
62	Slovenia	1.1	55	Bulgaria	4.2
74	Bulgaria	0.7	63	Slovenia	2.7
94	Cyprus	0.3	64	Cyprus	2.7
110	Montenegro	0.2	102	Montenegro	1.0
133	Bosnia-Herzegovina	0.1	116	Bosnia-Herzegovina	0.7

Relative contribution, 2012

Travel & Tourism's Direct Contribution to GDP		2012 % share	Travel & Tourism's Total Contribution to GDP		2012 % share
18	Croatia	11.9	19	Croatia	27.8
22	Montenegro	9.9	33	Montenegro	19.5
38	Greece	6.5	35	Cyprus	19.4
40	Cyprus	6.1	40	Greece	16.4
	World Average	5.2		World Average	14.1
75	Italy	4.1	57	Bulgaria	13.6
76	Turkey	4.1	61	Slovenia	12.8
80	Bulgaria	3.8	72	Turkey	10.9
84	Slovenia	3.5	78	Italy	10.3
104	Czech Republic	2.9	96	Bosnia-Herzegovina	8.9
117	Bosnia-Herzegovina	2.5	100	Czech Republic	8.7

Travel & Tourism's Direct Contribution to Employment	2012 % share	Travel & Tourism's Total Contribution to Employment	2012 % share
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15	Croatia	13.1	17	Croatia	30.2
24	Greece	8.8	29	Cyprus	20.8
26	Montenegro	8.7	38	Greece	18.3
33	Cyprus	7.0	40	Montenegro	17.6
	World Average	5.4		World Average	13.9
48	Czech Republic	5.4	55	Slovenia	13.1
58	Italy	4.8	59	Bulgaria	12.5
79	Slovenia	3.9	65	Italy	11.7
90	Bulgaria	3.5	70	Czech Republic	10.9
104	Bosnia-Hercegovina	2.9	78	Bosnia-Hercegovina	10.0
141	Turkey	2.1	95	Turkey	8.3

Travel & Tourism Investment Contribution to Total Capital Investment		2012 % share	Visitor Exports Contribution to Total Exports		2012 % share
11	Montenegro	24.6	20	Montenegro	51.8
31	Greece	13.8	23	Croatia	44.4
33	Slovenia	13.1	35	Greece	29.1
35	Croatia	12.1	37	Cyprus	27.5
44	Turkey	10.5		World Average	16.6
53	Cyprus	8.9	66	Turkey	13.7
	World Average	8.1	72	Bulgaria	12.2
77	Bulgaria	6.5	77	Bosnia-Hercegovina	10.5
101	Bosnia-Hercegovina	5.0	93	Slovenia	7.8
111	Czech Republic	4.4	100	Italy	6.7
118	Italy	4.0	113	Czech Republic	5.2

KEY DEFINITIONS

Travel & Tourism – relates to the activity of travelers on trips outside their usual environment with a duration of less than one year. Economic activity related to all aspects of such trips is measured within the research.

Direct contribution to GDP – GDP generated by industries that deal directly with tourists, including hotels, travel agents, airlines and other passenger transport services, as well as the activities of restaurant and leisure industries that deal directly with tourists.

Direct contribution to employment – the number of direct jobs within the Travel & Tourism industry.

Total contribution to GDP – GDP generated directly by the Travel & Tourism industry plus its indirect and induced impacts.

Capital investment – includes capital investment spending by all sectors directly involved in the Travel & Tourism industry.

Visitor exports – spending within the country by international tourists for both business and leisure trips, including spending on transport, but excluding international spending on education.

Conclusion

Economy of the Republic of Croatia is still not recovered from the recession. Unlike most European countries, the financial results for the second quarter of 2013 were negative. Tourist concept Sun and Sea according to the author's opinion is not sustainable for the very next future. Ministry of Tourism is aware of the weaknesses of the industry and intends to increase its competitiveness. This effort was formulated in the strategic plan adopted by the Government in June 2013. The results of the comparison made by WTTC shows that in absolute terms are the benefits of Croatian tourism to the national economy just average. When the relative terms of comparison are taken, than the results of tourism of the Adriatic state are substantially better. The tourism of the country is in a relatively favorable position compared to the other countries competing.

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Promoting the Growth and Competitiveness of the African Agribusiness and Agro-Industry¹

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Abstract

Manufacturing in Africa accounts for only 1% of global manufacturing. There is a need to support agribusiness and agro-industrial development in order to reduce poverty, achieve the Millennium Development Goals and to ensure sustainable growth. An agribusiness development includes greater productivity growth throughout the entire agribusiness value chain. There is an increasing demand for high quality hides and skins on international markets. The paper analyses the challenges, the potential and opportunities of African agribusiness (focusing on leather industry) in the current period of changes in the global agro-industrial markets.

Key words

agribusiness in Africa, leather industry in Kenya, export potential, sustainable growth and competitiveness, livestock.

JEL Classification: Q13, Q17

Introduction

Africa is the world's poorest continent, including sub-Saharan Africa as the world's poorest region, with half of its population living in extreme poverty on less than 1,25 USD a day (World Bank and IMF, 2013). Africa has about 27% of the world's arable land. Yet many African countries import food and agricultural products from outside the continent. From 2007 to 2012, 37 countries were net food importers and 22 were net importers of agricultural raw materials.

African economic growth remains largely commodity-based on exports of oil, minerals and agricultural commodities with little or no processing involved. Africa accounts for only 1% of global manufacturing. In order to accelerate sustainable growth and development in Africa there is a need for exploiting the full agribusiness potential of the continent. This could focus on increasing agro-industrial value added and employment along the entire agribusiness value chain in agriculture, industry and services.

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1 Agribusiness in Africa

This paper analyses the challenges, the potential and opportunities of African agribusiness (focusing on leather industry) in the current period of changes in the global agro-industrial markets. An exploratory approach was used to identify, analyse and describe the variables that influence value addition in leather and leather products in Kenya.

Agribusiness is a broad concept that covers input suppliers, agro-processors, traders, exporters and retailers. Agribusiness provides inputs for farmers and connects them to consumers through financing, handling, processing, storage, transportation, marketing and distribution of agro-industry products. Agro-industry comprises all the post-harvest activities that are involved in the transformation, preservation and preparation of agricultural production for intermediary or final consumption of food and non-food products (Yumkella, 2011).

Africa is behind in terms of industrialization with manufacturing accounting for 12 per cent of GDP in Middle East & North Africa and for 15 per cent of GDP in Sub-Saharan Africa. This compares with 22 per cent for middle-income countries as a whole and 33 per cent in East Asia (Table 1).

Tab. 1 Structure of world output 2012 (per cent)

	Agriculture	Industry	Manufacturing	Services
Low-income	26	28	14	47
Middle-income	9	37	22	53
High-income	1	26	17	73
<i>Low and middle income regions</i>				
East Asia and Pacific	12	44	33	41
Europe & Central Asia	7	32	18	61
South Asia	18	28	16	53
Latin America	7	33	18	61
Middle East & North Africa	11	43	12	46
Sub-Saharan Africa	12	33	15	55

Source: World Bank Data available at <http://data.worldbank.org/>

There is a linkage between manufacturing and income per capita. African incomes are low because the continent is under-industrialized. Table 1 and table 2 show that African economies have not diversified into manufacturing and that the GDP growth is dependent on mainly primary activities, especially oil and mining.

Tab. 2 Merchandise exports and imports of least-developed countries, 2012

LDC's	Value
<i>Oil Exporters</i>	
Angola	655000
Equatorial Guinea	13300
Yemen	11600
Sudan	9694
Myanmar	9330
Chad	4600
Bhutan	650
<i>Exporters of manufacturers</i>	
Bangladesh	24436
Cambodia	6950
Madagascar	1590
Lesotho	1100
Nepal	919
Haiti	770
Samoa	54
<i>Exporters of agriculture</i>	
Ethiopia	2615
Uganda	2200
Burkina Faso	2000
Benin	1800
Malawi	1427
Togo	1100
Rwanda	464
Somalia	450

Source: World Trade Organization International Statistics 2012

As mentioned above African economic growth remains largely commodity-based with little or no processing involved. There is a need to fully exploit the agribusiness potential of the continent. The focus should be placed on increasing agro-industrial value added and employment along the entire agribusiness value chain in agriculture, industry and services. Agribusiness and agro-industry can potentially contribute to increased employment generation, income generation, poverty reduction, improvements in nutrition, health and food security.

Agriculture and agribusiness remain Africa's main source of employment with around 60% of its labour force employed in the sector. But its share in GDP is much smaller, accounting for an average of 25% due to its low level of productivity and earnings. The size of the sector differs across the continent.

With a large youth labour force, large agricultural sector and abundant natural resources, Africa has a large potential to develop labour-intensive manufacturing in subsector linked to agriculture. In the past decades this potential has not been used. Any manufacturing activity has to cope with many country-specific constraints, such as

bad infrastructure, unreliable and expensive energy supply, lack of skilled labour force, low productivity, red type, expensive financing and fierce foreign competition. As a result of these constraints manufacturing firms have remained small producing low-quality products for the domestic market.

African agriculture and agribusiness must be transformed to meet the demands of twenty-first century. There are seven pillars of agribusiness development, the actions needed to transform agriculture into productive agribusiness: enhance productivity, upgrade value chains, exploit demand, strengthen technology, promote innovation sources of financing, stimulate private sector participation, and improve infrastructure and access to energy. The agribusiness revolution should bring investment in the entire agribusiness value chain, raise productivity and yields improve competitiveness and increase profits.

1.1 Agribusiness in Kenya – leather industry

Hides, skins and semi-processed leathers represent major export earnings for many countries and the total value of trade in hides and skins, leather and leather products exceeds that of meat, its parent body. The demand for good quality hides and skins, leather and leather products is continuing to increase, and there is a great scope for the volume as well as the quality of exports to increase further.

The leather industry in Kenya constitutes one of the key sectors with a great potential for contribution to the development of the economy, through creation of new employment opportunities, improvement of the country's export performance through increased export of semi-processed and finished leather, footwear and leather goods. Kenya has substantial livestock resources with a cattle population of 13.6 million, 8 million goat and 5.9 million sheep.

Kenya has tremendous export potential of the leather and leather goods due to various factors such as the vibrant global trend, which favours location of tanneries in developing countries. With the world trade of hides, skins, leather and leather products amounting to between 50-60 billion USD annually, Kenya can benefit. Kenya's government is actively looking to expand exports of processed leather, whose key destinations include China, India, Mexico and Thailand.

Kenya's hide, skins and leather industry contributes around 4 per cent of agricultural GDP and 1.5 per cent of overall GDP. Kenya produces over 2 million hides (mainly cattle, with some camel) and around 4 million skins (goats and sheep). The livestock sector contributes 10-15 per cent of Kenya's GDP and employs over 50 per cent of the agricultural labour force (Kiuluku, 2010). The industry currently employs about 16,000 people (up from 1, 700 in 1995) with a total turnover of Sh6 billion annually (Otini, 2012) and the number of tanneries has risen to 13 recently.

The constraints being faced by the leather sector has hampered production of competitively prices good quality products despite the availability of abundant raw food products. The main constraint facing the leather industry is considered to be the lack of a coherent policy framework within which the sector operates. Others include the inability of the leather sector to be competitive in the local market due to dumping of lowly prices goods and technology adoption, lack of adequate designing capabilities,

poor production methods, lack of modern managerial and marketing skills, lack of basic tools and in many cases lack of working capital.

Until 2006, value addition in the livestock sector has been minimal; most of Kenya's exports have been in the form of unprocessed, raw hides and skins. Since the liberalization of the industry, local production has been negatively impacted. The influx of cheap leather goods was hindering the local leather industry. In 2006 the Kenyan government increased the export tax payable on the export of raw hides and skins to 20 per cent and in June 2006 doubled it to 40 per cent, with the aim of encouraging the leather processing industry. The government's strategy to develop the leather sector springs from Kenya Vision 2030 which promotes industrialization and value addition in key sectors. The development of the sector involves improving the raw material base (quality of hides and skins), boosting the tanning subsector, production of leather goods and marketing. The Kenyan government has also drafted a five year Strategic plan for the leather sector and set up a Leather Development Council. John Muriuku of the Leather Development Centre, says that processing to wet blue stage (the lowest level of leather processing) adds 80 per cent to the value of raw hides and skins, moving to crust adds 200 per cent and to finished leather 400 per cent.

The leather sector development in Kenya is based on the abundant availability of raw hides and skins that are renewable resources, constituting the main raw materials for the leather industry. Full exploitation of these resources has not been realized because the main activity within the sector value chain is currently dominated by exports of raw materials partly due to the weak position of the manufacturing sector which produces higher value added products. Despite the great potential, this sector is characterized by dominance of weak and in many cases underdeveloped footwear and leather products. The main challenges that the small and medium enterprises face are:

- Poor technical and lack of entrepreneurial skills
- Poor product quality and design
- Inappropriate marketing strategies
- Unfair competition
- Lack of working capital

The table below (Table 3) illustrates the SWOT analysis of the Kenyan leather industry.

Tab. 3 SWOT analysis of Kenyan leather industry

Strengths	Weaknesses
<ul style="list-style-type: none"> - Livestock - 27 % of world's arable land - Large youth labour force 	<ul style="list-style-type: none"> - Poor technical skills - Lack of entrepreneurial skills - Inappropriate marketing strategies - Lack of working capital - Local tanneries – capacity for production of semi processed leather - Bad infrastructure - Unreliable energy supply - Red type

Opportunities	Threats
<ul style="list-style-type: none"> - High demand for high quality hides and skins - Increasing demand on international market (rabbit, crocodile, ostrich skins) 	<ul style="list-style-type: none"> - Influx of cheap leather goods - Capital intensive nature of the industry

There are 19 tanneries across Africa at the moment. The biggest impediment in the sector is that local tanneries only have the capacity to semi process the leather. The local tanneries have obsolete technology and are not able to fully process the leather to the final stage.

Currently, 90% of hides are being exported in raw form, while 30% of skins are exported in raw form. The sector marks a lot of potential for growth considering the fact that the Kenyan market alone requires 20 million pairs of shoes per annum and current production of footwear products lies at approximately ½ million

Shoe exports from Kenya in 2012 amounted to 80,000 pairs while about three million were sold in the domestic market (Table 4). Kenyan manufacturers, however, face high cost of production resulting in high prices of finished products. The average price of shoes made locally is Sh1,200 a pair while imported ones cost about Sh800, making them largely uncompetitive in the international market.

Tab. 4 Export of Leather Shoes 2004-2012 (million pairs)

	2004	2005	2006	2007	2008	2009	2010	2011	2012
World	2476.3	2646.2	2792.9	2677.3	2485	2089.4	2201.6	2255.7	2345.8
Developing countries	1860.6	2013.4	2157.2	2028.5	1840.7	1524.1	1596.9	1600.7	1612.3
Latin America & Caribbean	128.5	117.4	113.9	89.3	65.5	48.2	45.7	46.7	47.7
Africa	28.3	29	28.2	32.2	37	28.2	26.8	27.2	27.9
Kenya	0.6	0.5	0.6	0.3	0.2	0.4	0.8	0.7	0.8

Source: World statistical compendium for raw hides and skins, leather and leather footwear 1992-2012, FAO, Rom 2012.

The projections of Livestock Ministry in Kenya indicate that Africa which currently produces only four percent of world production will grow to be a major player in the industry. There is a close cooperation between Livestock Ministry and private sector in order to establish a 96 million dollars cluster development initiative which will encourage industrial development in the leather sector by locating industries dealing with leather products with support services. The plans involves setting up a central hides and leather auction centre which will enhance competitive and fair grading systems in all regions of the country. Value addition across the leather value chain should enhance the competitiveness in the leather sector and in turn provide higher returns for all stakeholders. The biggest impediment in the sector is that local tanneries only have the

capacity to semi process the leather. The local tanneries lack the technology to fully process the leather to the final stage due to capital intensive nature of the industry.

Conclusion

The potential for growth and increased competitiveness in Kenya's leather industry is considerable. John Muriuku of the Leather Development Centre estimates that if Kenya produced leather from all its hides, skins, earnings could rise fourfold to around 144 mil. EUR and directly employ 10 000 people. Kenya could be producing much more footwear for its domestic population rather than being flooded by cheap imports undermining local production. The country is successfully processing fish skins leather from Nile perch. Kenya is processing rabbit, crocodile, ostrich skins for which there is increasing demand on international market. Other countries in East Africa can benefit from expanding their leather industry. Moving from exporting raw hides and skins to processing in East Africa could create 10 000 direct jobs and 55 000 indirect jobs and bring investments of 145 mil. EUR in new processing facilities (Speech by Kenneth Lusaka, 7 January 2013).

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Analytical View of the International Movement of Manpower in Slovakia¹

Eva Litavcová – Sylvia Jenčová²

Abstract

A major component of the international migration of populations is the international movement of those seeking employment. Foreign migration is a typical manifestation, indeed cardinal phenomena, of globalization in today's world. Today, migration is a result of unemployment and poverty and is in response to negative macroeconomic phenomena and ethically troubling issues on the distribution of wealth and opportunity in today's society. The aim of this paper is to present a methodical statistical analysis of the international movement of labour and quantify the impact of migration on employment, as well as determine the impact of this migration on population growth and development in the Slovak Republic.

Key words

migration, labour, migration management

JEL Classification: L22

Introduction

In the history of Slovakia, the largest migrations, involving millions of people migrating for a better life, occurred in the late nineteenth and early twentieth centuries. Most recently, the global economic crisis of 2008-2009 significantly affected the labor market, and consequently the international movement of labor. This crisis effected the emigration of citizens of the Slovak Republic, causing a decline in the number of Slovak citizens working abroad in 2009. The migration of labor is often associated with the migration of capital, and can be quantified economically as the international movement of production capabilities. The migration of labor is, while strictly speaking, voluntary, the primary motivation for the movement of labor across national borders is economic, with an ultimate long term purpose of residence in the new country. The volume of migration is quantified by the sum of emigration and immigration. Migration balance (active, passive, zero) represents the relationship between emigration and immigration. By Katrinkovej (2012) population migration incorporates several components. These include the free movement and the establishment of freedom of movement of persons, labor migration, family and other reunifications, study and, for migration due to international conflicts, protection in the form of asylum, subsidiary protection and temporary shelter.

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1 The Consequences of Migration

The cardinal cause of migration is thought to be the economic imbalance between the economically developed and economically poorer countries, unequal allocation of job opportunities, differences between supply and demand for labor in different regions, counties and wage differences. The causes of labor migration are both economic and non-economic (political, military, racial, religious, ethnic, family, cultural, ecological, environmental, or other conditions such as natural disasters and the like.). (Štefančík, 2010) examines the economic factors of immigration (stronger economy, higher wages, labor demand, and higher standard of living in the target countries) and by analogy extrusion factors (weak labor demand, lower average monthly wage, higher unemployment and inflationary spiral in countries experiencing expatriation). The international movement of labor affects both the country importing the labor, as well as the country experiencing the exodus of its nationals. This movement is affected directly by global production trends. Migration is affected by the employment situation in the countries facing overall emigration, the employment situation in the country receiving the migrant workers, the state of the world gross domestic product, remittances, foreign trade and the international movement of capital. Just remittances are one of the cardinal consequences of migration. They increase the standard of living of migrants and their families. Kucharčíková et al, states (2011, p. 79) migration is a means to interconnect countries among themselves in international economic integration. Migration's role in this increases due to current globalization processes. Foreign Migration (International Migration, Migration) is defined as a kind of spatial mobility of people , the essence of which is the movement of persons across borders to take up residence in another country for a certain period (Eurostat , 2013). Furthermore, Divinský (2008, p.20) states, "Migration management is a hierarchically superior concept to the concept of migration policy. Aptly defined as a system of government, with power and organization to provide effective and humane control of foreign migration processes in the territory of a State. It consists of pillars such as immigration legislation, immigration policy and organizations, working in the field of international migration." Divinský (2008) defines migration policy as one of those pillars of migration management, which is a set of objectives, strategies and practical steps to manage the flow of foreign immigrants into a country. It presents the formulation and implementation of various measures necessary to effectively manage migration issues related to economic, social, cultural, educational, health, demographic, environmental, security and other spheres of social life. Barger (2008) indicates the components of migration policy, or partial set of policies, are immigration, visa, integration, asylum, recoverable, regularization, Naturalization and to a lesser extent, other policies. The successful integration of immigrants into autochthonous society forms one of the most important challenges for receiving countries in the context of migration management. Without a coherent integration policy it is not possible to implement of state migration policy. One paper (Síbl , D., Šaková, B., 2000) states, "Migration in the country of immigration increases the labor supply with current structural changes as well as changes in the ratio of labor to land and capital, which can help to increase the efficiency of invested capital and stimulate its further influx from abroad ."According to Marcinčáková (2012, p.79) liberalization of the labor market will encourage the employees of the country which is better equipped to work due to the increase in relative wages in the country due to the loss of manpower.

Conversely, those preventing the loosening of labor markets are typically the workers of the affected country, which is relatively better off in terms of capital. This is due to labor market liberalization and centennial related labor flows into the affected country causing decreases in the relative wage rate. This in turn leads to a decrease in wages earned by workers. If wages continue to decline, there may be a substitution of capital work, which could cause a technical and technological decline.

The negative effects for the country experiencing emigration is the outflow of highly skilled workers, causing a so-called "brain-drain". The country experiencing emigration does not even recoup the public funds spent to educate the émigrés.

Majerová and Nezval (2011, p. 68) quantify the positive and negative consequences of the international labor movement. Positively contributing to the international mobility of labor is the global increase in economic efficiency, reduction of the level of unemployment in the less affluent economies, increases in income and immigrant education, employment opportunities for their children, an increase in income from trade in the receiving country and the influx of highly skilled labor (brain -gain). The negative effects (costs) of the international movement of labor include immigration costs and increasing unemployment levels in the receiving country, the issue of adapting to a new country, the costs of removal and temporary loss of employment , reduction in labor productivity in the country facing emigration (due to the loss of labor) and the "brain drain" of faced by the less developed economies.

2 Analysis of labor migration in the context of population trends in the Slovak Republic

Monitoring of immigration trends show that in the period before the economic crisis, the number of foreign nationals in the Slovak labor market was around 15,000 to 18,000 people, which is in proportion of the foreign countries represented, and made up less than 0.9% of all employed persons in the country. By contrast, during this same period, 220,000 (10% of the Slovak Republic's workforce) emigrated.

Tab. 1 Selected data on population, migration and employment in Slovakia

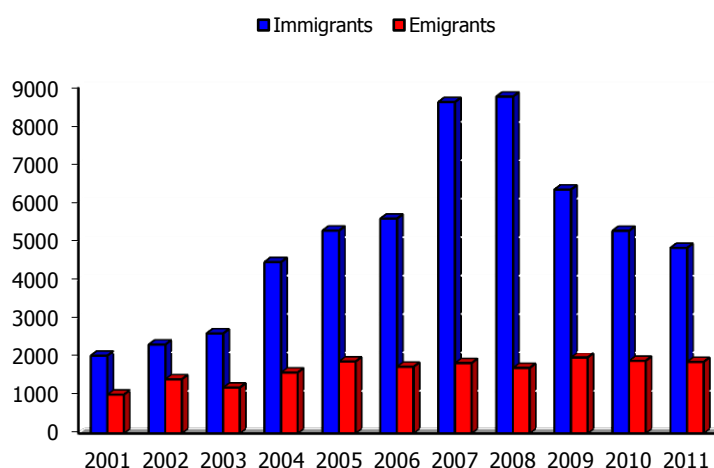
Year	The number of Slovak citizens employed abroad	The total number of people employed in the Slovak Republic	Net migration (Increase)	Volume of migration	State of the population
2001	72200	2123700	1012	3034	5379780
2002	84900	2127000	901	3723	5378809
2003	83900	2146600	1409	3797	5378950
2004	119000	2170400	2874	6046	5382574
2005	136300	2216200	3403	7149	5387285
2006	168800	2301400	3854	7324	5390404

2007	177200	2357300	6793	10455	5400998
2008	167800	2433800	7060	10470	5412254
2009	129100	2365800	4367	8325	5424925
2010	126900	2317500	3383	7161	5435273
2011	116600	2315300	2966	6692	5404322

Source:: Own processing according to ŠUSR data

Table 1 shows selected data on population, migration and employment in Slovakia. Data on the number of immigrants and displaced populations are shown in Figure 1. Table 2 shows the progress of the net migration in Slovakia.

Graph 1 Evolution of immigrants and emigrants in SR



Source: Own processing according to ŠUSR data

Tab. 2 Progress of migration increases in Slovakia

Year	The middle variant of prognosis, Infostat	The basic variant of prognosis, Eurostat	OSN all variants
2010	2 439	-2 430	2 000
2015	3 279	-2 334	2 000
2020	4 154	1 166	2 000
2025	4 999	4 618	2 000
2030	4 999	5 132	2 000
2035	4 999	5 102	2 000
2040	4 999	5 001	2 000
2045	4 999	4 876	2 000
2050	4 999	4 738	2 000

Source: BARGEROVÁ, Z., DIVINSKÝ, B., 2008, p.48

A comparison of the educational distribution migrants from Slovak Republic working abroad with the working population in the Slovak Republic was performed. It found that Slovak émigrés working abroad have the following education levels; those with a primary education only made up 3.45% those with a vocational and secondary education, but below the A level, made up 46.51%; apprentices and those with Secondary education levels made up 44.21%; and those with university educations made up 5.82% This comparison also found that for workers in the Slovak Republic, 4.1% has only a primary education, 32.7% had vocational and middle school educations, 43.3% had vocational and secondary educations, and university graduates made up 19.1%.

Tab. 3 Correlation coefficients of the considered variables monitored for a period n = 11 year

Variable	t	Abroad	In the country	Increase	Migration	Population
t	1,0000	,5595	,8453	,5907	,6947	,8610
	p= ---	p=,074	p=,001	p=,056	p=,018	p=,001
Abroad	,5595	1,0000	,8136	,9121	,9283	,4349
	p=,074	p= ---	p=,002	p=,000	p=,000	p=,181
In the country	,8453	,8136	1,0000	,8907	,9205	,7915
	p=,001	p=,002	p= ---	p=,000	p=,000	p=,004
Increase	,5907	,9121	,8907	1,0000	,9815	,5433
	p=,056	p=,000	p=,000	p= ---	p=,000	p=,084
Migration	,6947	,9283	,9205	,9815	1,0000	,6222
	p=,018	p=,000	p=,000	p=,000	p= ---	p=,041
Population	,8610	,4349	,7915	,5433	,6222	1,0000
	p=,001	p=,181	p=,004	p=,084	p=,041	p= ---
	t	Abroad	In the country	Immigrants	Emigrants	Population
Immigrants	,6508	,9252	,9112	1,0000	,7202	,5893
	p=,030	p=,000	p=,000	p= ---	p=,012	p=,056
Emigrants	,8400	,7188	,7576	,7202	1,0000	,7056
	p=,001	p=,013	p=,007	p=,012	p= ---	p=,015

Source: own processing

Twenty pairs of variables were monitored for the occurrence of linear statistical dependence among the five assays. The number of Slovak citizens employed abroad (abroad) and net migration (increase) is not statistically linearly dependent on time (t), the population (population) is not statistically linearly dependent on the number of Slovak citizens employed abroad (abroad), net migration (increase) and the number of immigrants (immigrants).

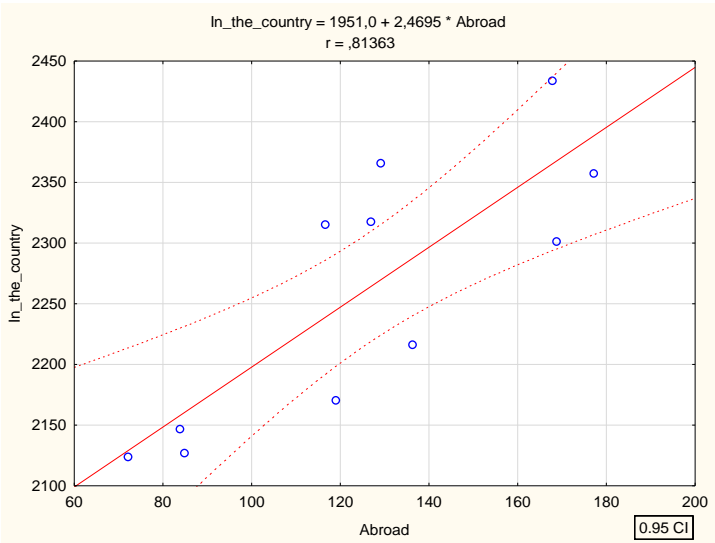
Tab. 4 Correlation analysis of Slovak citizens employed abroad and the total number of employed people in Slovakia

	Mean	Standard deviation	r(X,Y)	r ²	t	p	n
X: Abroad	125,700	35,790					
Y: In the country	2261,364	108,627	0,814	0,662	4,199	0,002	11

Source: own processing

A detailed correlation analysis of Slovak citizens employed abroad (abroad) and the total number of people employed in the Slovak Republic (in the country) is shown in Table 5. The linear model is significant at the significance level of 0.01 and explains 66.2% of the variability of dependent variable, the equation is expressed in the graph 2.

Graph 2 Linear model of the dependent population employed abroad and the total number of people employed in Slovakia

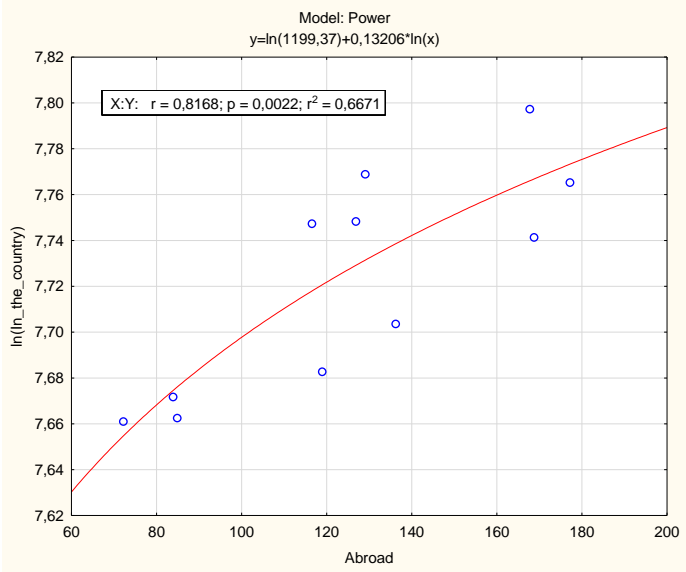


Source: own processing

Power modeling of the total number of employed citizens in Slovakia (in the country) compared to the number of Slovak citizens employed abroad (abroad) provides an estimate, which explains 66.7% of the variability in the dependent variable. The equation is expressed in Graph 3.

Figure 4 captures at the development over time of Slovak citizens employed abroad (abroad) and the total number of employed people in Slovakia (in the country). The development of Slovak citizens employed abroad had a watershed year in 2007, compared to the total number of the employed in the Slovak Republic in the year 2008. Even in recent years, as is evident from Graph 5, that year represented a shift in the evolution of the total number of employed citizens of Slovakia to the number of Slovak citizens employed abroad.

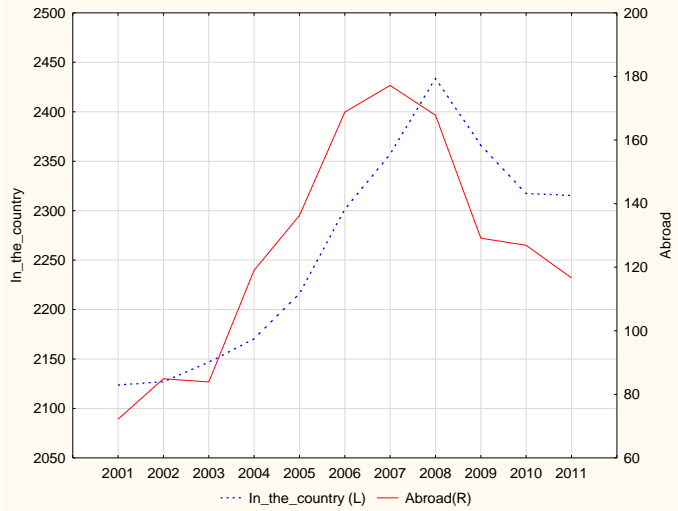
Graph 3 Power model depending on the number of employed population in Slovakia and Slovakia's population employed abroad



Source: own processing

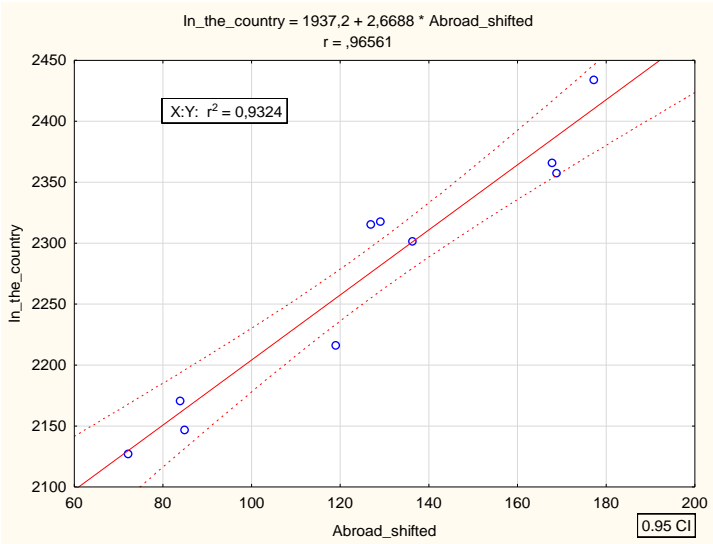
The correlation coefficient between the considered variables is 0.768, the displacement of one of the variables of the year it is up to 0.966, which shows a significant linear statistical dependence. This dependence is graphically expressed by the regression equation on Graph 5.

Graph 4 Time series of population employed in Slovakia and Slovakia's population employed abroad



Source: own processing

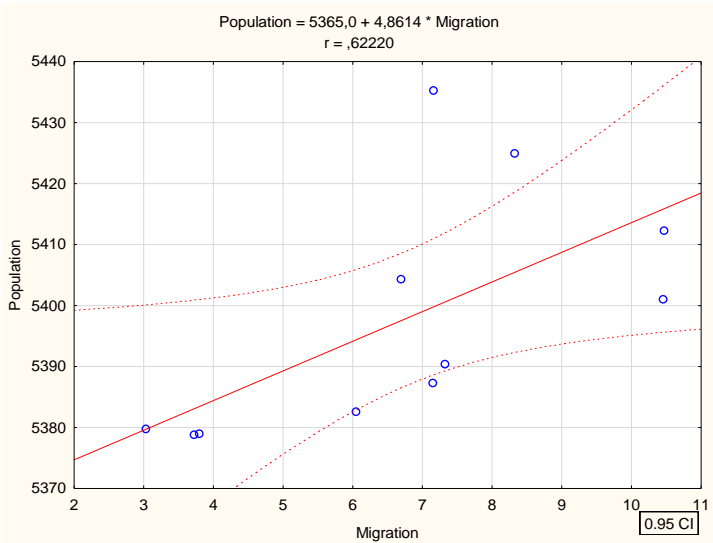
Graph 5 Analysis of the dependence of the population of the employed in Slovakia and the number of Slovak citizens employed abroad - shift.



Source: own processing

A detailed correlation analysis of population (population) and the volume of migration (migration) is displayed in Table 5. The linear model is significant at the significance level of 0.05 and explains 38.7% of the variability of the dependent variable. The equation is expressed in the graph 6.

Graph 6 Linear model dependent on the status of the Slovak population and volume of migration



Source: own processing

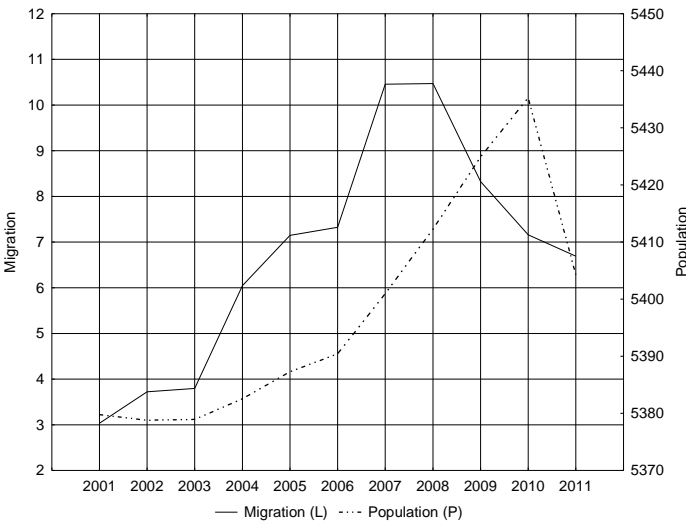
Tab. 5 Correlation analysis of the Slovak population and migration

	Mean	Standard deviation	$r(X,Y)$	r^2	t	p	n
X: Migration	6,743	2,50786					
Y: Population	5397,77	19,59456	0,622199	0,387132	2,384334	0,040936	11

Source: own processing

Graph 7 shows the evolution of the volume of migration (migration) and the state of the population (population) between 2001 and 2011. Migration from Slovakia increased until 2008, after which the number of immigrating declined. The number of emigrants has remained relatively stable. The population of the Slovak Republic was growing up until 2002, but by 2011 had seen a sharp decline.

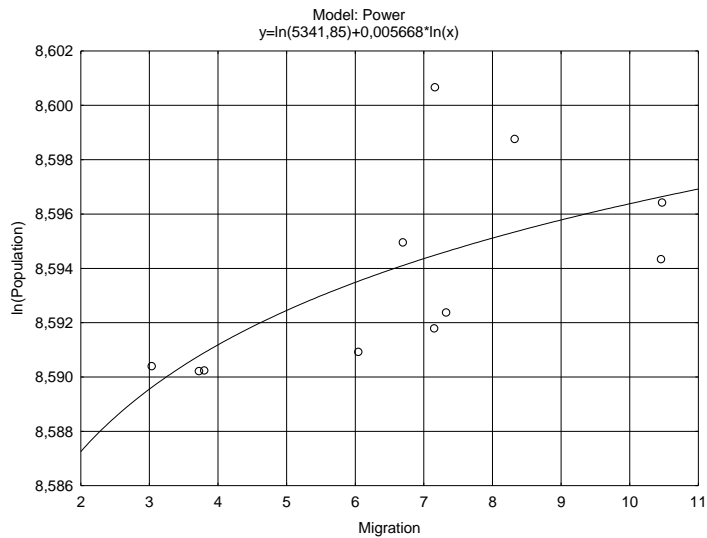
Graph 7 Time series of the migration and population status of the population of Slovakia



Source: own processing

Graph 8 shows that the development of migration can only partly be explained by the evolution of Slovak Republic's population. The power law model provides more than 42% Accountability.

Graph 8 Power model dependence of the Slovak population and migration



Source: own processing

Table 6 provides a detailed correlation analysis of the total number of employed people in the Slovak Republic (country) and the number of emigrants (emigrants). The linear model is significant at the significance level of 0.01 and explains 57.4% of the variability of the dependent variable. The equation is expressed in Chart 9.

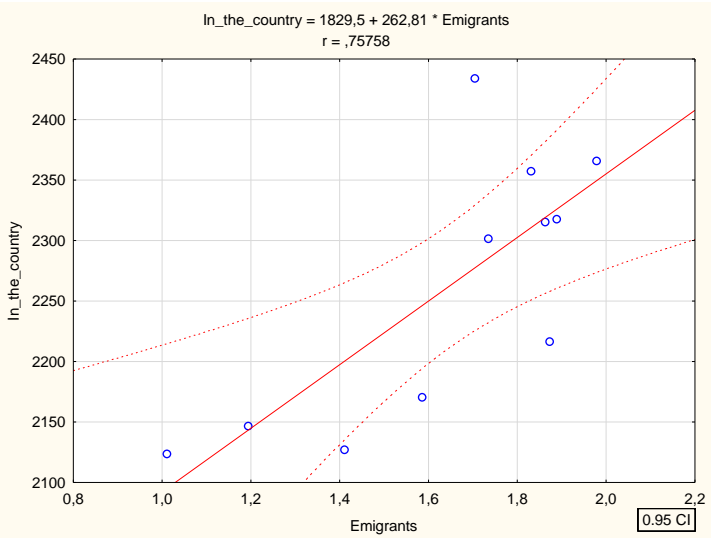
Tab. 6 Correlation analysis between the population employed in the Slovak Republic and displaced people

	Mean	Standard deviation	$r(X,Y)$	r^2	t	p	n
X: Emigrants	1,643	0,3131					
Y: In the country	2261,364	108,6269	0,75757	0,573920	3,481782	0,006919	11

Source: Own processing

The graph 10 captures the time evolution of the number of emigrants (emigrants) and the total number of people employed in the SR (Population). The increase in the number of emigrants peaked in 2005, but since then their number has more or less stabilized.

Graph 9 Linear model dependent on the number of people employed in Slovakia and displaced citizens.



Source: own processing

Graph 10 Time series of the number of displaced people and the number of people employed in the Slovak Republic



Source: own processing

Conclusion

The exploitation of highly skilled labor at the micro level causes greater efficiency, greater output, a higher pace of innovation, higher quality and quantity of production

and enhances macro-economic growth. A qualified work force with higher income levels causes a growth in consumer demand and impetus for greater aggregate production. (Kucharčíková, 2011, p. 80). A worsening labor shortage in the Slovak Republic has resulted in an economic slowdown. The Slovak Republic has faced a worse outflow of highly qualified workers than its neighbors, mainly due to low income and pay, but also due to the overall social status of their workers. This is one of the cardinal problems faced by their society today.

The authors of this paper provide a brief analysis of labor migration, which should provide a guideline when designing or recommending measures, whether economic, political or academic.

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Models of Financial Crises and the Position of Securitization as a Part of the Third Generation of the Models of Crises in the Current Global Financial Crisis¹

Monika Majerníková²

Abstract

The paper is divided into 4 chapters. The paper is written to clarify the theoretical foundation and understanding of the models of financial crises with regard to the position of current financial crisis in these models and the securitization position in the current global financial crisis. The result is the assessment of the substance of current global financial and economic crisis and the potential impact of reducing the state expenditures as an effort to rehabilitate the economy.

Key words

financial crisis, economic cycle, securitization, debt, expenditure

JEL Classification: G01, G15, G31

Introduction

The aim of the paper is to clarify the status of the current global economic and financial crisis in the existing theoretical models of financial crises and then the position of securitization in the ongoing crisis. The introduction is dedicated to the theoretical explanation and characteristics of business cycles in the economy. It is followed by the definition of the financial crisis and an explanation of the theoretical models of financial crises written by different authors, of which the third generation of models of crises is relevant for modern economics. Also a problem of securitization fall into the third generation of the crises models. Subsequently the course of a securitization in the current global crisis is explained. In the conclusion it is evaluated to what extent the current crisis is a systematic market failure and to what extent is it the part of the normal economic cycle.

1 The theory and definition of the economic cycle

The term business cycle fluctuation generally reflects the overall economic performance over the time. Theories of business cycles are highly questionable, because of the fact that some economists believe that the cycles do not exist. The attention to these theories is generally paid in times of economic difficulties when it is necessary to explain the reasons for the slowdown or downturn of the economy.

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Most authors explain the economic fluctuations based on several factors, namely economic cycles may also have monetary and real causes. Various authors primarily emphasize on different factors. The theories of endogenous factors, primarily focused on monetary and psychological factors are prevailing. (Stuchlíková Z., 2011)

There are various segmentations of the theories of business cycles. For example, S. Czesaný (2006) and P. Sirůček (1999) divide the theory according to whether they are economic cycles caused mainly by internal or external factors. Further division is based on the fact that the economy in the specific structure tends to fluctuate without the influence of external causes. Thus, it is based on various internal imbalances. According to the relationship between nominal and real values can the theories be allocated on the monetary and non-monetary ones (Czesaný, S., 2006).

The most commonly used definition of an economic cycle is the definition of the U.S. National Bureau of Economic Research (NBER), where the economic cycle is defined as a cycle consisting of expansions, emerging at about the same time in many economic activities, followed by general recessions, contractions and recoveries, which results in expansion phase of the following cycle. This sequence of changes is repeated, but not periodically, while the duration of the cycles vary by more than one year to ten to twenty years (NBER, 2013).

It is therefore a repeated fluctuation in the overall performance of the economy over the time. Designation of economic fluctuation is based on the three characteristics: it must be a significant change, hitting the whole economy and long term change. Cyclical fluctuations are different in nature from the structural fluctuations that mostly relate only to certain sectors and are caused by structural changes in the economy.

The cycles are in their course (in the length and the intensity of the phase) unique, so every one of them is different from other cycles and have different duration period. In so called traditional or classical business cycle concept is the cycle symmetrical and is it possible to identify every one of the recurring phases (expansion, peak, recession, bottom) (Sherman, H. J., 1991).

2 Nature and models of financial crises

The International Monetary Fund defines the financial crisis as an overgrowth of a monetary or banking crisis in unfavorable effects on the real economy. Financial crises are potentially difficult decomposition of financial markets, which can have severe unfavorable effects on monetary and economic development. One can distinguish between several types of crises, monetary, banking, debt and budget crisis. (Sherman, H. J., 1991)

In the typology of financial crises is a very important point, which helped to create a transparent system of crises, the creation of generations of the crises models. The basic model of the crisis by P. Krugman is a situation where in the system of fixed exchange rate the domestic credit expansion leads to fall in foreign exchange reserves and the speculative attacks on the currency due to increased demand for money. The attack pushes the monetary authority to abandon originally set central parity of the exchange rate. The process ends with attack, because the economic entities understand that a fixed exchange regime is disappearing and it would therefore be a capital

loss to keep the home currency. This model confirms that the period preceding the crisis could be characterized by a gradual but significant decline in foreign exchange reserves and the rapid growth of domestic credit in relation to money demand. Also, if there is a surplus of money due to the financing needs of the public sector, then the fiscal imbalance and loans to the public sector can serve as indicators of coming crisis. The central bank loans to problematic domestic financial institutions have a similar role. The Krugman model was developed in multiple directions, resulting in the generations of the models of crises.

The first generation of models is based on the fact that the crisis originates as a result of the budget deficit, when the government uncontrollably covers its deficit, which in turn threatens the fixed exchange rate and causes capital losses to the investors.

The second generation of models explains the crises as a result of the conflict between fixed exchange rate and the effort to lead an expansionary monetary policy. Thus, there occurs the pressure on interest rates when it may not be a consensus among investors and the government. Rise in foreign interest rates presses the domestic interest rates to rise, which, however, have a negative impact on the level of output, resulting in high costs to maintain the central parity of the exchange rate. Once the foreign interest rates exceeds a certain critical level, the costs of maintaining fixed exchange rate outweigh the benefits of this regime and the monetary authority is pushed to throw over the fixed system. According to this model, good indicators of the crisis may be the development of the economy output and domestic and foreign interest rates. High domestic interest rates mean also higher costs for the government. Questionable is the amount of public debt. High interest rates may also threaten the banking system, so that monetary authority can prioritize devaluation from banks collapse. The existence of bank problems may also indicate a coming crisis. The second generation of models is theoretically dealt with M. Obstfeld. He extended this model to changes in the labor market. According to him, the anticipation of the crisis leads to higher wages and lower employment. It was also claimed that one currency devaluation leads to similar operations of our commercial partners to not lose the competitiveness. This is called the contagion effect. If symptoms are stronger crisis in a neighboring country can be an indicator of future domestic crisis.

Crises at the end of the 20th century gave a reason to a third generation of models of crises to come into existence. The core of these models is the banking system and the moral hazard in lending. This view is shared by authors R. McKinnon and P. Krugman. Investments obtained this way collapse, and then the visible losses led the government to withdraw their guarantees. Similar approach to the development of the third generation of models have also G. Corsetti, P. Pesenti, N. Roubini. On the other hand, R. Chang and A. Velasco try to explain currency crisis as a loss of confidence that pushes financial intermediaries to liquidate their investments before maturity. To some extent may another factor causing the crisis be considered the balance of businesses, which determines their ability to invest and also the flow of capital reflecting the real exchange rate (Kotlebová, J., Chovancová, B., 2010).

3 The current global economic and financial crisis and the position of securitization in the crisis

Great Financial Crisis has begun inconspicuously at the end of the summer 2007 by the bankruptcy of hedge funds of the Bear Stearns Investment Bank. Many smaller or bigger economic commotions in the last two decades preceded the Crisis. Some of them were the following: American stock market crash in the year of 1987, savings and loan crisis at the end of the '80s and beginning of the '90s, Japanese financial crisis and stagnation in the '90s, Asian financial crisis in 1997-1998, and a burst of the dot-com bubble in the year of 2000.

Even though the great stock market crash in 2000 seemed to be an omen of deep economic drop, the more serious damage and economic losses were subdued by the mortgage bubble that has lead to only a mild recession in the year of 2001. So the speculative bubble on the mortgage markets compensated for the burst of the stock market bubble. Capital was stimulated by low interest rates and changes in the reserve criteria of the banks (they have released a higher amount of available resources) and it was directed to the real estate market. Volume of granted mortgage loans was growing, prices of real estate were rising and hyperspeculations have emerged. (Foster, Magdoff, 2009)

One of the basic methods used in order to acquire sources for the mortgage loans refinancing is issuing various types of mortgage bonds. Mortgage bonds are always results of mortgage loans securitization, while two basic types of securitization exist – and those are the balance-sheet and the off-balance-sheet securitization. We sectionalize mortgage bonds according to the type of securitization into two basic groups: mortgage backed bonds and mortgage backed securities. In Slovakia one uses the balance-sheet securitization, so the resulting system is the mortgage backed securities system.

Mortgage backed bonds are results of off-balance-sheet securitization; they enable their owners to have a share in financial flows in the pool of mortgage loans that are hedging the issue. Massive expansion of off-balance-sheet securitization is a reaction to new trends on world financial markets, mainly a growing significance of institutional investors, attempt of financial institutions to find new income sources - mostly interest-free, growing tendency to manage clients' assets in comparison with traditional bank products, and it is also a reaction to an attempt to improve capital adequacy of banks and financial institutions.

Off-balance-sheet securitization in comparison with issue of mortgage backed securities has from the viewpoint of financial institutions many advantages in form of additional fees, but it also has several risks related to the movement of interest rates, and so it has to be combined with other hedging tools.

Mortgage backed securities are bonds, nominal value and gain value of which is backed by claims on mortgage loans. Only claims on mortgage loans not exceeding 60% of mortgaged fixed assets' price can be used to back the nominal value of the mortgage backed securities. Issuing bank has to have a license. (Choudhry, 2004)

Any company, bank, or other institutions' assets can be securitized. Securitization fundamentals are a process, in which bank grants loans and then pools the loans with identical characteristics (interest method, payoff, and height) into one package (loan

pooling). Bank transfers the packages to a purposely founded non-bank institution – SPV (Special Purpose Vehicle) – Fannie Mae, Freddie Mac and others, which are not under bank regulation, and this institution sells the packages further on a secondary market. So Mortgage Backed Securities – MBS or Asset Backed Securities – ABS are sold to investors on the secondary market. Sale of issued bonds brings cash, which banks can use to finance other activities. This way the non-liquid assets are transferred into a more liquid form. Gain from these bonds was much higher, when the risk was seemingly low considering government guaranties, than the gain from government bonds. That is why they were bought not only by American investors, but by European and Asian investors as well. (Association for financial markets in Europe, 2012)

One must distinguish synthetic structured products from cash-flow based products. Synthetic securitization exists only for a short period of time, since 1997, while cash-flow securitization exists on the financial market for a longer time, approximately since 1970. Traditional securitization consists of sale of certain claims collection owned by the originator to other party (Special Purpose Vehicle - SPV), and this party issues bonds hedged by the transferred assets. Bonds are sold to investors in a classic way on the capital market. SPV pays off loans to investors using cash from the sale of bonds hedged by the assets. Market requires certain hedging of these bonds. The easiest way is their sale with recourse – the bank transferring loans takes on certain responsibility in case of the debtor's bankruptcy. However, the transfer can be done also without the recourse. Coupons and nominal value of bonds are paid to investors from cash flow streaming from debtors. Synthetic securitization consists of transfer of loss and loan risk of certain basket of claims of the original assets' holder to SPV via loan derivative, e.g. without the original claim holder actually selling the claims. Loan risk transfer to SPV can be realized via financial loan derivatives - such as a loan bond, or via non-financed loan derivatives - such as swap of loan credit default and swap of all gains. In case of the loan credit default swap the original owner pays to the SPV a certain annual fee for the risk transfer. (Choudhry, 2004)

We know two basic types of bonds issued via securitization and those are the following:

- MBS -Mortgage Backed Securities. Big part of subprime mortgages was covered by these securities. Issues were separated into tranches, which matched various risk profiles of investors.
- ABS -Asset Backed Securities.

Collateralized Debt Obligations (CDO) are forms of structured ABS, where the principal and the yield are derived from the base assets cash-flow. CDOs are separated into various classes/ tranches based on their risk.

Many investors on the market invested into senior tranches with the AAA rating, hedge funds invested mostly into risky junior tranches rated BB+. However, Mezzanine tranches with the AA – BBB rating (made up about 20 % of issue) didn't have enough investors. All tranches had to be placed on the market, so Mezzanine tranches were made into collateralized debt obligations, CDOs, which could contain also other loans besides mortgages. CDOs were placed again into tranches with various risks. Mezzanine tranches CDOs were further resecuritized into other CDOs. Securitization does not bring only advantages, in case of complicatedly structured CDOs it increases informa-

tional asymmetry between the debtor and the investor, and it is connected to high transaction costs. Its advantages show only when there is a great volume of securitized assets.

Through the off-balance-sheet securitization, more and more MBSs and CDOs are issued, and their value is based on mortgage loans payments and real estate prices. These financial innovations enabled institutions and investors from the whole world to invest into American real estate market. In 2006 real estate prices begun to drop significantly, and this situation peaked in 2007. In the middle of given period the interest rates started to grow. Refinancing became more difficult and after the real estate bubble burst, mortgage loans to low-income clients and mortgage loans with variable interest rate gradually started to fail. Drop in real estate prices affected main global financial institutions, issuing or investing in subprime MBS, and they experienced significant losses. Dropping prices of the real estate caused that the value of real estate was lower than the value of mortgage loan, which lead to termination of loan contracts. At the end of 2006, several bank institutions were affected by, and have lost power because of contract terminations and clients' inability to pay off the mortgages. Defaults and losses of other loan types also grew significantly as soon as the crisis has spread from the real estate market to other economic sectors. (Foster, Magdoff, 2009)

Conclusion, or is the current crisis the general economic cycle or a system failure?

It is possible to ask a theoretical question, what is more important: whether the phases of the business cycle, or that the individual effects of the crisis are reflected in a separate sequential time, shifting and shaping the final form of the economic cycle. This philosophy could represent a major breakthrough in seeing the economic cycle, overlaps between the factors that shape economic cycles and may allow overcome problems during the crisis, and ultimately it could be the answer to the separateness of development at national and international level.

Nowadays just sporadic theoretical attempts appear at a vision of crisis described above, and only in limited, even minimally measure. In doing so, the question of sequencing and transfer of core problems in the various stages of the crisis may be the answer to the question whether the crisis will continue development. A new type of the key problem arising from the economic crisis may appear, the economic crisis may end as the debt crisis, which is concentrated at the national level, or there is an accumulation of individual types of debt in terms of countries, the corporate sector, the population, the banking sector and municipalities, and this gradual transfer of significance of the problems may designate another strategy for the development of the real economy for many years to come. In this view we can say more fundamental facts:

- It turns out that the action of sequence type (for example a shift of the tax rates, change in the levy, choking expenditure in the state or public sector) are not a solution and will not stop gradual emergence of new consequences of the global crisis.

- Probably the time evolution of individual factors, but also a shift of key fundamental effects of the crisis will accelerate in proportion to the process of globalization and strengthening transnational factor in global processes.

- Much of the key problems is unsolvable at the national level, but may be solvable, if there is a modified common universal access.

- In some circles, for example in resolving the debt crisis is a key factor the global strategic direction, but every country due to different causes of debt, will have to choose a different strategy, while the common strategy must be linked to the strategy of transnational corporations and transnational development processes.

Reducing budget expenditure may ultimately become counterproductive both in terms of size of cuts, both in terms of the back impact of these cuts. Most countries consider expenditure cuts in health care and pension systems.

In the European Union the issue of fiscal sustainability is also focused primarily on reducing government expenditures also in key areas: health, pension system, employment in government and public sector, salary development in the state and the public sector. It's an interesting trend, however it has internal contradictions, which may result in completely opposite processes:

- Wider reducing of public sector employment is reflected by rising unemployment.
- Much of the companies that have discovered that they can produce at a lower cost in crisis mode today remains very cautious in terms of increasing employment and the vast majority of workers are employed on fixed-term contracts, with a possibility of flexible release, when the economic situation will develop negative. This means that wage level is directly proportional to the amount of those courses of action.
- Much of the recruitment is now carried out through employment agencies. Thus, government officials would be able to find only jobs with low paid labor.

The logical consequence will be further slump of middle class and it will mean more counterproductive displacement of the asymmetries of wealth and poverty in the society. Another problem is that the austerity measures which are suggested, would not be the solution of problems in health care, but on the contrary, it would deepen the internal contradictions within the national economy.

The biggest problem is that the vast majority of these measures will affect particular groups of the population who are unable to respond with increased work commitment and thereby increase their income. This would be of particular categories of pensioners and low-income groups, so this would mean further deepening the income polarization.

The most fundamental contradiction would be the increase reliance on exports. As the vast majority of businesses should be dependent on exports and domestic consumption would be only an additional factor arises a serious problem. The vast majority of small and medium-sized enterprises of national origin need a domestic consumption. These companies don't have a real opportunity to expand outside of the territory of their state. This inevitably leads to a reducing of number of small and medium-sized companies and ultimately business owners.

Thus, unilaterally and sequentially understood pursuit of fiscal sustainability will mean, in the medium term, substantial deepening of the crisis effects, but is likely to lead to the creation of a new crisis phenomenon and the phenomenon becomes a problem of national and global consumption. (Obadi, S. M., 2011)

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Perspectives of Obtaining External Corporate Financing in the EU and Sources of Trade Finance

Miroslava Makarová¹

Abstract

The main goal of the paper is to present a complex view of obtaining external sources of financing in the European union and to identify alternative visions of obtaining external corporate financing from the bank and non-bank sector and the use of various instruments of export financing. Emphasis will be placed on analysis of the overall impact of the global financial crisis and the impact of speculative financial transactions on bank credit facilities and various forms of external corporate financing.

Key words

sources of export financing, equity, cross-border payments, EU legislation, regulations, alternative financing

JEL Classification: G32, F39

Introduction

The global economy in the 21st century can be characterized as an economy based on the dominance of the financial sector. Analogously, international trade is currently influenced by economic relations between different actors of international relations, as exemplified by many incidents of the last decade, especially the global crisis. The financial crisis has changed its character to the debt and economic crisis. Development of the global financial system continues to show signs of instability and the current state of growth confirms the importance of external sources of trade finance and particularly of alternative, non-credit, business funding sources in the European Union.

Current state of world and especially the European economy confirms the need to search and analyze factors affecting obtaining external corporate financing in the European Union. It is important to investigate and identify alternative vision of external corporate financing from the banking many non-banking sector.

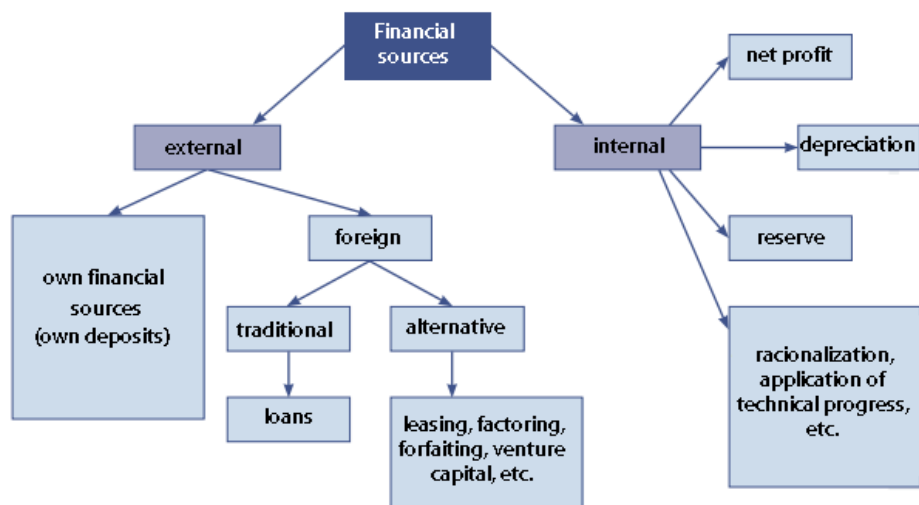
Each business entity needs financial sources for funding own activities. They are own - coming from own capital, retained earnings, reserves or foreign - coming from bank loans, borrowing from companies or individuals , debt securities, issued and traded notes, etc. (P. Baláž, 2005).

Foreign sources were previously substantially reduced. In today's global economy play an important role and businesses can choose from a wide range of options for obtaining funding sources. External sources can be divided into traditional and alternative (K. Belanová, 2013).

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1 Classification of financial sources

Fig. 1 Classification of financial sources



Source: Belanová, K. (2010). Teória a politika podnikateľských financií. Bratislava: EKONÓM, p. 38

External funding is essential for all businesses and especially due to the increase of productivity, innovation, conquering new markets, or more generally, creating jobs and wealth. Facilitating access to finance is particularly important for small and medium-sized enterprises.

1.1 Bank loans

Bank loans remain the most important type of financing. According to the Oxford Dictionary term loan can be broadly defined as the money needed to start a business or borrowed amount that has to be repaid with interest (Oxford Dictionaries, 2012).

According to official Eurostat data based on the most recent statistical data on access to finance for SMEs in the European Union during the period (2007-2013) remain bank loans most desirable type of funding and the need of bank loans will be in the coming year increasing.

Projections for the period 2011-2013 also indicates an increase of 10 percentage points in need of loans for fast growing businesses. For such companies will be estimated need of equity finance nearly doubled. Banks remain the most stable predicted source of financing.

Success rate of fundraising significantly decreased when comparing years 2010 and 2007, which directly indicates the credit crisis and its impact on the business envi-

ronment. Reasons for partial success or failure of obtaining bank loans are diversified from the equity gap by rating the banks to very steep interest rates on loans (Eurostat, 2012).

The global financial crisis and participation in speculative financial transactions in the past has a negative impact on bank credit facilities at present. Reduction of capital ability of banks affects business options of obtaining external sources of trade finance

1.2 Bonds

In comparison with loan financing has bond issuer the option to avoid the strong control of creditors, obtain a larger amount of money and repay it in the long term. The issuer has the right to purchase its own bonds before the maturity date on the secondary market. Paid interests, unlike dividends paid to shareholders, reduce the tax base similarly, as it is in the case of loan financing (Z. Zavaršká, 2012).

In order to obtain long-term or medium-term credit facilities eminent issues bonds, which are placed on the capital market, are sold to operators who invest their available funds to purchase securities. Get credit sources by issuing bonds can particularly large and on the market well-known companies. For small businesses is this form of credit practically unavailable (M. Majková, 2008).

1.3 Issue of shares and bonds as a source of corporate financing

Many companies on the European market need more foreign financial sources and in other structure as the bank are willing to offer them. The banks require guarantee from clients to repay loans, which may not be easy. The way out of this situation is the issue of debt securities in the form of bonds. Bond issue for the client can also be prepared by the banks themselves. The reward for willingness to invest in debt securities for investors is higher returns against bank deposits (P. Baláž, 2005).

When increasing interest rates, investors will expect from new bonds higher interest income as from bonds already traded. O bonds with lower interest coupon ceases to be so much interest and their market price declines. The opposite scenario is followed by a reduction in interest rates. It is possible to formulate a simple but iron rule: if interest rates fall, the value of bonds increases, while if rising, the value of bonds decreases (P. Čmurej, 2012).

1.4 Financial leasing as an alternative financial source

Financial leasing is relatively popular way of financing, especially for smaller businesses, because to obtain long term capital it is not necessary to already own large capital. According to the time for which the leasing contract is concluded, financial leasing is divided into an operating (short term contract) and financial (long-term contract).

The financial and economic crisis has affected also leasing market. While annual changes in business between 2007 and 2008 were positive, 2009 recorded numerous raids. Volume of leasing transactions in Europe in 2009 declined by about 30%. The situation began to stabilize in 2010 and in 2011 the leasing market grew from the perspective of a new volume of financing the acquisition costs by 14% (K. Belanová, 2013).

1.5 Factoring and forfaiting as an alternative financial sources

Businessmen who have money tied up in receivables, thanks to divest their assets will receive needed finance earlier than is the maturity of the debt. Factoring is the purchase of short-term debt while forfaiting presents purchase of medium to long-term debt.

Forfaiting is widespread in the world as a special form of financing export receivables from 50th 20 years Century. Forfaiting is originated from the need for rapid financing of trade flows between Eastern and Western bloc countries. Portfolio investors, who had willingness to bear the risk of solvency of Eastern countries, began to buy export receivables of Western suppliers and thus have ensured forfaiting development in Europe (L. Pavelka, 2008).

In 2009, during the crisis, the volume of refinanced debt in the EU decreased. It should also be noted that with the decline of refinanced debt worsened their quality and insurance is more expensive and less available. Factoring companies are trying to focus on the segment of small and medium enterprises. Large firms make up a large turnover, but on the other hand bring a smaller margin.

1.6 Funds of the European Union

The European Union provides for European enterprises finance in various forms - grants, loans and, in some cases, guarantees. Moreover, European Union finances specific projects. EU funding can be divided into direct funding through grants or indirect funding through national and local intermediaries (Európska komisia, 2012).

Through a wide range of EU programs (2007 - 2013) are provided loans, guarantees, venture capital and other equity financing. These financial instruments are managed by intermediary institutions, such as. banks, venture capital and other financial institutions. The decision to grant equity financing adopt a local financial institution and from it depend on the specific conditions of funding - the amount, duration, interest rates and fees.

An important goal of EU cohesion policy in the programming period 2007 - 2013 is besides "The Convergence" and the European territorial cooperation "also" Regional competitiveness and employment ". Contributions from the Structural Funds and the Cohesion Fund are concentrated in three strategic priorities: (1) Infrastructure and regional accessibility, (2) Innovation, information and knowledge economy, and (3) Human resources and training. Member States may use for this purpose part of the

appropriations of the operational program, respectively. programs co-financed by the European Regional Development Fund and European Social Fund.

Framework program for competitiveness and innovation provides guarantees to increase the supply of debt finance for EU businesses and increase the supply of equity finance.

One of the options is also microfinance called The Progress. This improves the availability of micro-credit (up to EUR 25 000), including for disadvantaged groups and groups (Európa, 2012).

1.7 Sovereign funds

For sovereign funds is financial crisis the golden period. New investment opportunities are opened. During the crisis, sovereign funds actively participated in the rescue of the financial sector. The financial strength of the sovereign funds is currently estimated at 4100 billion U.S. dollars. Various sources estimate the growth of the financial health of sovereign funds in the period 2015 - 2020 to 11-15 trillion U.S. dollars (P. Cmorej, 2012).

The specific position of a sovereign fund occurs in the case of Initial Public Offering (IPO) investment. IPO is the process of offering shares of the company before entering the stock exchange. The company decides to subscribe a certain number of shares at a certain price. If the company manages to attract enough investors and interest in the shares will be higher than the number of offered shares, the entry to the stock exchange will be successful. The stock market price is due to the high interest higher than the subscription price. Especially big companies are trying to gain large institutional investors before IPO. It can be expected that sovereign funds will increasingly be directly addressed by the company itself, to participate in the IPO.

One of the popular forms is investment through convertible bonds. In this case, the form of investment is a loan, for which the company pays interest and the loan is payable by maturity of the bond (P. Cmorej, 2012).

Conclusion

Recently, we have seen criticism of the global financial system for a high proportion of speculative financial transactions, venture capital and unsustainable informal economy. The basic principle of the financial system has changed drastically - the financial system no longer serves the real economy, but the real economy serves the financial system, based on speculative financial transactions. Purchase of financial assets is enabled by extensive borrowing, which is not supported by real income, but only by prerequisite for further growth of asset prices. This phenomenon is called by economist Hyman Minsky as a "Ponzi scheme", respectively. hyperspeculation (J.B. Foster – F. Magdoff, 2009).

Solution of speculative behavior is crucial for the overall impact on the business environment. We conclude that searching perspectives of innovative external forms of

financing is necessary especially for avoiding possible future financial crises and for finding functional options of business financing and business prosperity.

Comparison of the structure of external financial resources of enterprises in the European Union is decisive for determination of restrictions on the availability of finance and identification of innovative financing options in response to new trends. It is inevitable to ensure sustainable growth and prosperity of the business sector in the EU.

In conclusion it should be noted that to overcome barriers in the development of EU enterprises it is necessary to strengthen awareness of entrepreneurs not only in traditional, but mainly in alternative forms of financing, as well as the particulars associated with trading on the capital market.

Special attention should be paid to financing options associated with venture capital, which is now seen as a synonym for "private equity".

Access of companies to financial resources is critical to business success and an important factor for economic growth in Europe, particularly with respect to any past or future financial crises.

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Services and Tourism Industry in Global Environment

Hana Matoušková – Karel Lacina¹

Abstract

Tourism industry represents the independent sector of the global, continental, national and regional economies. It plays the ever growing economic, recreation, medical, cognitive and scientific information role in the economic life of European and many non-European countries. Thanks to their multiplication effect the tourism services influence predominantly such sectors of the economy like transport, building industry, retail trade and banking. The multiplication effects are very important also for the tourism industry development in regions where – if it is managed effectively – it contributes to the diminishing of economic and social disparities.

Key words

tourism industry, national economy, economic life, services, multiplication effect, retail trade

JEL Classification: ROO

Introduction

Tourism industry is possible to assess as the very significant sector of the national economy. Simultaneously it plays - de facto permanently - the ever growing role in the global economy. The mentioned fact is documented by many concrete figures issued by the outstanding international and the national specialized organizations. Taking those facts into account authors decided to specify role of tourism industry services as well as its principal specific features in the economic relations.

1 Role of tourism services in global and national economy

The number of tourists according to the *United Nations World Tourism Organization* acting in the framework of the United Nations the number of incoming tourists was increased in the second half of the 20th century (1950 - 2000) from 27 million to 670 million people. was increased in the world scale from 25 millions to 612 millions it means 24 times in the period between 1950 - 1997. The greatest increase was recorded since the beginning of the 1960s. As M. Palatková reminds „the world tourism volume measured by the international incoming tourism was increased approximately 11 times from 69 millions (1960) to 760 million in year 2004 since the beginning of the 1960s“ (Palatková M., 2006, p.11). Two years after „there were 846.4 millions outcom-

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mings implemented in the world scale" (Jarolímková L.,Řehořková J.,2008,p. 47). The income generated from mentioned activities was increased from 2.1billions USD to nearly 44 billions USD at the same period. For example, only on year 1999 „ the tourism industry share on the World GDP creation was nearly 13 per cent (Indrová J., Malá V.,2004,p. 93). Many of visitors came to the individual European continent states either from other continents or from the EC and EU member states. The UNWTO forecast presupposed that in year 2010 the number of incoming tourists could be increased in the world scale to 937 million people (the Europe share should be 476 million).

The tourism industry contributed significantly to the creation of the gross national product as well as to the regional and local budgets due to the increase of its services between 3 percent to 4 percent a year in the 1990s and in the beginning of the 21st century. Simultaneously we are informed that nearly 24 million labour places are dependent - directly and indirectly - on the tourism industry development in the world scale.

What concerns the contemporary tourism share in the Europe economic activities as the whole oscilates around 10 per cent taking into account its direct and indirect effects. The *World Travel and Tourism Council* - the another significant international organization - envisages the possibility to surpass the mentioned share to more than 12 per cent till year 2016.

Analysing the volume of incomes in the world scale the tourism industry is situated in the first place – in front of business with oil and the automobile industry. The tourism industry represents one of five sectors with the greatest export share in 83 per cent of countries. (Indrová J.,Malá V.,2004,p.93).The income from international tourism was increasing rapidly in the world scale predominantly in the first part of 1990s: about 9.3 per cent a year (this increase in the Czech Republic represented more than 18 per cent a year at the same time).The income from tourism in the European continent in year 2006 achieved, for example, 376.4 billions USD in year 2006 (the Czech Republic profit from tourism was 5.0 billions USD this year).

What concerns the share of individual continents in the world tourism activities more that 40 per cent tourists were visiting the European continent in the end of the 20th and the beginning of the 21st century.In year 2010, for example, 476 milion of tourists came to Europe (from approximately 937 milion tourists measured in the global scale). The number of incoming tourists from China, India, Australia and the Middle East countries visiting European countries is permanently growing. UNWTO figures confirm that also the number of incoming tourists visiting other parts of the world is growing too: East Asia (6.7 percent), Southern Asia (6.1 percent) the American continent (4.1 percent).

A rapid growth of the incoming and outcoming visitors' number became typical also for the first decade of the 21th century. That time France continued the position of the most visited country of our planet (approximately 80 million visitors in year 2006). It was followed by Spain (58,5 million tourists) and by the United States of America (51 million tourists) in year 2006. According to the UNWTO data about 842 million tourists were moving from one country to another one in the world scale. The greatest increase was recorded in Thailand, the country which was visited by 14 milion tourists (the increase more than 20 per cent) in year 2006. The world tourism industry incomes achieved 622 billions USD in year 2004 (Palatková M.,2006, p.11)

and 741.2 billions USD in year 2006. The UNWTO forecast presupposed that in year 2010 the number of incoming tourists should be increased in the world scale to 937 million people (the Europe share should be 476 million). The statistic figures document the fact that while in year 1995 this inter-continental movement represented 24 per cent of all incomes in year 2020 it should be increased to 30 percent. Figures of the same international organization confirm that 1. 035 million tourists visited other countries:- to Europe came 534.7 million tourists in year 2012. The number of incoming tourists in the period of years 2002 to 2012 was increased nearly for 50 per cent (*Hospodářské noviny* - Czech newspaper - 4.11.2013).

What concerns the balance of the global tourism industry in year 2012: the selected countries achieved the earnings from the incoming tourism in the total amount (*Hospodářské noviny* - Czech newspaper - 4.11.2013)

- *the U.S.A.*: 126.2 billions U.S. dollars (9.2 per cent increase),
- *Spain*: 55.9 billions U.S. dollars (6.6 per cent decrease),
- *France*: 53.7 billions U.S. dollars (1.5 per cent decrease),
- *China*: 50.0 billions U.S. dollars (1.5 per cent increase),
- *Macao (China)*: 43.7 billions U.S. dollars (13.7 per cent increase),
- *Czech Republic*: 7.0 billions U.S. dollars (8.0 per cent increase)

U.N.WTO statistical figures concerning the outcoming tourism industry balance in year 2012 inform about the amount of money spent by tourists from indicated countries (*Hospodářské noviny* - Czech newspaper - 4.11.2013):

- *China*: 102.2 billions U.S. dollars (37.2 per cent increase),
- *FRG*: 83.8 billions U.S. dollars (5.8 per cent increase),
- *U.S.A.*: 83.5 billions U.S. dollars (6.7 per cent increase),
- *United Kingdom*: 52.3 billions U.S. dollars (4.1 per cent increase),
- *Russian Federation*: 42.8 billions U.S. dollars (36.5 per cent increase)

Next year, 2013, during first eight months (January- August) the incoming tourism industry balance was 747 million tourists in the global scale (the increase 5 per cent - 38 million visitors - in comparison with year 2012). The incoming tourism increase to Europe was approximately 20 million and to Asia 10 million people (*Hospodářské noviny* - Czech newspaper - 4.11.2013).

The so called „*Tourism Vision 2020*„ forecast worked out by the UNWTO presupposes that 1.50 billion people would be transported from one country to another one during year 2020. Europe could be visited by 717 million tourist from other continents and about 728 million Europeans could visit go abroad.

2 Tourism industry services specific features

The complex character of tourism services provision is one of their most significant features. There is the common position among specialists that the mentioned sector of the economy fulfils mainly economic, recreation, medical, cognitive and scientific information functions. Tourism industry includes different services and professions and it is connected with a greater number of different economic activities. Thanks to their multiplication effect the tourism services influence predominantly such

sectors of the economy like transport, building industry, retail trade and banking. Indirectly they have the positive impact also on the visitors interest in cultural and sport facilities.

The contemporary tourism is characterized predominantly by the following attributes:

- it is formed in conditions of relatively intensive economic and technical development;
- it represents the significant component part of the inhabitants consumption;
- tourism services are spread gradually into all strata of inhabitants practically in the territory of the whole planet;
- those services are not the wealthy people exclusive privilege;
- tourism is acquiring the mass character with the high dynamics of its growth;
- tourism becomes the important form of leisure time utilization;
- tourism represents a very significant sphere of entrepreneurial activities;
- tourism needs specifically trained labour forces;
- tourism activities have only the seasonal character (Jakubíková, 2009, p.49);
- the tourism industry development is influenced in the greater extent by the political situation of the concrete state and regions (predominantly in the developing countries).

3 Regional aspects of tourism activities

There are many evidences of the fact that the effectively organized and managed tourism industry contributes permanently to the positive economic development of such regions where tourism is successfully contributing to their long time competitiveness. Its importance is reflected by the number of labour places growth as well as by the generation of incomes from products and services purchase to tourists.

Regions differ, of course, in the framework of the state territory what concerns their attractivities. In general there are regions attractive for tourism and other which are visited by tourists only in relatively limited moments practically in many countries of our planet. Nevertheless there is the consensus in the idea that tourism activities represent important challenges predominantly in regions where elected representatives closely cooperate with the Small and Medium-sized enterprises owners and managers. The entrepreneurs are building here new accommodation and catering capacities and the local government is helping to them by the construction of technical infrastructure and information centers as well as by the activation of the cross border cooperation implemented in the territory of the so called euroregions in the Public-Private-Partnership framework. Taking all mentioned facts into account strategies worked out for tourism can be formulated nowadays very often as the component parts of their broadly outlined strategies in the majority of regions.

The principal tourism activities in regions are concentrated predominantly to:

1. *Investments into construction of hotels, the purchase of modern transport means and in the construction of highways and other communications.*
2. *The strengthening of cooperation among entrepreneurs, local government and the public administration authorities and offices based on the principle of part-*

nership and networking. The mentioned orientation is positively reflected - among others - in the creation of more work out tourism industry strategies in the tourism destinations.

3. *The new labour places creation in the tourism industry facilities.*

4. *The improvement of cultural monuments situated in regions protection and simultaneously of the local inhabitants general educational level increasing.*

Nowadays, for example, part of fields that is not of the highest soil bonity is transferred into forests or they are grassed down. In such a way pleasant conditions for the *agrotourism*, *ecotourism* and *eco-agrotourism* development are created here. The attractiveness of the indicated characteristic features of the village tourism are caused by:

- its more sensitive relationship to the nature;
- limited (therefore more intimate) accomodation capacities;
- offer of pleasant environment of farms and small boarding houses;
- much better approach of services producers to visitors individual needs satisfaction;
- additional services provision (like for example horse riding, hunting, fishing);
- the possibility of local traditions, handicrafts, ways of soil cultivation recognition.

Modern forms of tourism activities - agrotourism, ecotourism and eco-agrotourism - (Mach F. and others, 2005, p.5) offer new labour places for the local population. They represent the realistic contribution to the regions development because more and more tourists visiting village areas estimate predominantly:

- the local healthy environment;
- the natural and historical monuments situated here.

Agrotourism, ecotourism and eco-agrotourism represent in such a way the successful economic and social orientation mainly in municipalities where the principle Public-Private-Partnership is developed. Agrotourism is sometimes internally divided into so called:

- free agrotourism and
- accomodation facility-based tourism.

The so called *free agrotourism* (characterized sometimes also as active or individual agrotourism) is represented de facto by several days wandering from one farm to another one (<http://www.prazdninynavenkove.cz>).

The *accomodation facility-based tourism* is implemented in the following types of the accomodation:

- traditional family farm;
- village hotel or boarding house fulfilling criteria of environment protection (often near the Protected Preserved Areas – for example National Parks).

Ecotourism - with the annual increase about 15 per cent to 30 per cent - is one of forms of the so called *soft tourism*. In comparison with agrotourism it is more oriented to the nature observation. That is why the most available conditions for its development are in parts of the nature enabling one or more days wanders.

The space for *eco-agro-tourism* is in the bio farms that do not use fertilizers in their plants growing. The cows, sheeps, goats and horses are bred here in the traditional natural way. The mentioned style of agricultural production is considered to be very attractive by the eco-agrotourism participants.

Generalizing regional tourism activities strategies are oriented predominantly to:

1. *The support of tourism industry infrastructure* with the emphasis on bikeroutes and water recreation activities spaces, cars and buses parking areas, accommodation and gastronomy facilities, camps and information charts construction, the cultural, entertainment and sport infrastructure, technical information systems as well as ski routes quality improvement.
2. *Regional tourism industry organization structure building and its quality improvement* with the principal orientation to the regional and local tourism organizations network stabilization and regional information centres activities development.
3. *Efforts aimed at the tourism destinations image increasing*: The orientation to *the long-term marketing activities improvement* oriented to the regions effective propagation seems to be the way of the mentioned goal implementation. The similar significance has *the education and training of the tourism industry facilities staff*.
4. *The support of cultural and natural inheritance regeneration*.

Conclusion

Facts presented here confirm the growing role of the tourism industry in the global, continental, national as well as regional scale. It is evident that the effectively managed tourism services not only generates incomes for budgets (and they contribute to the economic development in such a way) and for local inhabitants but they also create a great number of labour places. They are facts which are extremely important in the contemporary phase of economic and social relations.

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Lotteries Performance in Times of Financial Crisis

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Abstract

The role of state lotteries in the economy is changing. Still being only one of the sources of revenues to state budgets, financing of more and more causes relies heavily on their performance. This article describes the performance of lotteries in Central and Eastern Europe in times of financial crisis showing the relation of GGR growth to GDP growth in the region. As the issue of economics of state lotteries is still not very popular among researchers, this paper aims at being introductory for future research on this topic.

Key words

lotteries, financial crisis, economic performance of firms, international economics, state monopolies, gambling

JEL Classification: G01, L83, M21

Introduction

The research on the economics of state lotteries does not find too much coverage among economists worldwide. One of the reasons for this may be the limited availability of data from market participants. In some countries companies are either state owned or operate under a state license, in the minority an open market exists with publicly traded companies reporting extensive sales data. Therefore the majority of research devoted to state lotteries comes from the end of 20th century, when an evaluation of profitability of newly established lottery companies, mainly in the US, took place. Since then only limited research on economics of state lotteries was published.

The aim of this paper is to examine the performance of state lotteries in the times of the financial crisis. Some evidence in the literature exists, that the performance of lotteries and their sales levels depends not only on the price of the ticket (Walker, 1998) or the expected prize value (Clotfelter, Cook, 1990), but also on other factors, including personal income, level of unemployment, age of lottery, competition (Mikesell, Zorn, 1987). The hypothesis is, that the financial crisis could also have an impact on the performance of the lotteries.

This paper analyzes aggregated data for two groups of countries – 27 European Union countries, excluding Croatia and four Central and Eastern European countries – Czech Republic, Hungary, Poland and Slovakia. The reasoning for selecting those countries is outlined in Section 1. Section 2 briefly presents the situation of lotteries before the financial crisis of 2008. Section 3 is a summary of the effects of the financial crisis on the economic output in the European Union. Section 4 covers a basic analysis of

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the effects of the financial crisis on the performance of lotteries in Central and Eastern Europe compared to the performance of all 27 European Union countries.

The aim of this paper is not to exhaust the issue of lotteries performance in times of the financial crisis, but to present some basic concepts and correlations between economic output and lotteries performance. Thus this paper should be treated as an introduction and inspiration for future research.

1 Criteria for Selection

The lottery markets within the European Union are at diverse stages of development. As for the year 2006 differences in Gross Gaming Revenue (total sales minus prizes) per capita reach from as little as 2 Euro to as much as 132 Euro. The differences grow over years and for the year 2012 the span ranged from 4 Euro to 207 Euro. The dispersion within Central and Eastern Europe, including Czech Republic, Hungary, Poland and Slovakia is significantly lower and ranges from 12 Euro to 25 Euro in the year 2006 and from 11 Euro to 34 Euro in the year 2012.

The similarity of those four countries lies not only in the development of lottery markets, but also in similar stage of economic development and geographical proximity. Thus all analysis in this article will refer to all four countries of Central and Eastern Europe (CEE), i.e. Czech Republic, Hungary, Poland and Slovakia. As a reference point the European Union consisting of 27 countries (EU27), excluding Croatia, will be taken.

As the lottery specific data originates from an internal European Lotteries study, measures for anonymization of data are required. The author will thus treat the examined region as a whole and the analysis will be made upon aggregated data for all four countries. All data presented in this article are based on annually published data from the European Lotteries (ELISE - European Lotteries' Report on Lotteries in the EU and in Europe 2006-2012) as well as data obtained from the Eurostat statistics.

The analysis spreads across the years 2006 to 2012. This time span is limited by availability of data related to GGR of lotteries in respective countries but as it covers seven years conclusions based on such an analysis should be valid.

2 Lotteries Performance before the Financial Crisis

The lottery market in the European Union before the financial crisis of 2008 witnessed a stable growth. The compound annual growth rate (CAGR) for the EU27 was at 1,22 % for the years 2006-2008. Although the individual situation of CEE lotteries differed in that time and so did the pace of growth, the region as a whole experienced an even more rapid CAGR of 4,15 %. The total GGR in the examined countries grew from 986 million Euro in 2006 to 1,069 billion Euro in 2008.

At the same time, the economic situation in the CEE region was very good. The GDP grew at a CAGR of 14,5 % in the years 2006-2008 and the economies of Czech Republic, Hungary, Poland and Slovakia grew by almost a third in 2008 compared to 2006.

3 The Aftermath of the Financial Crisis

Examination of the recent financial crisis of 2008 and comparison to previous crises shows, that such protracted affairs share three common characteristics (Reinhart, Rogoff, 2009). Disregarding the rising value of government debts as well as the deep and prolonged collapse of asset markets, the decline in output and increase of unemployment is interesting from the point of view of this analysis. The subject of the effects of unemployment rate on lottery sales has already been widely discussed in the literature (Mikesell, Zorn, 1987) with the conclusion, that the elasticity of lottery sales to unemployment rate is positive although relatively small (Mikesell, 1994). Thus the major focus will be given to the output issue, measured by total GDP of respective countries.

Tab. 1 Total GDP for CEE countries

	2006	2007	2008	2009	2010	2011	2012
GDP (bn EUR)	524,5	597,1	687,4	607,1	666,7	694,2	702,2

Source: Eurostat.

A significant decrease in the total GDP for Czech Republic, Hungary, Poland and Slovakia occurred following the financial crisis in the year 2009. The total GDP decreased by almost 12% compared to the year 2008 as shown in Tab. 1. Also the dynamic of economic growth for the analyzed countries decreased from a CAGR of 14,5% in the years 2006-2008 to 5% in the years 2009-2012. Extracting the aggregate data to individual countries would show, that four years after the crisis, in 2012, only Poland and Slovakia would achieve a GDP on a higher level than in 2008. Both Czech Republic and Hungary level below the results of before the crisis.

4 Lotteries Performance after the Financial Crisis

The situation in the analyzed countries after the financial crisis had an impact on all spheres of their economies, including the lottery market. The strictly regulated market, with state monopolies in Hungary, Poland and Slovakia is much less prone to rapid changes, than other markets. The amount of regulation, permissions required for running lottery games, the time to market for new products as well as inelastic structures of organizations operating on the lottery market make it very hard to instantly react to the changing situation in the external environment.

Some intuitive reasoning as well as cases described in literature may suggest, that in recession people are less risk averse and find it more attractive to play lottery (Mikesell, 1994), but in fact empirical evidence shows, that the economic downturn after the financial crisis had also an effect on the performance of lotteries.

The total GGR of lotteries in Czech Republic, Hungary, Poland and Slovakia of 1,069 billion Euro in 2008 decreased by 4,3% to 1,023 billion Euro in 2009 and this was just the first year of recession for lotteries in the region. Three out of four ana-

lyzed countries experienced a decline in GGR, whereas a small growth of 2,4% was witnessed in the fourth.

At the same time, the GGR of all EU27 lotteries grew by 7,5% compared to 2008. An explanation of this could be, that the recession started by the financial crisis of 2008 had an immediate effect on smaller and more interconnected economies, whereas the effect on the total EU was postponed.

For the four analyzed lotteries the negative effects of the financial crisis were reflected in declining GGR over the next two years. A further market decline by 4,8% in the year 2010 was followed by a significant yearly decrease of 15,6% in the year 2011. Thus the lottery market in the four countries decreased by over 23% in three years after the financial crisis.

Part of the explanation could be the insolvency of one of the lotteries in the region, but it is disputable if under normal market conditions, with the economy growing at the same rate as before the crisis, this would even happen. Even taking out this specific country, the decline of the lottery market in the remaining three countries was significant at 17% comparing 2011 to 2008.

The year 2012 brought a rapid change in the situation of CEE lotteries. Three out of four lotteries increased their GGR to a level exceeding the GGR in 2008, the fourth lottery, being subject to insolvency in 2011, felt 20% behind the numbers for 2008. Still, the total GGR of CEE countries was only 10 million lower than in 2008 and over 30 million higher than in 2009. The yearly growth of the CEE lottery market was at over 28,5%, a significant result when comparing to other markets and regions.

Comparing to the EU27 shows, how good were the results achieved within the CEE region. After experiencing a growth in the year 2009, a decline in total GGR was observed. The CAGR of EU27 lotteries in the years 2009-2012 was negative at the level of -0,56% and the GGR in 2012 was still 1,6% lower than in 2009.

Conclusion

State lotteries, operating on various markets and under various conditions, share some common characteristics. This is not only the portfolio of games or games types they offer or the level of payout, but also the conditions under which they usually operate. In the majority of countries in Europe lottery companies are either state owned companies, executing the state monopoly on lottery games, or private companies operating under a governmental license. As the gambling market is not yet harmonized within the European Union, only few countries decided to liberalize the market and open it fully for competition.

Operating under these circumstances means, that in general no or only limited competition exists. Thus the performance of the lotteries depends on their internal, organizational factors and external, macroeconomic factors.

The internal factors could include the design of games, the level of jackpots, the expected prize value (Clotfelter, Cook, 1990). The external factors include *inter alia* level of personal income and unemployment (Mikesell, Zorn, 1987).

The aim of this paper was to present another possible factor, that could influence the performance of lotteries, which could be the economic output measured by GDP growth. As the decline in economic output, along with the increase of unemployment (Reihnart, Rogoff, 2009) are a characteristic on an financial crisis, they could have influence on diverse markets, including the lottery market.

As presented in Section 4 some evidence exists, that the economic downturn may have a negative effect on gross gambling revenues of lotteries. This is especially visible when comparing the Central and Eastern European countries with the rest of European Union, taking into consideration the level of decrease in GDP and the level of decrease in GGR.

The presented results need further examination and form at this stage more of an extended hypothesis for future research. The outcome of that research should be a solid statistical analysis of factors influencing performance of lotteries in times of financial crisis.

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The Drivers of the Effective Exchange Rate Appreciation before and after the Crisis – the Case of the Czech Crown¹

Ota Melcher²

Abstract

The European integration process has had severe impacts on the development of effective exchange rates of member states' currencies. For small and open economies which trade large part of both their production input and output in foreign currencies the effective exchange rates are of a special importance as they give a better picture of the currency's strength vis-à-vis major trading partners and also indicate the level of international competitiveness. This paper looks at the drivers behind the evolution of the effective exchange rates of CZK within the European integration process. Beside the general long term trend, several factors of exchange rate fluctuations are depicted. Finally the recent halt in long term trend in CZK appreciation towards EUR is discussed.

Key words

real and nominal exchange rate, effective exchange rate, appreciation, depreciation

JEL Classification: E31, E42, F31, F36

Introduction

There have been important developments in effective exchange rates in the context of European economic integration. Effective exchange rates are of paramount importance, due to several reasons, especially for small and open economies which trade large part of both their input and output in foreign currencies. This paper looks at one such case and deals with the evolution of the effective exchange rate of the Czech crown (CZK) before and after the Czech Republic became a member of the EU.

Firstly, the paper covers the methodology behind the effective exchange rates calculations of CZK. While taking economic theory and data availability into account, it presents different possibilities available for expressing the nominal and real effective exchange rates of CZK and the options eventually used at present. Particularly, it discusses the method of trade weights (Armington 1969) in case of nominal effective exchange rate and the use of deflators to calculate the real effective exchange rate. Such methodology is also used to construct harmonised competitiveness indicators for individual EU Member States. Subsequently the paper looks at both nominal and real effective exchange rates and depicts their mutual link. Next the development of the EUR/CZK exchange rate is discussed while pointing out main drivers behind the long term appreciation trend in different time periods. Finally the recent alteration of the

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long term trend is analysed in the context of current post-crises performance of the economy.

1 Definition and methodology - NEER

The nominal effective exchange rate (NEER) is usually expressed as an index portraying the strengthening (index higher than 100) or weakening (index lower than 100) of the domestic currency vis-à-vis a group of selected currencies for a certain period in relation to a base period.

According to the guidelines of the International Monetary Fund (IMF) the NEER may be constructed in several ways. The most common method utilizes the weighted geometric average of nominal exchange rates, while considering the shares of country's most significant trading partners in total exports and imports.ⁱ The NEER equivalent is thus so called trade-weighted currency index (ARAD, CNB).

The NEER construction method employed by the European Central Bank (ECB) similarly comprises the shares of largest trading partners however only considers those groups of goods which less susceptible to government measures and which better reflect the level of international competitiveness achieved. Hence the trading partners' shares in exports and imports are derived from the goods turnover in groups 5–8 of the Standard International Trade Classification (SITC) (De Clercq et al. 2012).ⁱⁱ

The NEER index is constructed on monthly and annual average basis. It is calculated for 13 currency areas in a time series based on the year 2010.

1.1 Data and their processing

Based on the statistics on the territorial and commodity structure of foreign trade provided by the Czech Statistical Office for 2010, group of countries representing approximately 90% of the Czech Republic's foreign trade was selected. In total 27 countries were chosen as the main import and export partners, naturally, not necessarily represented in both categories equally. To provide for the calculations, the euro area members are subgrouped in a single currency area, their number always corresponds to the actual state.ⁱⁱⁱ The weights are then calculated using the methods described above, i.e. either comprising the entire goods turnover of the Czech Republic (the IMF variant) or incorporating only four mentioned SITC groups^{iv} which, according to the ECB, better reflect the fundamentals of competitiveness attained.

As such there are 13 currency areas, and CZK exchange rates are calculated as average monthly rates from the Czech National Bank (CNB) exchange rate database. Currencies lacking history in the CNB database were used from IMF monthly statistics.

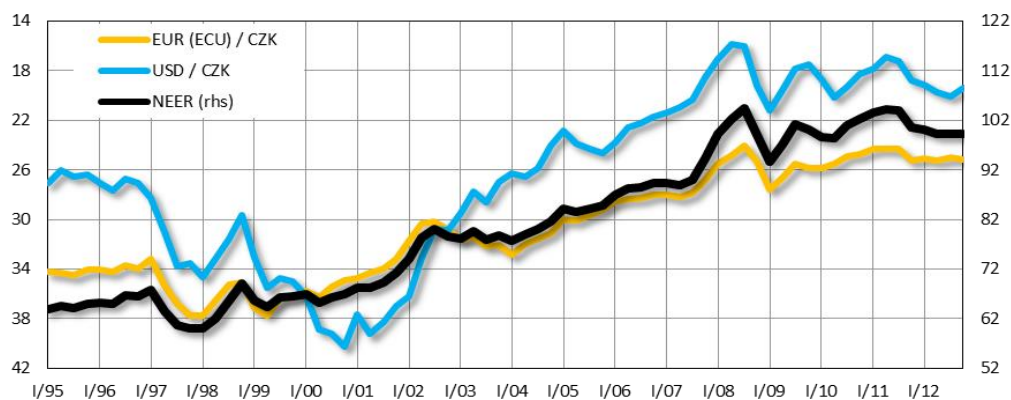
Tab. 1 Trade weights used in construction of NEER and REER, 2010

IMF variant	in %	ECB variant	in %
Currency area	Base year 2010	Currency area	Base year 2010
Euro area	65,4	Euro area	66,1
Russia	4,5	Russia	2,2
Poland	7,0	Poland	6,3
United Kingdom	3,9	United Kingdom	4,2
USA	2,2	USA	2,5
Japan	1,6	Japan	1,7
Hungary	2,5	Hungary	2,5
Switzerland	1,5	Switzerland	1,7
Sweden	1,4	Sweden	1,6
Denmark	0,8	Denmark	0,8
China	7,2	China	8,2
Korea	1,0	Korea	1,2
Romania	1,0	Romania	1,0
Total	100,0	Total	100,0

Source: CNB, ARAD database

Figure 1 shows the development of the nominal exchange rates of CZK towards EUR and USD, as well as the NEER line for period of 1995-2012. NEER is constructed with a help of the total trade turnover method.

Fig. 1 Nominal exchange rates, 1995-2012



Quarterly averages, average 2010=100(rhs)

Source: own calculations from ARAD database, CNB, Eurostat

2 Definition and methodology - REER

The concept of the real effective exchange rate (REER) can be understood as comparison of levels of relative prices/costs stated in a certain currency and as such it

signals, among other indicators, the level of the international competitiveness of an economy. Deterioration or rather a downward trend in economy's competitiveness in relation to the base period is indicated by index values above 100, whereas levels below 100 signals rising competitiveness of the country relative to the base period, as the level of prices/costs is lower compared to external environment (Mandel et al. 2003).

To compute the indices the weighted geometric average of the ratio of the nominal exchange rate index to the GDP deflator differential is used, with the weights given by the shares of the economy's largest trade partners in the total trade turnover (similarly to the NEER).

The REER calculation method utilizes the GDP deflators of 12 states outside of the euro area and then all euro area countries. For the sake of simplicity the euro area is identified as a single currency and price/cost area. Again, the number of euro area countries is updated to the actual state. The selected countries and their respective weights are the same to those used to compute the NEER. Likewise two possible ways of the weights construction are considered, whereas the weights can correspond either to the overall trade turnover or relate solely to the turnover selected SITC groups. The base of the time series is the average of 2010. In the process of REER calculation similar trade data to NEER construction process are utilized, naturally, as REER is price-adjusted nominal effective exchange rate.

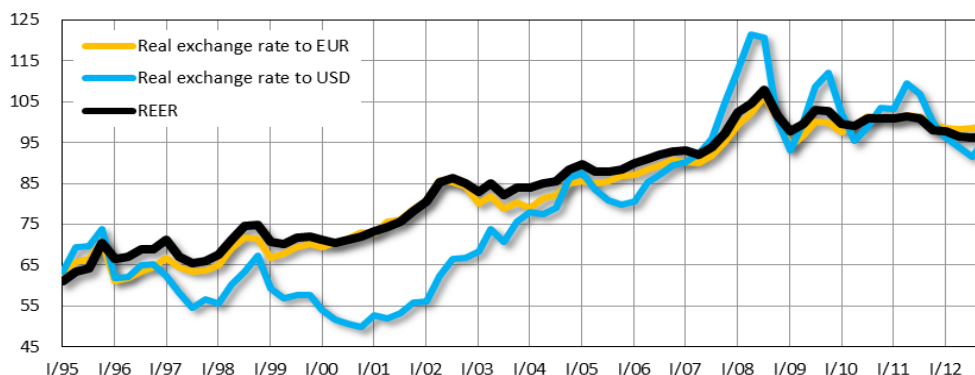
3 Selection of the base year

Speaking of both the NEER and REER, the choice of the base year is of particular significance. By setting the NEER/REER average for some year at 100, we can observe alterations in the currency's value as percentage changes over the base year. Thus the exchange rate calculations are, in most cases, converted into indices by taking a certain year as a base year. As such the characteristics of the base year become one of the most important issues when interpreting the developments of the exchange rates. Hence, the exchange rate movements calculated on different base years can lead to quite different conclusions.^v

When setting the base year policymakers should look at both the internal and the external equilibrium which should be ideally met simultaneously in that specific year. In reality, however, the CNB follows different guidelines. Recent change of the base year dates to March 2012 when the time series base has been changed to average of 2010 (Kipici et al. 1997). The IMF recommends regular revisions of the weights structure in 5 year interval to reflect alterations in territorial structure of the trade turnover. As such 2017 will bring about next trade data revision with setting the base year to 2015 (ARAD, CNB).

Following figure shows the trajectory of REER calculated on the basis of total trade turnover. Nominal exchange rates are adjusted by GDP deflators of respective countries. Real exchange rates are constructed vis-à-vis EUR and USD. Similarly to REER figure the graph shows the period of 1995-2012.

Fig. 2 Real exchange rates



Quarterly average, deflated by GDP deflators, average 2010=100

Source: own calculations from ARAD database, CNB, Eurostat

4 Nominal and real exchange rate link and the “effective” exchange rates

The nominal exchange rate is expressed as the number of units of the domestic currency per a unit of a foreign currency. A drop in nominal exchange rate means nominal appreciation of the domestic currency, while an increase in this item is marked as nominal depreciation of the currency.^{vi} Nominal exchange rate measures only the numerical ratio of exchange rates not saying anything about important aspects such as purchasing power or competitiveness.

To allow for reflection of these aspects and to make the exchange rate more meaningful, the real exchange rate adjusts the nominal exchange rates to price levels of two respective countries. As such it implies the purchasing power of the domestic currency abroad, after the conversion with nominal exchange rate. It follows that rather than observing the absolute value of the real exchange rate, one should give more attention to its changes. An increase in the real exchange rate signals (real) appreciation while a drop in the variable is marked as (real) depreciation.^{vii}

Following is the equation for real exchange rate calculation:

$$Q = \frac{Pd}{E * Pf}$$

where P_d is the domestic price level, P_f is the foreign price level and E stands for nominal exchange rate (Taušer 2007).

It is worth noting that while real appreciation, as stated above, leads to an increase in the real exchange rate (Q), nominal appreciation is observed when nominal exchange rate declines making the domestic currency nominally stronger.

When trying to assess the effect of the exchange rate on international trade it is more sensible to look at the real exchange rate rather than considering the nominal one (Frait et al. 2001). For example, if we assume the domestic price level increase by 10%, the foreign price level unchanged and the domestic currency weakening (depreciating) nominally by 10%, then the real exchange rate remains unchanged,

because the ratio of prices levels remains unaffected (adjusted by nominal exchange rate) regardless of the depreciation of the domestic currency. As such, *ceteris paribus*, we would not observe any change in the demand for imports and exports within the domestic economy.

As mentioned above, NEER and REER are effective exchange rates. Contrary to nominal and real exchange rates, NEER and REER are not calculated for each foreign currency area separately. Rather effective exchange rates are expressed as indexes depicting what is happening to the value of the domestic currency against a basket of other currencies.

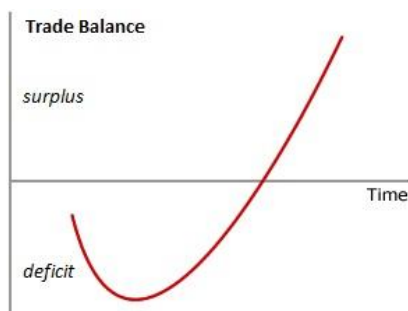
The monetary authorities do not dispose of the absolute control over the real exchange rate movements. Certain developments like changes in the terms of trade, foreign capital movements or productivity gains due to tech-innovations may cause movements in the real value of the exchange rate. However, such alterations are rather the consequences of the economic laws working (Frait et al. 2001).

4.1 Real depreciation of the exchange rate

It is worth mentioning that the real depreciation of the exchange rate may have unexpected negative effects on the foreign trade balance in the short run. This is often represented by the "J-curve" effect in the literature (see figure 3). It illustrates the lagged impact of the exchange rate alterations on the price (and quantity) of imports expressed domestic currency. The main reason behind the curve is that both exports and imports would remain largely unchanged owing to prior trade deals and trade contracts. Also it takes time on the side of consumers to look for acceptable alternatives. Thus, according to economic theory, the real depreciation of the exchange rate does not result in the expected reduction in import volume in the short run. On the contrary, due to real depreciation the value of the existing import volume in terms of domestic currency rises. As such a negative effect on the trade balance can be observed (Vintrová 2007).

In the long run, however, the real depreciation can have a positive effect on the current account as domestic consumers might find alternatives in domestic goods. Eventually the desired effect of the real depreciation is observed. However, it must be noted, that the curve progression depends on the structure of total imports (share of intermediary and investment goods), thus the real depreciation might not lead to an expected decrease in imports as anticipated by the theory (Holub et al. 2006).

Fig. 3 The “J curve” effect following real depreciation of the exchange rate



4.2 Real appreciation of the exchange rate

The process of economic convergence is often accompanied by real appreciation of the exchange rate. However, Balassa-Samuelson effect, resulting from the different developments in productivity in the tradable and non-tradable goods, explains only part of the real exchange rate appreciation. Part of the real appreciation is also the result of the transformation process (or a correction of price distortions), or can be explained by improving the quality of products and increase of the demand for exports of the new EU member states. Empirical estimates of the equilibrium real appreciation of the EU10^{viii} countries show considerable variance, particularly in relation to economic development and progress in real convergence (or transformation) of the economy (Komárek et al., 2010).

5 The evolution of the effective exchange rates of CZK

This part of the paper will discuss the evolution of the exchange rate of CZK before and after the Czech Republic became a member of the European Union. Brief history of the exchange rate movements in the 1990s will be presented. Subsequently the period right before joining the EU will be described in more details. Finally, the remaining time period will be commented on with attention to post crisis adjustments of the economy. Special focus will be given to real exchange rate movements.

5.1 The period until 2002

The development of the real effective exchange rate of CZK is marked by a long term appreciation trend. We can observe real appreciation since 1991, however, with different drivers in respective periods. It is also important to mention, that such development occurred within different regimes of monetary policy. There had been a fixed exchange rate regime until 1997 when the central bank moved to (almost) clean floating of the exchange rate.

In the beginning of the 1990s the exchange rate system was still highly distorted

by the legacy of the central planning framework. The official exchange rate was far from the one on the unofficial market (Winiecky 1993). To stabilize the currency, the government opted for the fixed exchange rate regime with anchor to a basket of five foreign currencies. The exchange rate was meant to be the stabilizing variable of the whole transformation process. After couple of devaluations in 1990, the currency was clearly undervalued (Kopits 1995). This served as a temporary assistance to exporters until the real appreciation emerged. Later on modest fluctuation intervals were introduced as well as narrowing down the basket of base currencies to German mark and the dollar only. The currency crisis in 1997 documented the unsustainability of the regime, followed by both NEER and REER adjustments (figures 1 and 2).

At first the above mentioned devaluations of the nominal exchange rate led naturally to depreciation of the real exchange rate, however, starting from 1991 the nominal exchange rate was, as a matter of fact, fixed. Yet due to tax reforms, price deregulations and also high inflation expectations the price level rocketed above those of the trading partners. Relatively higher inflation rate resulted in appreciation of the real exchange rate. Several countries in the region, namely Poland and Hungary, witnessed a different story owing to introduction of crawling peg allowing for gradual adjustment of the exchange rates (Kopits 1995). As a result their real exchange rate did not strengthen as much as in the case of CZK.

Following the currency crisis in 1997, when the central bank intervened strongly trying to safeguard the fixed exchange rate regime^{ix}, the bank opted for inflation targeting framework, whereas exchange rate regime was swapped to managed floating. In fact, the CNB only seldom intervened on the market making it "almost" clean floating regime. Within the new framework the CNB was able to force down the inflation to levels similar or lower to those in trading partner countries. However the existing real appreciation did not vanish and the process continued further, yet due to different drivers. This time the nominal appreciation of CZK vis-à-vis foreign currencies became the main driver after 1997. It is possible to observe different developments of nominal exchange rate of CZK towards EUR (ECU) and USD (figure 1), yet the weights of these currencies in the construction of NEER and REER must be taken into account.

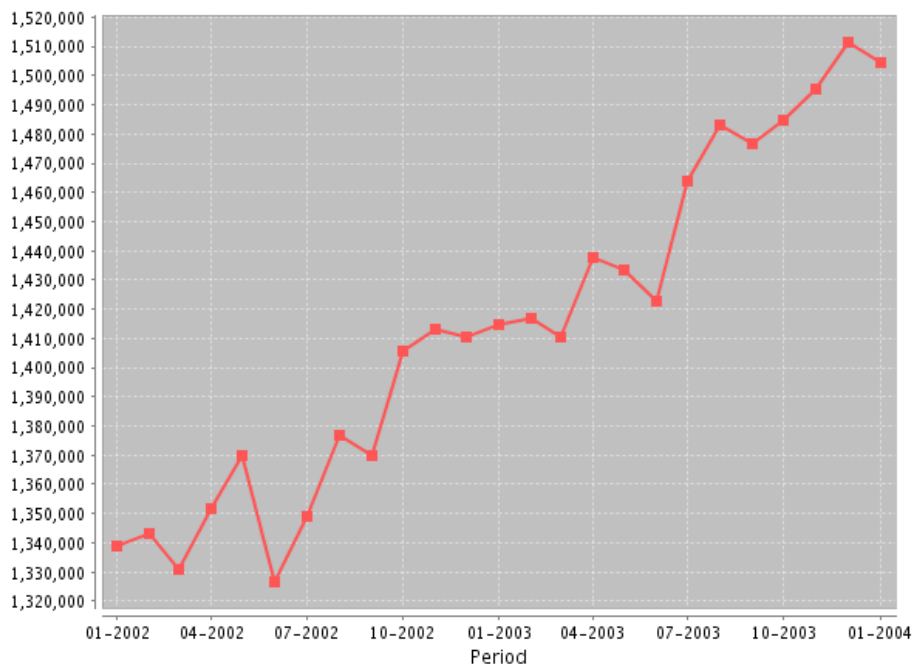
5.2 The period of 2002-2004

In the period 2002-2004 a change in a long-term trend of the currency pair EUR/CZK can be seen. The process of the real convergence to the EU took place virtually since 1999 and was marked by systematic appreciation of the real exchange rate as discussed above. Beside main drivers of the real appreciation mentioned in previous section, other factors as increase in labour productivity in the domestic economy and increase the quality of goods can be quoted as well (Mandel and Tomšík 2003).^x In early 2002, the trend of real appreciation strengthened, mainly through nominal appreciation of the EUR/CZK (figure 7) where the exchange rate stepped up to 30 EUR/CZK from 34 EUR/CZK over the course one year.^{xi} Since September 2002, however, the nominal exchange rate depreciated by approximately 10% to 33 EUR/CZK at the end of 2003 and beginning of 2004.

Indeed, in the period 2002-2003 there was a significant decline in interest rates, which was caused by expansionary monetary policy pursued by the CNB with the

growth of the monetary base and consequently the growth of money supply. It is possible to detect in figure 4 that the nominal money supply in the Czech Republic (as measured by the monetary aggregate M2) has increased since September 2002 until early 2004 by approximately 30 %.

Fig. 4 Monetary aggregates and counterparts - M2 (total), 1/2001-1/2004

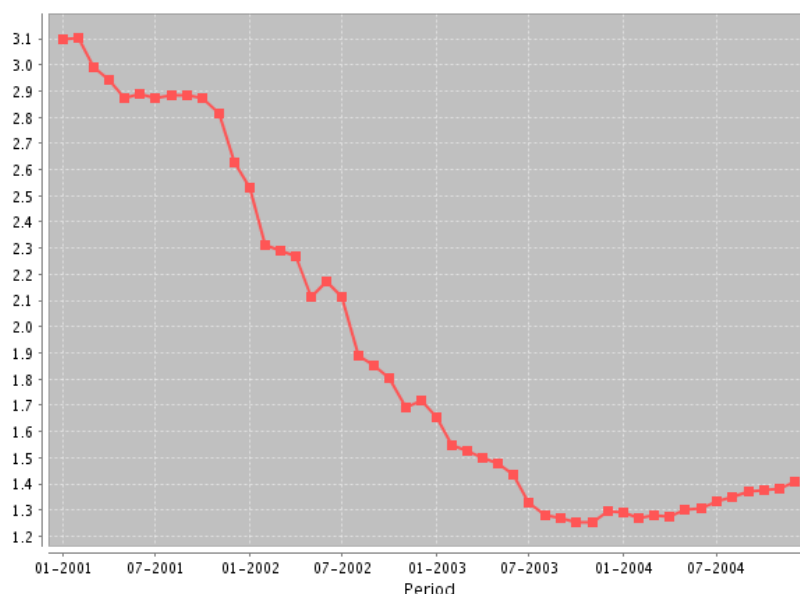


Monthly averages, January 2002 – January 2004

Source: ARAD database, Monetary aggregates and counterparts

This should have led in the long run to weakening of the domestic currency in accordance with the theory of purchasing power parity. As a result the depreciation expectations have increased in the currency markets which, consistently with the uncovered interest rate parity theory, implied a higher return on foreign financial assets. The currency market investors expected higher interest rates in the domestic economy. However, already low interest rates started to fall considerably in the period of 2002 - 2003. The domestic market interest rates - as measured by the interest rate on bank deposits from residents in the Czech Republic – reached its low in the fourth quarter of 2003 (figure 5).

Fig. 5 Bank interest rates on CZK-denominated deposits by Czech residents – outstanding amount (%), 1/2001-1/2005,

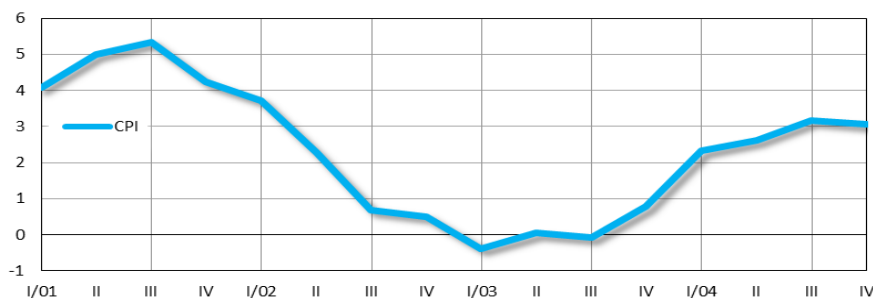


Monthly averages, January 2001 – December 2004

Source: ARAD database, Monetary aggregates and counterparts

Continuous depreciation expectations and declining domestic interest rate resulted in domestic assets denominated in CZK losing their value. However, despite such developments, investors did not turn their demand towards foreign assets, which was caused by signs of economic slowdown in main trade partners economies (Mandel et al. 2009). The excess of money supply would, according to economic theory, imply the price level to increase, as businesses and households are encouraged to investment and consumption. Thus higher aggregate demand would be reflected in higher prices. Figure 6 shows that the prices reached their low at the beginning of 2003 and begin to grow throughout the year and then in 2004 particularly.

Fig. 6 Consumer price index, 2001-2004



Quarterly averages, YoY changes, in %

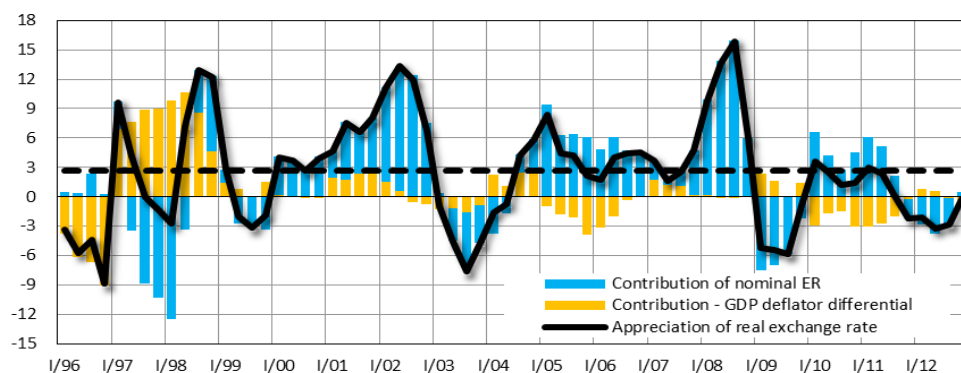
Source: Ministry of Finance database

5.3 The period after 2004

Hence 2004 was marked by the gradual increase in domestic aggregate price level measured by the consumer price index, a gradual increase in interest rates and the appreciation of the domestic currency against EUR. In the subsequent period, the evolution of the nominal exchange rate returned to its long-term systematic appreciation trend, which can be seen in figure 1. This resulted again in real exchange rate appreciation as the nominal appreciation reduces the value of the denominator of the real exchange rate formula stated above. The nominal appreciation was partly compensated by the increase in labour productivity and rise in produced goods quality and also by minimal inflation differential vis-à-vis main trading partners. As such both NEER and REER appreciated as shown in figures 1 and 2.

Until the economic and financial crisis both the nominal and real exchange rates kept on with their long term appreciation trend. However, this was interrupted by crisis-linked developments caused in particular by outflow of financial assets and investment from emerging markets, resulting in nominal depreciation of CZK vis-à-vis relevant foreign currencies. On the other hand such movement helped the exporters to cope with negative effect of the crisis on external demand (Komárek 2010). As shown in figure 7, the fluctuations in real exchange rate to EUR were caused almost solely by contributions of the nominal exchange rate movements in the period 2008-2009. In 2009 the drop in the nominal exchange form the previous year was partly reversed due to rising confidence and reduction of the capital outflows.

Fig. 7 Real exchange rate to EUR (decomposition), 1996-2013



Deflated by the GDP deflators, YoY growth in %, contributions in percentage points
Source: own calculations from ARAD database, CNB, Eurostat

However weak GDP growth performance of the economy and negative interest rate differential resulted in halting the general long-term trend of appreciation of EUR/CZK in 2011. Though the Czech koruna gradually appreciated, with no major fluctuations, in the first three quarters of 2011 to a September average of 24.56 CZK/EUR, in the fourth quarter, as flurry on financial markets increased owing to the escalation of the debt crisis in the euro area, investors turned away from the Central and Eastern European region and the currencies of these countries depreciated quite

dramatically. This was particularly the case of the Polish zloty and Hungarian forint (OECD 2012). The koruna weakened in nominal terms to an average of 25.51 CZK/EUR in December. Investors abandoned their positions in the region in general, as they were unable to distinguish the varying macroeconomic conditions of individual countries (MoF 2012). This was caused to a great extent due to the growing aversion to risk in portfolios and hasty decision making. In 2012 the exchange rate fluctuated slightly above 25 EUR/CZK with no significant trend. The koruna weakened against the euro by 2.2% in 2012, to which a gradual lowering of the main interest rates by the Czech National Bank assisted. Also verbal interventions by the Bank concerning the potential easing of monetary conditions contributed in this context. In the absence of major appreciation pressures the koruna has continued to depreciate slightly towards the euro in the course of 2013 (by 2,4% in first three quarters).

Conclusion

There has been a general long term trend of both nominal and real appreciation of CZK. While the main driving factor of the real effective exchange rate appreciation until 1997 has been the inflation differential, where prices in the domestic economy surpassed their foreign counterparts, nominal appreciation of CZK became the key propeller since then. With interruption in the period of 2002-2003, where the exchange rate depreciated both nominally and in real terms due to expansionary monetary policy and economic slowdown, we can observe such long term trend, with minor fluctuations, until 2011. Since then the exchange rate fluctuates, within the environment of weak economic performance and negative interest rate differential, in the absence of substantial appreciation or depreciation pressures.

ⁱ The sum of these trading partners' ratios on total turnover is 89.5 % of the total exports and imports of the Czech Republic.

ⁱⁱ The sum of these trading partners' ratios on total turnover is 90.2 % of the total exports and imports of the Czech Republic.

ⁱⁱⁱ In the process of the construction of the index, the trade (exports and imports) of the euro area members is incorporated as a single weight using the EUR/CZK exchange rate (or ECU/CZK rate up to 1998 incl.).

^{iv} Those are (SITC groups): chemicals and related products - group 5, manufactured goods classified chiefly by material - group 6, machinery and transport equipment - group 7, miscellaneous manufactured articles - group 8

^v For example, the exchange rate in 2006 may appreciate in real terms compared to 2005. However, it may show no change in the real value when compared to the base year which would be e.g. 1997.

^{vi} Given the floating exchange rate regime

^{vii} In contrast to the nominal exchange rate, the real exchange rate is always 'floating', since even in the regime of a fixed nominal exchange rate ϵ , Q can move via price-level changes

^{viii} Countries that have joined the EU in 2004 and after

^{ix} The central bank intervened by selling 3 bl. USD to halt the depreciation of CZK.

^x Other factors that can be referred to: Balassa-Samuelson effect, FDI effect, reducing trade barriers

^{xi} Almost 12% appreciation of CZK in one year.

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Management of Receivables in Content of Increasing Company Competitiveness

Ingrid Melicherová – Beáta Bednárová¹

Abstract

Receivables as a part of asset reflect the claim to receive cash in the future therefore is management of receivables a complex process which is an important part of management for every entity in order to maintain competitiveness through its cash flows. For appropriate management of receivables is necessary to specify their classification, measurement, impairment, define significance these issues for the process of receivables management and importance of controls of these processes. This contribution is divided into four parts. The first part of this contribution is focused on the classification of receivables, the second on the phases of the receivables management process and the third on the meaning of measurement and impairment of receivables for their management. The fourth part is focused on controls of receivables, especially using audit services.

Key words

management of receivables, receivables classification, receivables measurement, audit of revenue process, audit of receivables

JEL Classification: M41

Introduction

In the last years there is increasing importance of management efficient decision about receivables not even as receivable represent mostly mager of balance sheet but could cauce solvency problems or refllect management quality. Mainly during the current economic crisis is management receivables process gaining prominence in order to keep competitiveness. The main goal of this contribution is to analyze phases of the receivables management process and point out the importance and influence of their classification, measurement, impairment on this process and significancy of receivables controls, as well, which consist from management controls, in medium size and big companies there are internal control departments and/or audit as external independent controls. In the fourth part of this contribution is introduced position of auditor on receivables as part of the revenue process. Such good management process help company keep health and efficiency and controls of this process could avoid to fraud, theft and misstatement of financial statement as outcome of control by tax authority, supervision or mother entity.

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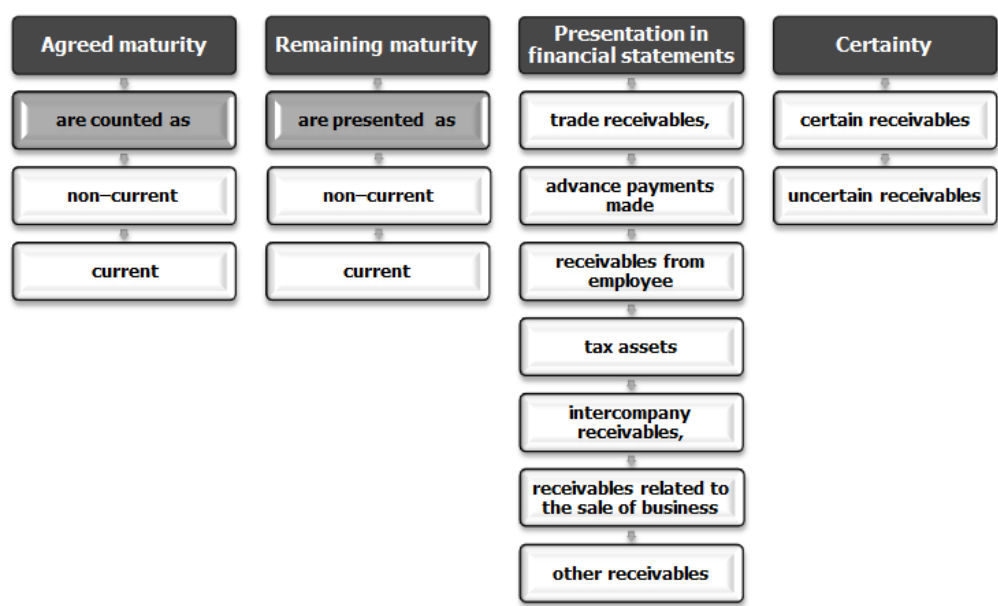
1 Importance and Classification of Receivables

Receivables of an entity arise from a variety of claims against other subjects and represent part of entity’s assets. Receivables are very important part of assets for every entity, because of reflecting the claim to receive cash in the future what point out to the meaning of receivables management as significant part of entity’s competitiveness ensuring in context of ensuring solvency.

According to Slovak legislation and International Financial Reporting Standards (IFRS) as well, receivables can be counted and presented in financial statements as current or non-current receivables in terms of time. For the proper functioning of the entity, it is important to dispose of cash, but management of receivables is complex process, which starts before the conclusion of sales contract and ends with the analysis of counted receivables. At first the classification is significant for correct counting and presenting receivables in financial statements. We distinguish these four main criteria of their classification (Farkaš, 2013):

- agreed maturity – are counted as non-current and current,
- remaining maturity – are presented as non-current and current,
- presentation in financial statement – trade receivables, advance payments made, receivables from employee, tax assets, intercompany receivables, receivables related to the sale of business, other receivables,
- certainty – certain receivables, uncertain receivables.

Fig. 1 Classification of Receivables



Source: prepared based on FARKAŠ, R. Financial Statements of Companies in the Slovak Republic. 2013.

The agreed maturity at the time of accounting transaction is determining for accounting receivables as non-current or current, but these receivables are presented in financial statements as non-current or current according to the remaining maturity (FARKAŠ, 2013). In terms of receivables certainty, they are divided into certain and uncertain. For certain receivables the amount of claim is clearly known, while by uncertain receivables is the amount estimated. By their nature fall into this category off balance sheet assets as well, which are the result of unplanned or unexpected past events and may lead to an increase of economic benefits to the entity. However, this fact can be confirmed through future events. And therefore these assets are recognized in the notes to the financial statements, but only material. In balance sheet are these assets recognized at the time of confirmation.

2 Receivables Management Process

Management of receivables is necessarily part for managing of every entity, because receivables represent future money of entity, which are significant for the ability to pay all obligations and investments and for the development of innovations to make entity competitiveness. We can identify **three main parts of receivable management** in terms of time:

- decision **before the entering to the sales contract**,
- negotiating the **terms of the contract** conclusion,
- **monitoring** of incurred receivables.

At first, before entering to the sales contract every entity has to decide if it is going to provide specific business credit in the form of receivable. In this part the entity is obligated to consider all conditions, price discounts for prompt payments and risks related to this business partner resulting from his ability to pay all his obligations (SALEK, J.G. 2005).

Then the entity can negotiate the terms of the contract, if is decided to enter it. Within these terms we can point out some significant items: terms of payment - payment dates, place of payment and payment method. After entity enters the sales contract and negotiate the terms of it, the monitoring of incurred receivables gets to the fore.

The monitoring is comprehensive process in which entity has to identify incurred receivables and measure their value at first, then subsequently set personnel responsible for receivables, customer monitoring focused on solvency and analysis of incurred receivables through assets ratios, e.g. receivables turnover ratio or average collection period.

Receivables turnover ratio determines how quickly the entity collects outstanding cash balances from its customers during an accounting period. It is an important indicator of the entity's financial and operational performance and can be used to determine if a company is having difficulties collecting sales made on credit. The average collection period is average number of days, that it takes the entity to collect its accounts receivables and it express average number of days for conversion receivables into cash. Decisive impact for this analysis of receivables has their identification and measurement.

3 Measurement of Receivables

One of the most important part of receivables management including their analysis, is measurement. There could be distinguished three phases in the measurement process, namely:

- **identification** of transaction which is **object of measurement**,
- specification of **appropriate measurement base**,
- **expression** of this measurement base **in monetary unit**.

While the Slovak legislation defines two accounting bases for initial measurement of receivables in 5th part of Act of accounting, the IFRS do not regulate measurement of receivables directly, because IFRS are based on assumption receivable arose always in relation with other elements of financial statements, mostly with revenues. According to *IAS 18 Revenue*, they should be measured at the fair value of the consideration received or receivable. An exchange for goods or services of a similar nature and value is not regarded as a transaction that generates revenue. However, exchanges for dissimilar items are regarded as generating revenue (IFRS – IAS 18, 2011).

3.1 Measurement Bases according to Slovak Legislation

In accordance with Act of accounting of Slovak legislation, the entity can use measurement bases for receivables depending on **way of incurred**. The entity can use for initial measurement of receivables these measurement bases (Act no. 431/2002 Coll. of accounting as amended):

- **Acquisition cost** – the price at which the assets have been acquired including costs related to the acquisition.
- **Nominal value** – the price specified at the items of cash, or the amount that the receivable or liability represent.

The assigning of appropriate measurement bases is the work for accountant, who necessarily need to know the way of incurred of receivable. After this process of assigning, the accountant can count this receivable in accounting of entity and then present in financial statements at the correct amount. This is the reason, why using of appropriate measurement base is essential of effective management of receivables. Without counting the receivable in correct amount, it is not possible to determine future cash flow of entity and subsequently the ability of its competitiveness. The mentioned measurement bases are used for these receivables:

- **Acquisition cost** – derivatives, receivables acquired for consideration or acquired through the contribution to share capital.
- **Nominal value** – initial measurement of incurred receivables.

3.2 Impairment of Receivables

Whether non-current or current receivables, there are two ways of receivables impairment (KRIŠTOFÍK, P. – ŠURANOVÁ, Z. – SAXUNOVÁ, D, 2011):

- **value adjustments,**
- **amortization of receivables.**

If there is a legitimate assumption for impairment of assets below their carrying amount, entity is required to create value adjustments. In case the assumption of impairment changes, the entity reverses or changes the amount of the adjustments value. During the accounting period receivables shall not be amortized according to amortization schedule.

Non-current receivables dispose the remaining maturity longer than one year on the balance sheet day and entity adjusts these receivables to their net present value through value adjustments. Generally the value adjustments are created by entity to the receivables, in case the entity can justified assume it will be not repaid by the debtor, or to the disputed receivables which are litigated against the debtors.

Value adjustments creating impact net profit/loss in financial statements, because it is counted on the account of costs. In case of uncollectible receivable the entity shall direct write-off. The entity cannot write the receivables off until it give up on collecting the debts. The entity can base write-offs on aging of accounts, which means counting duration they have been outstanding. If an account is more than six months old, the likelihood increases that the entity will not collect the debt. Writing off the entity's uncollectable notes receivable, it must be used the accrual accounting principle. According to this principle the income from the transaction must be recognized before it could be written off any uncollectable amount.

4 Receivables as part of the Revenue Process for Audit

Owners or future investors usually use to check if management fulfil their goals or check if there is efficient management and company health auditors. „The auditor's role is determining whether the reports prepared by the manager conform to the contract's provisions. Thus, the auditor's verification of the financial information adds credibility to the report.“ (Messier W., 2003).

„Auditing is a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to interested users.“ (Sarasota, FL: AAA, 1973). Auditors have to know client's business, set up materiality, evaluate risks, performance test of controls, substantive test, analytical procedures and tests of details. All audit activities are described in audit methodology in the Handbook of International Standards on Auditing and Quality Control issued by the International Federation of Accountants.

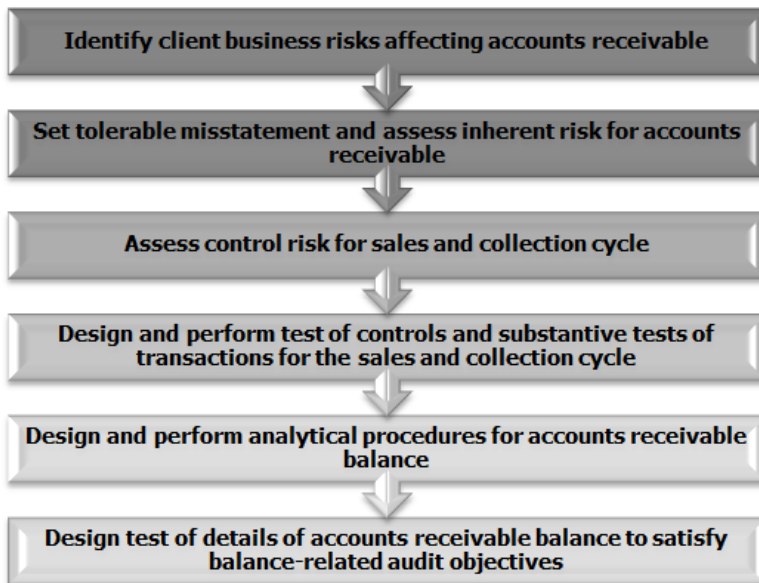
The first of all the auditors have to understand inherent risk and risk of controls to decrease of his detection risks. Therefore in examining the revenue process, the auditor should consider the inherent risk factors that may affect both the revenue and cash receipts transactions and the financial statement accounts affected by those transactions. There are four specific inherent risk factors that may affect the revenue process:

- industry-related factors,

- the complexity and contentiousness of revenue recognition issues,
- the difficulty of auditing transactions and account balances,
- misstatements detected in prior audits.

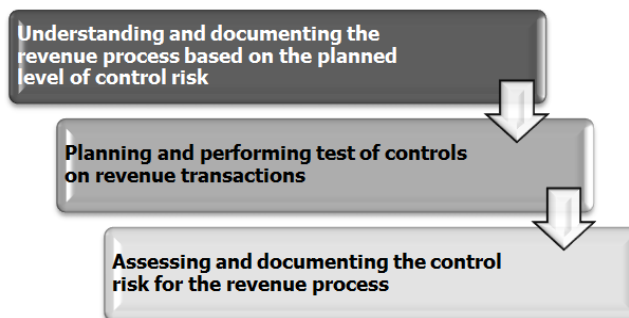
For example, if the industry is experiencing a lack of demand for its products, the entity may be faced with a declining sales volume, demand for its products, the entity may be faced with a declining sales volume, which can lead to operating losses and poor cash flow.

Fig. 2 Overview of Methodology for Designing Test of Details of Balances for Accounts Receivable



Source: prepared based on Arens A., Elder R., Beasley M.: Auditing and Assurance Services, New Jersey 2003.

Fig. 3 Major steps in assessing control risk for the revenue process



Source: prepared based on Arens A., Elder R., Beasley M.: Auditing and Assurance Services, New Jersey 2003.

In order to assess the control risk for the revenue process, the auditor must understand the five components of internal control as control environment, risk assessment, control activities, information and communication systems and monitoring. As part of risk assessment the auditor must understand how management considers risks that are relevant to the revenue process, estimates their significance, assess the likelihood of their occurrence, and decides what actions to take to address those risks.

One of audit activity during interim audit is divided an entity's information system into business processes or transaction cycles. During this process auditor is recognized:

- types of transactions and financial statement accounts affected,
- types of documents and records,
- the major functions,
- the key segregation of duties.

Using this approach, the auditor is able to gather evidence by examining the processing of related transactions from their origin to their bookkeeping into accounting journals and ledgers. Such testing auditor is doing in client usually before the end of year, from September till November. During the testing auditor is able to understand if all sale transactions have been recorded, if there is correct classification of transactions and if there is proper valuation and time in which transaction is booked.

Auditor must understand an entity's revenue recognition policies in order to audit the revenue process. Three types of transactions are typically processed by the revenue process:

- the sale of goods or rendering of a service for cash or credit,
- the receipt of cash from the customer in payment for the goods or services,
- the return of goods by the customer for credit or cash.

Based on result's testing of interim audit the auditor set up audit program for final audit where auditor focus more to the financial statements.

The year-end audit programme in respect of trade debtors usually builds upon the compliance work which will have already been carried out. This will have tested, amongst other things, the authority for invoices (based on credit checks) and credit notes (based on legitimate customer returns), the completeness of the invoice and cash receipts records (based upon despatch records and controls over receipts of cash/cheques) and the correctness of the calculations and postings involved (based upon detailed testing of the appropriate controls). A further aspect of year-end work in respect of debtors (cut-off procedures), if the company recorded their receivables in correct year to avoid any overestimate or underestimate turnover in the financial statements.

The major objective of the year-end substantive work is to form a view about the collectability of the debts stated as owing at the balance sheet date. Auditor usually confirms this by obtaining external documentary evidence as to the collectability of the debt, usually from the debtor personally. In doing this the auditor also reconfirms the existence of the debts, an assertion which was theoretically proved via the compliance testing procedures. It means auditor has audit objectives as follows:

- accounts receivable in the aged trial balance agree with related master file amounts, and the total is correctly added and agrees with the general ledger (Detail tie-in),
- recorded accounts receivable exist (Existence),
- existing accounts receivable are included (Completeness),
- accounts receivable are accurate (Accuracy),
- accounts receivable are properly classified (Classification),
- cut off for accounts receivable is correct (Cut off),
- accounts receivable is stated at realizable value (Realizable value),
- the client has rights to accounts receivable (Rights),
- accounts receivable presentation and disclosures are proper (Presentation and disclosure).

When auditor has completed his testing, the likely misstatement for accounts receivable is determined using statistical or non-statistical sampling techniques. The likely misstatement is then compared to the tolerable misstatement allocated to the account. If the likely misstatement is less than the tolerable misstatement, the auditor may accept the account as fairly presented.

In the end the auditor should understand if receivable stated in the financial statements are correct and not overestimate (some transactions recorded which are not related to the end of year) or underestimate (not created sufficient amount of allowance to receivables). Then receivables are properly classified, managed, measured and presented in the financial statement. Auditor is given insurance that financial statements give a true and fair view of the financial position of company as at the end of year.

Conclusion

Receivables represent significant part of assets for every entity and they arise from a variety of claims against other subjects. The most of receivables incur in the trade relations with other business entities and they express the right to receive the cash in the future. For entity's competitiveness is its solvency one of the most important condition. To maintain the solvency of the entity, the improving of the receivables management is necessary. In terms of time there could be identified three significant parts of receivables management: decisions before the entering to the sales contract, negotiating the terms of the contract conclusion, monitoring of incurred receivables. At the beginning of receivables management, their correct classification and measurement are the most important issues. In this phase comes to the fore accounting profession in order to ensure accounting of receivables according to appropriate classification, and measurement.

If stock and work-in-progress represents the heart of the balance sheet in the industry companies then the trade debtors balance might fancifully be likened to the lungs – if insufficient cash (oxygen) is drawn in then the rest of the body will inevitably die despite there being no infection elsewhere in the system (Messeir, 2003). On the other hand when external users as suppliers/banks/creditors carry out an analysis of a set of financial statements they always examine the liquidity of the company under consideration. Therefore if management could compete in business then a lot attention

of their effort should be done to implementation controls of process, especially receivables. If the company grow to bigger then internal controls or auditors are required to be check procedures and correctness of financial statements. This is also required by law.

The auditor is external, independent and disinterested person, who is checking based on intercompany and legal requirements correctness of receivables to owner and on which opinion could relay also the other third parties as tax authority, supervision, investors, banks and etc. Auditor could discover during his process also theft or fraud. For example if one individual has the ability to grant credit to a customer and also has responsibilities for billing that customer, it is possible for sales to be made to customers who are not creditworthy. This can result in bad debts. The other example if one individual who is responsible for shipping goods is also involved in the billing function, it is possible for unauthorized shipments to be made and for the usual billing procedures to be circumvented. This can result in unrecorded sales transactions and theft of goods.

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The Process Approach as a Quality Management Principle

Martina Muchová¹

Abstract

This article deals with a process approach. The decision to introduce a process approach in the public service organization is important strategic decision. Process model based on the requirements of ISO standards, model EFQM or CAF is focused on continuous improvement of the quality management system, based on customer requirements towards sustainability and meet customer needs through the processes that the organization carried out. The aim of this article was to highlight the advantages of the process approach in the public service organization.

Key words

process, process approach, quality, business process

JEL Classification: M11

Introduction

In public service organizations effective quality management systems can establish and operate based on ISO 9000 standards, model CAF and EFQM and others. The process approach, as a one of the quality management principles, is the elemental core of a quality management system (ISO 9000 standards, model CAF and EFQM). Process model of organization created by the requirements of ISO 9000 standards, model EFQM or CAF is focused on continuous improvement of the quality management system, based on customer requirements and towards a lasting satisfaction of customer needs through processes that are performed in the organization. It is the focus on customer that helps to identify changes in trends in demand. The outputs, which indicate the need for change, are obtained by measuring the process. And this stimulates improvement. And helps to quickly adapt to changes than competitors, and thereby improve the market position. The respond to a customer request, the organization has to be applied a process approach. This article gives a brief explanation of the process approach as a quality management principle.

1 Definition of a process and a process approach

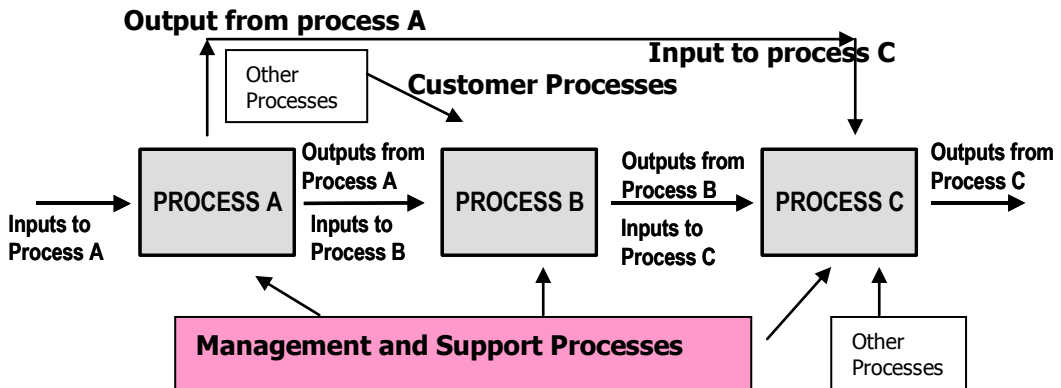
„The systematic identification and management of the processes employed within an organization and particularly the interactions between such processes” is referred to as the process approach. (STN EN ISO 9000, 2006, p. 19) This principle says that a desired result is achieved more efficiently when activities and related resources are managed as a process. This approach is built on four concepts: inputs, outputs,

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verification, and validation. These four ideas form a cohesive structure to ensure that the desired outcome results from the process applied.

„Set of an interrelated or interacting activities which transforms inputs into outputs” can be referred to as the process. (STN EN ISO 9000, 2006, p. 23) Becker (2003) states: „A process is a completely closed, timely and logical sequence of activities which are required to work on a process-oriented business objects.” (See Fig. 1) Such a process-oriented object can be, for example, an invoice, a purchase order.

Fig. 1 Example of a generic process sequence.



Source: <http://askartsolutions.com/iso-9001-process-approach.html>

2 Classification of processes

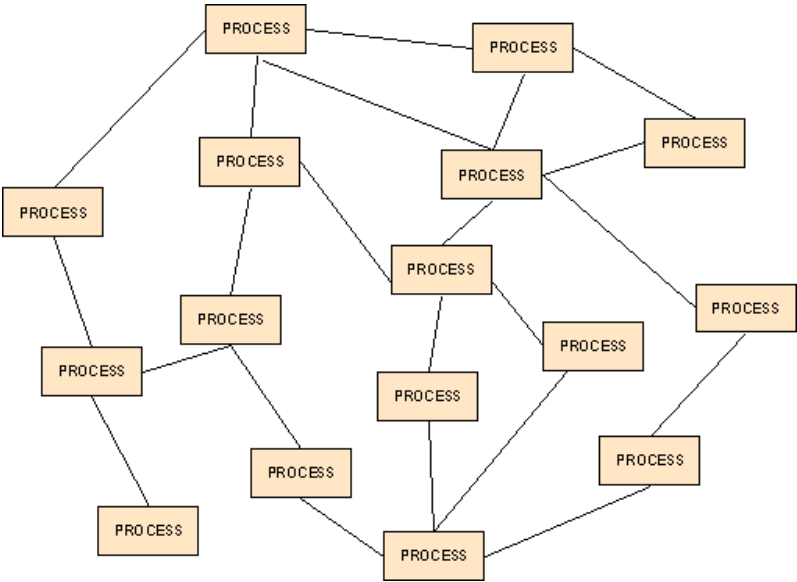
An organization's quality management system processes may be grouped or categorized in many ways. Quality management system is comprised of the following four categories of interrelated processes. The product realization processes have to be supported by other supporting processes such as processes management responsibility, resource management, measurement, analysis and improvement. Řepa states (2012, p. 39 – 50) that the general classification of processes in the organization distinguishes mainly between key processes and supporting processes. Key processes, i.e. those processes in the organization which are linked directly to the customer, covering the whole business cycle from expression of the customer need to its satisfaction with the product/service. Supporting processes, which are linked to the customer indirectly - by means of key processes which they are supporting with particular products/services. Whilst the term key process typically covers whole business cycle with the customer - it is focused on the particular business case; the supporting process is typically specialized just to the particular service/product, which means that its product is more universal - usable in a number of business cases. This approach allows the organization to focus on the customers and their needs (by means of the key processes), and to use all the traditional advantages of the specialization of activities (by means of the supporting processes) at the same time. Key processes play the crucial role - by means of these processes the whole system of mutually interconnected processes is tied together with the customers' needs. Supporting processes are organized around the key ones, so that the internal behaviour,

specialization, and even the effectiveness of the organizations' activities are subordinated to the customers and their needs.

According to a Hoyle (2006, p. 71 - 73), there are two classes of organizational processes – macro-processes and micro-processes. Macro-processes are multifunctional in nature consisting of numerous micro-processes. Macro-processes deliver business outputs and have been referred to as business processes. For processes to be classed as business processes they need to be in a chain of processes having the same stakeholder at each end of the chain. The input is an input to the business and the output is an output from the business. This is so that the outputs can be measured in terms of the inputs. If the outputs were a translation of the inputs they could not be measured against the inputs. And micro-processes deliver departmental outputs and are task oriented. Micro-processes are referred to as work processes.

The organization could be viewed as a set of interconnected processes. At an abstract level, a process-based quality management system can be diagrammed in the following way. (See Fig. 2) The diagram below shows several processes interconnected using many lines. These lines represent inputs and outputs. All of these interconnected processes make up a quality management system. The processes are managed as a system, by creating and understanding a network of the processes and their interactions. The consistent operation of this network is often referred to as the system approach to management.

Fig. 2 Diagram of processes

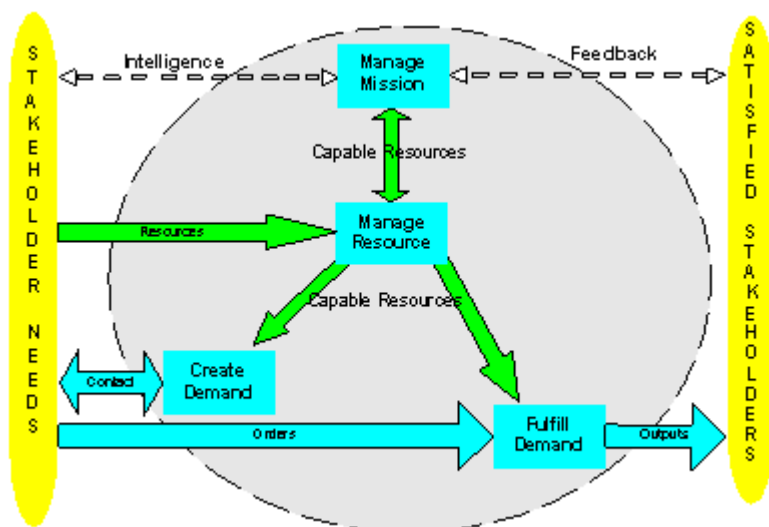


Source: <http://www.praxiom.com/process-approach.htm>

The CAF was revised in 2013. Some concepts have been deepened and some sub-criteria have been reformulated. The major changes are to be found in the criterion 5 Processes, where two sub-criteria have merged (5.1 Identify, design, manage and innovate processes on an ongoing basis, involving the stakeholders) and new one has been created (5.3 Coordinate processes across the organization and with other relevant organizations). Criterion 5 Processes deals in particular with the core processes of the organization, while criteria 1 Leaderships and 2 Strategy and Planning handle management processes, and criteria 3 People and 4 Partnerships and Resources the support processes. (CAF 2013)

Although every organization is different because it has different goals, operates in different markets with different customers under different constraints, all organizations seek to create a demand – even non-profit organizations. All organizations seek to fulfil the demand, again even non-profit organizations and all organizations need resources to create and fulfil the demand and therefore have a resource management process. A model shows the key elements of process management. (See Fig. 3) As Hoyle (2006, p. 72 - 73) says that there would be only four business processes in most organizations, as a mission management process (scan environment, develop strategy, develop processes, review performance), resource management process (resource planning process, resource acquisition process, resource deployment process, resource maintenance process, resource disposal process), demand creation process (develop new product/service requirements, develop new products and services, promote products and services, convert enquiries), demand fulfilment process (plan production, produce product/deliver service, distribute product, service product).

Fig. 3 Generic system model of organization as a set of interconnected processes



Source: Hoyle, 2006, p. 72

A business process is a process that delivers business outputs. According Ľepa (2012, p. 100 – 102), looking at public administration in term of business processes

represents the view which connects the view respects the technical aspects of the administration (including legislation and organization of the authority and view of citizen (as the needs of customer). The concept of the life events (concept of class life cycle) is often used in context of the process-oriented view of public administration. Life events, thus, represent the needs (problems) of citizen (customer general), and trigger the administrative activities, all at once. It represents the view of the natural consequences of public administration activities, which always following on from the customer's needs.

The business processes are developed within mission management as the enabling mechanism by which the mission is accomplished. The mission is achieved by the organization that produces results that delight the stakeholders that place demands that shape the mission. Finally all organizations have a purpose and a mission and seek to develop and improve their capability and their performance so as to achieve their mission – thus all organizations have a mission management process. Resource management process - specifies, acquires and maintains the resources required by the business to fulfil the mission and disposes of any resources that are no longer required. Demand creation process - penetrates new markets and exploits existing markets with products and a promotional strategy that influences decision-makers and attracts potential customers to the organization. Converts customer requirements into products and services in a manner that satisfies all stakeholders. If we put all this together we can create a model of the organization as a set of interconnected processes. A management system is not just a collection of work processes, but also the interconnection of business processes. (Hoyle, 2006, p. 72 - 73)

3 The process approach

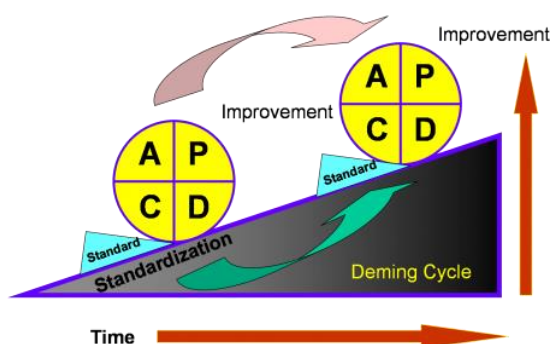
It is necessary to identify processes to achieve the objectives, determine the relationships between processes and relate the processes to the organizational structure. Business process discovery is about understanding how the target business operates today and more importantly, how the business should operate tomorrow. It include how much value each task adds (or doesn't add) to the process, how long it takes to complete each task, how much it costs, what information flows back and forth (including paper documents, faxes, and so on), who participates in the business process (roles), what information channels participants use (for example, email, phone call, web portal, and so on), what back-end systems support the business process. Then it is important to identify an owner for each process, making that person responsible for ensuring effective operation of the process. Process owners ensure that processes are improved across functions. The responsibilities of the process owners include acting as the voice of the customer by understanding customer's experience with an organization, monitoring process key performance indicators and keeping top executives apprised of how processes are performing. There is a series of activities for managing processes effectively: define the inputs and outputs of each process, define the constraints on the operation of each process and the resources needed, identify the activities of each process in terms of the PDCA cycle, thus providing a tool for continual improvement of each process.

Is necessary to continuously improve and adapt the quality management system to changing external and internal conditions of organization. Deming circle, the so-called PDCA cycle is considered a universal model for quality improvement. Plan-Do-Check-Act (PDCA) cycle is a very effective tool for business management and the ISO 9001 standard and model CAF strongly recommends its use. PDCA is a dynamic cycle that can be applied to each of the organization's processes, and also to the system of processes as a whole. (ISO 9001 Training) In order to effectively manage and improve your processes, use PDCA cycle as a guide. First, you plan by defining your key processes and establishing quality standards for those processes. Next, you do by implementing the plan. Thirdly, you check by using measurements to assess compliance with your plan, and finally, you act by continuously improving your product performance. Improvement in the process is about finding better ways of doing things.

The Application of PDCA cycle provides effective solutions and improve processes and systems. It can also be used as a simple method to introduce changes. PDCA cycle is applied in quality management systems of organizations. The main aims of the CAF are „To introduce the principles of total quality management in public administration, methodically leads organizations in understanding and application of self-assessment in the transition from a system of the planning and execution to a fully integrated PDCA cycle." (Príručka modelu CAF 2006, 2006).

One of the mandatory elements of the CAF is the scoring system, based on the PDCA cycle. This evaluation allows you to score all phases of the PDCA cycle for each sub-criterion. In The Evaluation panel enablers, the level PDCA can be achieved only if one part of a cycle of continuous improvement is activities of benchlearning. In The ISO 9001 standard specifies that methodology PDCA can be applied to the process (see Figure 3). PDCA cycle is „ a systematic approach to prevention and correction of defects in improving methods and procedures. It removes the root causes of problems and constantly establishes and reviews new standards." (Gašparík, Kovářová, 2008)

Fig. 4 PDCA cycle



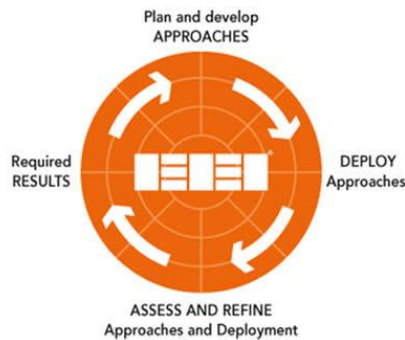
Source: <http://totalqualitymanagement.wordpress.com/2009/02/25/deming-cycle-the-wheel-of-continuous-improvement/>

It is a never ending process without the beginning and the end. It is a recurring cycle. The PDCA cycle is therefore an integral part of continuous quality improvement. Pohančaník relies on three basic conditions for successful realization of the PDCA cycle

in the organization (Mateides, 2006): Any activity, whether within or outside the organization is perceived as a process and can be improved accordingly. Only the solution of the problem is not enough, fundamental improvements are successful. The third enabler is that top management has to set an example. Taking responsibility is not sufficient.

The RADAR methodology (see Fig. 5) can be used to ensure the continuous improvement of the organization. RADAR is a unique methodology designed to evaluate the organizations involved in the competitive European Quality Award, which is a part of the EFQM model.

Fig. 5 The RADAR methodology



Source: <http://www.efqm.org/en/tabid/171/default.aspx>

In Slovakia, the RADAR methodology is used in the National Prize of the Slovak Republic as a quality assessment tool, where evaluators assess the level of excellence of organization in terms of the five basic perspectives, which we refer to as R - Results, A - Approaches, D - Deploy, A - Assess, R - Refine. RADAR is a dynamic evaluation framework and performance management tool. The Organizations can also use RADAR methodology in the self-assessment. The organization sets the expected results and develops approaches to achieve those results then the approaches are subsequently applied in practice. Then organization assesses the achievement of its objectives, the appropriateness of the chosen approach and the degree of their real implementation and improvement. An overall assessment is established from the obtained data, and it includes designing ways to correct and eliminate the lack of results. RADAR method logic is based on a modified PDCA cycle. P (A) - Plan your approach to achieving results, D (D) - do, in other words, deploy the approach, C (A) - Check, or assess and A (R) – Review by improving Act. According to RADAR methodology, the individual sub-criteria of the EFQM model are evaluated according to the following attributes, or questions for each part of the closed circuit RADAR. Enabler sub-criteria are assessed in terms of approach, application and evaluation and review, while the result sub-criteria only in terms of degree of achieved results. Points are gained for each criterion. The overall sum of the points enables to assess the level of quality management in the organizations, or the level of excellence of the organization.

Think about the process approach in terms of added value to your organization. Added value may take the form of knowing that methodologies and conditions in which a product or service is rendered are controlled and consistent. Therefore the result will be predictable and consistent. Added value may mean doing the work right the first time or doing it more efficiently, thus resulting in cost savings. Added value may also come from documenting the appropriate information and collecting only the data that will affect your organization. A measurement without an understanding of what you might do when that measurement changes are probably not very meaningful. (Flemming, 2002)

„Managing a process understanding and conduct ensure process repeatability. As whole organization follow standardized processes, the resulting organizational maturity should improve all aspects of business conduct, including customer satisfaction. Thus managing a processes affects organizational outcomes.“ (Conger, 2011) An effectively managed process is a process in which the activities, resources and behaviours are planned, organized and controlled in a way that the outcomes meet specified objectives. Process outcomes comprise the outputs and the impacts. Outputs are the products, services, information and decisions produced by the process. Impacts are the effect of the process on its surroundings such as the impact on customer satisfaction, the environment, employee motivation, shareholder value, supplier loyalty and society. It is necessary to manage both outputs and impacts otherwise the parties affected by the impact may withdraw their stake in the process

The process approach provide following benefits: focuses on integrating, aligning and linking processes effectively to achieve planned goals, objectives and desired outcomes, allows the organization to focus on improving process effectiveness and efficiency, facilitates consistent performance which in turn provides assurance to customers about the organization's quality and capability, promotes the smooth and transparent flow of operations within the organization, contributes to lower costs and shorter cycle times, through the effective use of resources, focus on continual improvement of processes results in improved, consistent and predictable results, facilitates the involvement and empowerment of people and the clarification of their responsibilities and provision of opportunities for focus and prioritized improvement initiatives. (ISO 9000 Introduction and Support Package, p. 1-2)

„The process approach redefines the functions of the departments and organization structure in different prospective. It defines the purpose of the business as a customer satisfaction and maximization of return of investment. With these two objectives being translated into measurable parameters, the rest of the business is broken up into interlinkage of process culminating into the attainment of the above two fixed end objectives.“(Mukherjee, 2006) As states Šmída (2007): „The purpose of the process approach is to uncover the processes that are covered by the functional organization, to purify these processes from all activities that do not add value, give them the spotlight and create infrastructure and corporate culture that will enable smooth implementation and continuous improvement of the remaining processes and, where appropriate, continuous improvement of new processes.“

Conclusion

The Process approach enables the organization to meet customer requirements and deliver continual improvement. Only by identifying, defining and measuring processes at this level can you begin improving them. PDCA is a methodology for developing capable processes. RADAR is a dynamic evaluation framework and performance management tool. The process approach introduces horizontal management, by removing the barriers between different departments and focusing their collective effort to the main goals of the organization. (ISO 9000 Introduction and Support Package, p. 5) The decision to introduce a process approach in the public service organization is important strategic decision.

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Innovativeness of Polish Tourism Companies

Katarzyna Negacz – Anna Para¹

Abstract

The article concentrates on the innovativeness of Polish tourism companies. It contains the most relevant definitions of innovation and innovativeness as well as classification of innovations. The article presents the main characteristics of innovations in service industry as well as in tourism. The authors present 3 Polish companies that in the recent time has introduced different kind of innovations. The text proves the thesis that Polish tourism companies are able to generate and implement innovations.

Key words

tourism, innovation, innovativeness, company

JEL Classification: L83

Introduction

Tourism industry in Poland is developing rapidly since a democratic transition in 1989. The number of tourism companies is constantly growing. The competitive struggle is more and more fierce, not only small, national companies but also huge transnational companies compete in order to achieve success on the Polish market. Innovativeness depends on many factors from internal and external business environment. Development of new technologies and the phenomenon of globalization play a relevant role in forcing innovation. Constant changes take place in tourism business. One of the major factors is tourism demand. Consumers are looking for non-standard, original and innovative tourism services. They even want to pay more for those types of services. In response tourism companies offer new forms of qualified tourism for example related to development of new sports such as snow kiting, kite surfing, aqua cycling etc. In response to consumers' needs tourism companies offer more and more innovative goods and services.

Innovativeness of Polish tourism companies manifests not only in broadening tourism offer but also in introducing revolutionary changes in management or in marketing. One of the latest trends in management is human resources management techniques and methods such as talent development programs, new recruitment and motivation process. In the marketing area there are innovations such as social media marketing which is developing rapidly. Other type of innovation take place in the area of technologies, which can be perceived as a part of a tourism service (for example interactive tourist guide) or as a tool of company operation (for example using computers, smart phones in everyday work etc.).

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The article presents detailed study of innovation and innovativeness. A few relevant definitions are cited. The authors describe the peculiarity of innovativeness in services sector and explain what the major characteristics of innovativeness in tourism sector are. The paper delivers a few examples of innovations introduced by Polish tourism companies in the past months.

The authors tried to verify the thesis that Polish tourism companies are able to generate and successfully introduce innovations as well as be competitive on the local and international markets.

The aim of this paper is to discuss the phenomenon of innovativeness among Polish tourism companies. There are 3 main research questions:

1. What are innovations and innovativeness?
2. How do specific features of tourism industry influence innovativeness of tourism companies?
3. What kinds of innovations are implemented by Polish tourism companies?

The article is based on Polish and international literature about innovativeness and tourism industry as well as on data and reports from Institute of Tourism, Ministry of Sport and Tourism, Ministry of Economy and Central Office of Statistics.

1 Definition of innovation and innovativeness

Innovation and innovativeness are subject of both economic and social studies. Disciplines such as economics, management, engineering, sociology, psychology and praxeology investigate various aspects of innovations. To give an example, sociologists explain mechanisms innovation diffusions, impact of social background on the behavior of innovative people and social consequences of innovation (Jalinik, 2008: 123). Psychologists investigate innovativeness as an individual ingenuity, creativity and causes for both, the ability of the individual think out of the box, undertake risky actions, continuous learning and new experiences.

There are different approaches to define the innovation. In general, the term innovation (from Latin, *innovatio* - new, reform) is something new, previously unknown. It is defined as "the introduction of something new, the newly introduced, new" (Drabik, 2012: 307). In everyday reasoning, innovation is synonymous with the introduction into service of new things, ideas or practices. Often, we recognize it as technical or technological change, identified with the conduct of research, which result in inventions. In a wider sense, innovation occurs in all areas of business activity.

The concept of innovation has been introduced into economics by Austrian economist J. Schumpeter. He treats innovation as a factor in economic development, claiming that the development of innovation is accompanied by economic growth and it continues until all the possibilities of further diffusion of innovation finish (Bojewska, 2009: 155). The primary cause of economic progress is the desire for companies to make a profit. One method of achieving this is to compete with inventions or new methods of production. Innovation is therefore a way to achieve the main objective of business, i.e. a profit in the long term (Jagielski, 1993: 10). Precursor of innovation theory argued that "what we unscientifically call economic progress is basically the use

of productive resources in a way untested in practice and pulling them from the applications which were used before. This is what we call innovation (Schumpeter, 1928)". Schumpeter understood the concept of innovation as new combinations of the five following situations (Schumpeter, 1960: 103-104):

- launch of a new or improved product, not known to consumers;
- use of new or improved methods of production, not yet been tested;
- opening of a new market, not previously been introduced;
- acquisition and development of new sources of raw materials or components;
- introduction of organizational changes within the company.

Schumpeter emphasizes that certain product, procedure or method need to be applied to be called an innovation. He did not recognize the innovations resulting from the diffusion of innovation (imitation) and assumed that only large corporations and imperfect competition in the market can drive innovation processes in the economy. Subsequent studies have shown that a market with a high degree of competitiveness may create innovative processes (Niedzielski, Rychlik, 2006: 19).

Schumpeter's theory of capitalist economy related to typical early twentieth century. At that point of time, three factors of production were land, capital and labor. Later other factors, such as knowledge, or human capital start playing increasingly significant role.

P.F. Drucker proposes a broad definition of innovation. He believes that innovation infuse into all areas of business. According to him, innovation "is the purposeful and organized search for changes, and the systematic analysis of the opportunities that these changes might offer for economic or social innovation" (Drucker, 2004:39). Drucker says that the change serves as the basis of innovation, since it leads to new products or services. Drucker emphasized that innovation is closely linked to enterprise resources and gives new opportunities to create wealth (Drucker, 2004: XII). He treats innovation as a systemic action depending on changing environment, creating resources.

The Organization for Economic Cooperation and Development (OECD) Oslo Manual also includes the link between innovation and change. It contains information on the methods of collecting and interpreting innovation indicators. It is widely used in international surveys on innovation. According to the OECD's innovation is considered as "the implementation of a new or significantly improved product or process, a new marketing method, or a new organizational method in business practice, workplace organization or relationship with the environment (Oslo Manual: 49)". Innovation is defined as the ability of operators to constantly seek and use in practice the results of scientific research, ideas and inventions (Janasz, 2002: 54).

Definitions presented above present complexity of innovation and innovativeness. In this paper, the concept of innovation is understood as an innovative solution developed by the company, meeting the needs of the market, including: new products and services, a new way to manage a business process, a new use of an existing product or a new way of positioning the existing product, changing consumer perceptions . It may be a method, an idea that contributes to progress in the field. We assume that object of our study defined as innovation may have been used on a global scale, but not yet used in Poland.

The term innovativeness is a company's ability to create and implement innovation, new and improved products, new or changed processes or technological organization. The main feature of innovativeness is creation of a new quality in practical application. Not always it has to be a result of work or scientific research, but always a product of the creative activity of mankind.

The innovative enterprise is a smart organization that continuously generates and executes all forms of innovation, dynamically responds to changes and thanks to its modern and competitive operations is appreciated by consumers.

The broad concept of innovation allows us to distinguish several classifications of innovations that take into account various criteria. It is difficult to classify a particular innovation to one particular group, because it often involves several business areas.

R.W. Griffin distinguishes the following types of innovation: radical and progressive, continuous and discontinuous, creative and adaptive (Griffin, 2000: 663). Radical innovations are characterized by the fact that they allow complete conversion of the company. Continuous innovations are part of an ongoing process based on the gradual improvement of the company. Innovations discontinuous happen once. Creative innovations are original, based on the creative process. They are the opposite of adaptive innovations that are imitative. A similar division for the original innovation and imitation was proposed by J. Kay (Kay, 1996: 143). The Kay's theory is however a variance of the abovementioned classic definition of innovation proposed by Schumpeter.

A similar classification (based on the source of innovation) proposed NR Anderson (Anderson, 1991:17-21) who distinguishes innovations developed independently, adapted and enforced. Leading companies independently develop and implement innovations. However, they must take into account the threat of rapid dissemination of innovation and imitation. Imposed innovations are the result of e.g. in the event of changes in legislation.

Given the scale of innovation J.Tiddem, I Bessant and K. Pavitt divide them into breakthrough innovations, major and minor improvements (Kalinowski, 2010: 24). Another classification takes into account the subject criterion. R. B. Tucker distinguishes product, process and strategy innovations (Ibidem: 26). Mentioned earlier manual Oslo Manual in addition to product and process innovations also differentiates two categories: organizational and marketing innovation.

Particular type of innovation is a change of business model. None of them includes this type, but it seems most comprehensive form of innovation that includes the radical change processes and the creation of entirely new markets for products and services. Innovative business model requires the contractor determination, courage and a willingness to experiment, as it often requires the rejection of the conventions and stereotypes of thought prevailing in the industry.

2 Specific features of tourism

Sector service providers including tourism are often considered to be less innovative than the manufacturing. This belief relates to the difficulty in measuring services. OECD suggests to measure innovation based on indicators including the number of

patents and the size of investment in research and development. However, these indicators completely fail in case of the services sector. According to OECD, the service sector is growing and it is responsible for 70% of the average value added in the world (Janasz, 2011: 180). Therefore we cannot underestimate its role in the economy.

The first assumption that the services also have potential for initiating innovative changes appeared in the 70s of 20th century. Pioneering studies on this topic have been carried out by J. Gershuma (Filipiak, Panasiuk, 2008: 225). However, the actual interest in service innovation took place only in the 90s 20th century with non-technological innovations accompanied by a rapid development of the service sector.

Although the idea of innovation developed in the industry, the change of the economic system led to the transfer of this phenomenon to the services sector. We identify service innovation with change or process associated with the product, characterized by a non-physical approach, direct contact between service providers and consumers as well as high personal contribution to the human factor (Kupper, 2001). Service innovation creates new or improved services, new and better ways to provide services, new types of interactions with customers and suppliers, open a new market for the provision of services, new materials and tools or changes in the process of service provision. It is not a change of the service itself but a much broader phenomenon which may involve new methods of distribution, customer interaction, quality control, etc. P. den Hertog proposes the following aspects of the innovative services (Filipiak, Panasiuk, 2008: 233-234):

- new service concept - new approach to the problem;
- new level of cooperation with the customer - new ways of working together with the client company, changing the way of offering services to the consumer;
- new system of service delivery - internal organizational conditions that require proper management aimed at the development of innovation and to motivate employees to seek unconventional solutions;
- use of new technologies - many of the innovations in this area comes from manufacturing companies and they are subjected to transformations in order to offer new services. The most frequently used ICT.

It may seem there is not much to innovate in tourism. Given changes that happened in this sector in recent years, it appears that tourism is one of the most innovative industries. First innovator in the travel industry was Thomas Cook who broke the conventional thinking of his time and developed the concept of travel associated with the entertainment which satisfies a whole new segment of consumers. This tourism product combined with effective organizational framework enabled to offer services at prices acceptable for consumers (Hjalager, 2010:1).

Characteristics of tourism cause different character of innovations. Tourism industry is dominated by intangible elements. The consumer is not able fully verify the quality of the product before its consumption which entails the risk borne by the customer as a service usually paid before receiving it. If negative experience occurs, operator is not able to erase them from the memory of the consumer and replaced by other services. Uncertainty includes safety, value for money, image of the consumer in the society (Kachniewska, 2005). Tourist services are often are mutually dependent, complementary (Gaworecki, 2003: 284). Second treat of tourism is substitutability

(Gołembski, 2007: 31). Ability to satisfy the same needs using the services of companies selected from many others providing similar services depends on the consumer's decision. Another feature is the instability of the tourism product which cannot be stored. Both the customer and the service provider are involved in the provision of services as the consumer is external production factor and play an active role in shaping the offer. It raises a number of benefits and risks for business tourism (large share of the human factor). With low reproducibility and uniformity the service process is burdened with unpredictability and each of the clients can be handled in a slightly different way. For this reason, the innovation introduced, for example, in customer service process may differ depending on the competence of the staff, their sensitivity and preservation of works. In addition, customers behave differently when consuming the service and therefore part of the innovative solutions will never be repeated. Last but not least, travel services often depend on where they are provided which involves a number of restrictions, (resources available in area of recruitment, infrastructure or environment).

The above-mentioned characteristics determine to a great extent *modus operandi* of tourism enterprises, affecting their organizational culture, human capital management, and business innovation.

Innovation classification by Schumpeter is used in the travel industry and major categories include product innovation, process, institutional, marketing and management. A.M. Hjalager identifies five types of innovation in the tourism industry which some of the division proposed by the OECD. He further distinguishes categories of institutional innovations that reflect the specificity of the industry and proposes the following classification of innovation:

- Product (service) innovation on the changes that consumers perceive as new, that is unprecedented and innovative for your business or tourist destination, e.g. summer holidays in winter resorts. Product innovation is also adding to the offer attractions such as snowboard parks, dog sledding, snow bikes, etc. The innovation product is a combination of the innovative products and services in travel package.
- Process innovation in back office which is invisible to the customer. It increases efficiency and capacity of the individual operations, are often based on innovative technologies, e.g. catering facilities that allow for quicker meal preparation, labor and energy savings as well as increased quality and flexibility.
- Innovation in management related to cooperation within the company, management staff, delegation of responsibilities and tasks, career development and construction of the system of remuneration and motivation. Objectives include reducing turnover among employees, maintaining flexibility, controlling costs, increasing customer and job satisfaction, developing of knowledge and know-how.
- Marketing innovation such as new marketing strategies involving significant changes in the appearance of the product or the packaging, distribution, promotion and pricing, e.g. social media.
- Institutional innovations which are new organizational structures or legal regulations changing conditions under which company operates. Institutional innovations include networks and alliances among tourism enterprises.

The above-mentioned categories of innovation are linked. For example, investment in technology, such as software for database management of clients, often leads to improve in quality and services, e.g. by matching the offer to the customer's profile. The availability of new technology can also be used to affect the marketing strategy and innovative solutions in this field.

3 Examples of innovativeness among Polish tourism companies

In order to prove the main thesis of this paper, three examples of innovative companies are presented. StayPoland, Blow Up Hall and Wilson Hostel are tourism Polish companies, which introduced a few innovations in the recent time. Those companies are only examples of innovativeness of Polish tourism sector. The examples illustrate how and on what levels do Polish companies implement novelties.

3.1 Example 1 – StayPoland sp. z o.o.

StayPoland is a registered Polish travel agency, founded in 2003 in Warsaw. The company specializes in incoming tourism. The offer includes individual reservations, tailor-made travel packages. The main service is discounted hotel reservation, without booking fees, car rental, tours around Poland and Central Europe as well as consultancy. StayPoland is a small company, it employs about 30 people. In the recent time the company introduced a few relevant innovations. The innovations will be presented by category.

Product innovations

- ENIGMAWARSAW – outdoor city game

Enigma Warsaw is an outdoor game which combines sightseeing trip and fun. The game is perfect for groups curious about the city of Warsaw and for those craving for unusual entertainment in Warsaw. The game is also offered for corporate customers as incentive or team building game. The game is based on the history of Warsaw. The game takes place on the current streets of Warsaw but it also combines old, non-existing places.

- Hotel-Calculator.com – hotel search engine

Hotel-Calculator is a free website launched by StayPoland to enable customers to use many hotel reservation systems at the same time. It was first hotel search engine of this type in East and Central Europe. This application can be used in Polish, English, French, German, Spanish, Russian, Ukrainian, Portuguese, Czech, Lithuanian, and Italian and Romanian language. The service is free, do not require registering. The website compares prices of more than 100 000 hotels located in 13 000 cities around the world.

- New tours offer

Recently the company has broadened its tours offer. New tours offered are: "Attractions of East Poland and Lithuania" and "The face of Polish industry". The offer is constantly changed and adapted to the clients' needs.

- Parking reservation

StayPoland as the only travel agent enables its clients to book a parking place at the hotel. Usually parking space cannot be booked prior the arrival. Because of the fact that many hotels do not have enough parking spaces this service is perfect for those who want to assure that their car will be parked next to the hotel.

Marketing innovations

- Product presentation

The company introduced a new website and implemented a new hotel ranking system. Moreover, the company started using the services of professional reviewers, who visit hotels in order to check the services offered.

- Social media marketing

One of the greatest innovations implemented in the marketing strategy was implementing social media marketing into the marketing strategy. The company has its accounts on Facebook and Twitter. The company communicates with past, current and future consumers as well as with people who simply like Poland. Currently the company has more than 34 200 fans on Facebook and almost 12 000 followers on Twitter. The company builds its image via social media as well as keeps in touch with its stakeholders.

- Loyalty programme

StayPoland introduced a loyalty programme for corporate clients. The aim of this project is to build and maintain relations with customers. The loyalty programme is a part of a new B2B platform, which is described below.

Process innovations

- B2B platform

StayPoland is a beneficiary of Innovative Economy Operational Programme. The firm obtained 344 345 PLN to develop and implement an electronic business platform. This IT tool forwards and use reservation information for future bookings. The reservations are managed efficiently. The platform enables companies to control their reservation, payments, discounts etc. With this business platform the company won the 3rd prize in the contest for innovative service and B2B solutions.

3.2 Example 2 – Hotel Blow Up Hall

Blow Up Hall is a 5-star hotel located in Poznan. The hotel was opened in 2009 as a part of Stary Browar shopping centre. In the hospitality magazines the hotel was announced as an interactive piece of art. The hotel belongs to prestigious hotel associations: Small Luxury Hotels of the World and to Tablet Hotels (Blow Up Hall, 11/2009). Moreover, the hotel was awarded Top Hotel 2009 in the category of design.

During the proces of categorization of the hotel, the commission stated that innovativeness of this hotel started a new trend of inteligent hotels full of art, care for details, original design and functionality. This is the only hotel of this type in Poland. The hotel description was published in many Polish and international tourism magazines such as Travellers' World, Hospidalidad, The Independent, Going Places. It was presented as innovative, modern and surprising hotel.

Product innovations

- Hotel design

The whole hotel can be percived as an innovation. Blow Up Hall offers a combination of luxury and innovative technology as well as personal art. Experienc. The hotel name derives from a movie „Blowup“ directed by M. Antonioni in 1966. In the hotel there is an electronic innstalation called Blow Up Commission created by canadian artist R. Lozano-Hemmer. The interior is generously decorated with art.

- Room

Each of 22 rooms is unique, designed and furnished differently. There are no room numbers on the doors. It is necessary to call from I-phone to open the door. Doors look like an electronic platform. Doors and floors are full of electronic devices installed.

Marketing innovations

- Interactivity

The hotel is very interactive. A lot of electronic devices are installed and used. There is no reception desk at the hotel, neither magnetic room keys. Instead the clients get I-phones which serve as a private reception, consierge, guide and room key.

3.3 Example 3 – Hostel Wilson

Wilson Hostel was founded in 2009 in Warsaw. It is the first totally ecological hostel in Poland. The hostel employs 3 people and offers 50 beds.

Product innovations

- Capsule rooms

Besides offering standard rooms, the hostel offers an accommodation in a capsule room. Capsule room is a innovation in Polish hospitality sector. Capsule rooms derive from Asian and are very popular concept there. Capsules offered in Wilson Hostel are adjusted to European needs. There are no TVs, they are quiet, equipped with Internet connection, lighting system and air-condition. Capsule rooms can be reserved for the whole night or only for a few hours, what can be also perceived as an innovative pricing on the Polish market.

- Ecological appliances

The hostel propagates ecology and implements environment-friendly systems and solutions. Water in the hostel is heated with the aid of solar collector (Vitosol 200-T). When the collectors are not working, gas boiler (Vitodens 200-W) is used. Use of water is limited by time batteries installed at sinks in bathrooms. This example shows

how tourism and hospitality industry use the technological improvements from other branches.

Conclusion

The main purpose of this paper was to prove that Polish tourism companies are innovative. Although those companies operate in constantly changing business environment and under the pressure of international competition they are able to generate and implement new solutions on different levels of their business activities. The analysis of examples presenting innovations introduced by Polish companies proves that the thesis is correct. Sector of small and medium companies is especially active in the sphere of innovativeness. Small and medium companies are determined to care for development of products and services offered. Companies that introduce novelties are also enterprising and aware of market chances and opportunities. A lot of companies apply for EU funds supporting innovativeness such as Operational Programme - Innovative Economy.

Undoubtedly Polish tourism companies have a huge potential to be innovative and to develop crucial competitive advantages. Those firms are able to invent, develop and implement novelties. Nevertheless the companies cannot influence macro environment. Factors such as financial crisis, inflation rate, exchange rate fluctuation or changes in legislation cannot be avoided and controlled. Economic factors have always impact on business activities of companies. State policy regarding innovation is also very important for innovative companies. Tourism companies have to be aware of possibilities related to EU funds. Unfortunately many entrepreneurs do not know about financial support which can be obtained from EU funds. There is still a lot of informative work to do. This task should be executed by organizations such as Polish Agency for Enterprise Development, Polish Agency of Tourism Development, Institute of Tourism and Polish National Tourist Office. In Poland still lacks efficient incentive programme, which could motivate companies to change. In the Polish pro-innovative policy a big emphasis is put on industrial and producing companies whereas tourism companies seem to be forgotten. Although the fact that the services sector creates 70% of Polish GDP, services companies do not get proper support and attention.

The potential of tourism industry will be developed only under the condition that the companies will be eager to change and innovate as well as when the business environment will be stable enough to realize even the most risky and insane ideas.

It is forecasted that in a few next years Polish tourism industry will continue with development. Polish companies are forced to monitor the market constantly. As P. Drucker once said: "Innovation opportunities do not come with the tempest but with the rustling of the breeze." Each change and instability can be a beginning for new and attractive actions.

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Services and Social Media: Methodology of Evaluating Slovak Market Subjects in the Services Area from the View Point of Social Media Utilization¹

Romana Olexová²

Abstract

This paper deals with the influence of social media on marketing communication and promotion of services. Based on secondary research it defines the link between interaction in marketing communication via social media and credibility of companies or brands. Based on previous qualitative research (of Slovak market subjects in services sector) the paper suggests a methodology of evaluating market subjects in context of social media utilization by implementation of complex evaluation function derived from various different parameters.

Key words

services, social media, social media utilization, impression management

JEL Classification: M30

Introduction

The primary aim of this paper is to define a link between interactivity in marketing communication and credibility of market subjects in the sector of services based on secondary research focused on psychological and sociological studies. The secondary aim is to suggest a methodology of evaluating market subjects in context of social media utilization by fashioning the complex evaluation function (based on previous qualitative research partial findings), consisting of various partial functions. This complex evaluation function might be useful in case of various market subjects comparison from the viewpoint of social media utilization. The function would also provide the possibility to express the rate of social media utilization in form of an index. This index could be subsequently linked with other variables, such as turnover, various types of desired conversions etc.

1 Services and social media

Out of the evolution of information and communication technologies (internet in particular) emerged the phenomenon of social media, that provides the market subjects (not only from the area of services) with the opportunity of effective and interac-

¹ The paper reflects the findings and information featured in Project of young researchers and PhD. students no. I-13-105-00 - Online marketing and its utilization in marketing strategies of Slovak market subjects with creation of complex evaluation function by the research team of KSCR and KMO OF EU.

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tive marketing communication. Social media consist of multiple communication means on the internet, such as:

- **social networks** - characteristic by possibility of user profiles creation, customized network building and mutual interaction of users carried out in various patterns (Facebook, microblog Twitter, LinkedIn, MySpace etc.)
- **blogs** (Mashable, Gizmodo, BusinessInsider, NeverSeconds etc.),
- **chat rooms** (TalkCity, ICQ, PalTalk a pod.),
- **social bookmarking sites**, based on content evaluation and sharing with other users (Pinterest, Digg, BuzzFeed, StumbleUpon etc.),
- **photo and video sharing sites** (YouTube, Vimeo, Instagram, Flickr, Picasa etc.)
- **social broadcasting sites** allowing users to create their own broadcasting channel and gain audience
- **wikis**, crowdsourcing based portals (Wikipedia, Weebly, Wikispaces etc.)
- web 3.0 mobile applications based on using social media aspect (Instagram, Foursquare, Foodspotting etc.)

Common feature of social media is sociability development due to mutual communication, creation of relationships and interactivity. Especially services-oriented enterprises (because of specific product characteristics) could significantly influence public and customers' opinion via internet and social media. The critical moment of social media utilization appears to be the ability to solve negative feedback and crisis situations.

1.1 The importance of social media in marketing communication of services

Over three quarters of global internet users visit and communicate primarily via social media. In context of absolute quantity of internet users, this represents highly relevant audience to be taken into account (KAPLAN - HAENLEIN, 2010). In spite of this fact, market subjects (Slovak services subjects being no exception) still approach the matter of social media utilization in context of marketing, specifically marketing communication and promotion, reservedly. This fact is demonstrated in reality, where despite quite high number of business identities in social media environment (finding based on qualitative observation of selected research sample of services market subjects), appropriate utilization of social media for marketing communication is still relatively low (cluster-like content updates, sporadic interaction with followers etc.). Even if market subjects do have the social media marketing communication strategy developed, it is only logical they (mainly with faster information flow and mutual linking of various social media) do not feel as comfortable and safe as if utilizing one-way (traditional) media and communication platforms. Kaplan and Haenlein list as one of the fundamental reasons of this the fact that internet users - or in other words clients and potential clients - are free to express themselves unlimitedly and therefore:

- create content on particular business/brand/service with no interference of those who are being mentioned (the subjects concerned have no direct option to influence or alter this content)
- employ the phenomenon of so-called "internet memory" - if a business/brand/service displayed itself in some negative context, it is highly prob-

able that existing or potential clients would stumble upon such information at some point during the information search (surfing), which might have (significant) influence on decision making process, or damage the credibility and impression.

The fact is, that market subjects, no matter how hard they try, cannot, or actually in some cases, must not modify such damaging content in the internet environment (e.g. Wikipedia utterly bans business identities from content creation). And moreover, they have absolutely no means to influence content sharing among customers. It is understandable, that upon the impact of internet and social media evolution, as well as content co-creation of market subjects and clients/internet users, the retrogressive effect on marketing communication and promotion emerges (mainly in case of services market subjects). There is a new need of impression management implementation (SCHNIEDERJANS et al., 2013). Services market subjects (or virtually any organizations), can approach the utilization of internet and social media either actively or passively (DRORY - ZAIMAN, 2007). The active approach is characterized by the effort to directly or indirectly influence relevant online audience (clients'/ potential clients') opinion and participate significantly in creation of online business image. The passive approach is defined by attempting to modify already damaged credibility and image, which is, logically, significantly harder. Since the virality of negative reference is about three times stronger as compared to positive reference, the importance of social media in marketing communication, promotion and impression and credibility management is crucial. As the credibility and positive impression of services market subjects is mainly built by satisfaction of existing clients, the impression management and existence of social media marketing communication strategy represent a vital need.

1.2 Interactivity vs. credibility

In 1966 psychologist and marketing expert Ernest Dichter realized the research of word-of-mouth phenomenon, its use in marketing and impact on brand building. The research conclusion explains dominant factors motivating customers to share the information (reference) on particular product or brand. The research points out a direct proportion between the rate of interactivity in marketing communication and brand/product/business credibility. The fundamental finding of Dichter's study identified the substantial impact of word-of-mouth and personal reference on business credibility, while personal reference represented the most important decision-making factor (in several cases even up to 80% relevance) (DICTER, 1966). Dichter's research conclusion identified (with surprising precision) offline customers' decision patterns and motivation factors. These happen to remain relevant also in current online environment (modern research on online motivation factors of sharing references validated Dichter's findings) (HENNIG-THURAU et al., 2004) and have become the foundation of current social media. The parameters of interactivity play quite important role also in the complex evaluation function (being suggested as an evaluation methodology). Interactivity of services market subjects was observed from the viewpoint of speed (how long it takes for certain business/organisation identity to answer selected clients' comments and spurs), frequency and quality of interactions.

2 Designing the complex evaluation function of social media utilization

Design of the function is derived from the methodology of qualitative research where the research sample consists of various Slovak market subjects (predominantly enterprises) within the services sector. The proposed design of the complex evaluation function would be following:

$$\text{Value} = \text{weight1} * f1([\text{parameter1}]) + \text{weight 2} + f2([\text{parameter2}]) + .. + \text{weight N} * fN([\text{parameterN}])$$

Basic parameters included in the complex evaluation function of social media utilization would be:

- Parameter 1: connection of subject's website and social media (Facebook/Twitter/YouTube/LinkedIn, etc.)
- Parameter 2: existence of social media profiles (Facebook/Twitter/YouTube/LinkedIn, etc.)
- Parameter 3: frequency of social media profiles updates
- Parameter 4: custom social media profile design/branding
- Parameter 5: presence of other forms of social media utilization
- Parameter 6: speed of interaction with followers/clients via social media
- Parameter 7: quality of social media interaction

Each of listed parameters in combination with their assigned weight would represent a partial function of the complex evaluation function. The fundamental challenge in case of complex function creation would be to objectify the weights assignment of the components as much as possible, based on theoretical foundation and qualitative research (observation and in-depth interviews with subjects representatives).

The critical factors of complex function creation would be:

- normalization of partial functions derived from listed parameters
- weights assignment based on multi-factorial analysis (with possible application of fuzzy logic).

Conclusion

Social media are represented by a vast aggregate of various networks, communication and promotion platforms and tools, implementable in marketing communication and promotion strategies of market subjects. Mainly in case of services market subjects, proper utilization of social media appears to be a significant aspect of successful online brand building, credibility and impression management (which backwardly affects also offline reputation). Although business subjects and organizations in general have less than little possibility to modify or influence the content creation by internet users (potential or existing customers), they can adopt an active approach to online reputation and impression management. This approach gives the market subjects at

least some means of contribution to their own online image/impression/credibility / as opposed to the passive approach that is characterized by an effort to repair already damaged online reputation, that blends with offline reputation. The research of motivation factors concerning the willingness of consumers/internet users (conducted in offline as well as online environment) to share the reference of certain business/brand/service defined interactivity and its rate as substantial factor influencing subjects' credibility. The utilization of social media by services market subjects might be analyzed and expressed in a way of applying complex evaluation function. This complex function, consisting of various partial functions derived from different included parameters, would be able to provide an index of social media utilization. By this index, various services market subjects could be put in comparison in context of their social media utilization. The index would be also implementable in case of assessing the connection between social media utilization and other different factors (such as turnover, exerted costs (ROI), market position, profit, etc.).

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EuroVelo Network - Cycle Tourism Destination in Europe

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Abstract

The aim of this article is to define a cycle tourism in its complexity. We emphasize sustainability of cycle tourism and the way how it corresponds to main principles - environmental, economic and socio-cultural aspects of tourism development. We analyse how cycle tourism meets new expectations and requirements of new tourists. Then we bring a brief description of European cycle route network - EuroVelo and evaluate its role and perspective. We describe the changes in tourists -consumer behaviour caused by globalization, new technologies and changing values. Globalization opens new challenges and opportunities in tourism industry. Transnational companies and global institutions create the economic environment for tourism but local aspects cannot be omitted or under evaluated.

Key words

cycle tourism, sustainable tourism, globalization, tourism destination, cyclists, new tourism, cycle trail

JEL Classification: L83

Introduction

Tourism industry is regarded as the leading industry and the largest "factory" in Europe, because it employs around 100 millions people. UNWTO World Tourism Barometer states that: "The industry continued growing also last year (2012) and international tourist arrivals reached 1.035 billion. The decline in international tourism was recorded only in 2009 reaching 882 million international arrivals. These data demonstrate that tourism was hit by crises only in 2009. Tourism has gained very strong position in leisure activities not only of Europeans but in emerging economies worldwide as well. According to research by the World Travel & Tourism Council (WTTC), Travel & Tourism industry is expected to directly contribute \$2 trillion to the global economy and sustain some 100.3 million jobs. When the wider economic impacts of the industry are taken into account, Travel & Tourism is forecast to contribute some \$6.5 trillion to the global economy and generate 260 million jobs – or 1 in 12 of all jobs on the planet. "Tourism emerged as the world's largest composite industry so rapidly that its consequences cannot yet be understood". (Godbey, 2006) Tourism as well as all other industries is significantly influenced by globalization. Globalization has opened new opportunities for tourism development and growth. New information and booking systems enable rapid availability of information and greatly simplify the selection and reservations. Reservation systems are more flexible and cost-effective and offer easier access to destinations. Globalization and recent changes in political and

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economic world brought changes in tourists behaviour his/her preferences for products and services. Nowadays tourists want to get a personal experience and get a chance to try some completely new activity. They are ready to pay for that new experience, depending on their income. They seek the new adventure, to be inspired and stimulated. New consumer behaviour have generated demand for new experiences. Consumers seek authentic and genuine experiences. Physical recreation and rest is considered as a boring way of spending holiday. These new consumers values have led the suppliers to come with the new products to meet new consumer demands and expectation. which participated in the development of a new tourism. Tourism which is orientated to the individual tourist's needs and cares about the environment of the destination about nature as well about local people. This tourism is called responsible, green, ecotourism or sustainable. Cycle tourism is one of the most sustainable ways of tourism. It meets sustainability principles i.e. environmental, economic and socio-cultural aspects of tourism development. Moreover it is a tourism which fulfils wishes for authenticity and genuine experiences. It brings tourism to the places which are otherwise not very attractive. It puts together physical activity with experience. It is a tourism for all segments of consumers; for the young, families, middle and senior generations. EuroVelo cycle trails are unique very attractive tourism destinations passing through several European countries, EU member states and not member states. The network of European cycle trails EuroVelo has the ambition to be one of the leading European destinations and example par excellence of sustainable tourism. It is a challenge for EU and every country on an EuroVelo trail how to promote this destination.

1 Cycle Tourism

1.1 Cycle tourism definition

To define a cycle tourism making just one definition it is nearly impossible because it is so variable and can be performed in many different forms. After meeting many definitions we would define cycle tourism as travels which include recreation cycling or sport cycling and participation at the cycle related events away from home.

Cycle tourism categories

Every category has a specific requirement on travel services and conditions.

1/ Recreational cycling - bicycle is use for transport and pleasure in order to get to know historic or natural sights, culture and traditions of the destinations.

In this category we define three subcategories:

- *Cycle holidays* - cycling is the principal purpose of the holiday, involves one night or more away from home. It can be centre based or as a tour involving staying at different places. It can be performed as an organised package or independent tour.
- *Holiday cycling* – this involves day cycle rides from holiday accommodation or another place (such as a cycle hire at a railway station). This forms part of the holiday experience but is not necessarily the only one.
- *Cycle day excursions* – cycle trips of more than 3 hours duration made from home for leisure and recreation.

2/ Sport cycling

The main purpose is sport activity but participants becomes a tourist/taveller when travelling away from home for a holiday or one day trip.

In this category we define two subcategories:

- *Mountain Biking MTB* – cycling performed in the mountain environment away from home. It requires special skills. Sport is the main purpose.
- *Downhill Biking DHB* – cycling performed in the mountain environment away, all the focus is on the downhill run, which usually have lots of jumps, banked turns and other features. It's often done in ski resorts where riders can take the ski lift up. Downhill biking has become very popular in skiing resorts in France, Austria and Slovenia.

Every of described categories requires special bicycles and bicycle equipment, conditions, infrastructure and travel services. Cycle tourism means economic benefits from tourism and from consumption of bicycle equipment.

3/ *Cycle events* - with growing interest in cycle tourism and biking generally we can see a growth of cycle events. There are many mega scale cycle events as Tour de France, Vuelta de España, Giro de Italia which not only attract the fans but they are an excellent way to present the country, its sights and tourist attractions. Tour de France is visited by thousands of spectators. Moreover, there is also important group of those visitors who actively take part and bike the route of the Tour afterwards. Except for the mega scale events there is a large number of small scale events on the national or even regional level whose importance is not evaluated properly.

This category consists of two broad product categories:

- *sport participation travel* (travel for the purpose of participating in a sports, recreation, leisure or fitness activity); and,
- *sports spectatorial travel* (travel for the purpose of watching sports, recreation, leisure or fitness activities and events). (Page, Connell, 2001)

In this paper we refer to recreational cycling. Recreational cycle tourism is an active way of tourism. The bicycle as a mean of transport is faster than feet, allows experiencing the country much deeper than from a bus or a car. This is more dynamic and adventures way of knowing the country corresponding to our dynamic and fast way of life. Cycle tourism is the environmentally friendly and is considered a sustainable tourism product. *It doesn't harm the environment it does not require a specially built routes. It can considerably contribute to development of rural areas, support local production and preservation of local traditions and crafts".*(Page, Connell, 2001).

The act of cycling itself is almost emission free. Most cyclists start cycling their day trip directly from their front door. When the cycle tourists need to use the transport they tend to use more environmentally friendly transport as trains, buses, boats or ferries and they travel shorter distances. Pollution caused by cycle tourism is much less than other ways of tourism.

Cycle tourism fulfills the principles of sustainable tourism. (UNEP/WTO, 2005): *Sustainability principles refer to environmental, economic and socio-cultural aspects of tourism development, and a suitable balance must be established between these three dimensions to guarantee its long term sustainability.*

1.2 Cycling market segments

Cycle tourism is a suitable way of holidays for every segment. Each tourists segment requires suitable cycle tracks. Young dynamic bikers search for adventure of mountain biking and biking parks. Families with children prefer safe segregated flat tracks with attractions for children (as playgrounds, petting zoo parks, viewing towers and so on). Empty nesters prefer longer bicycle trails in order to get to know new places, historic and natural sights. Finally, there is a rapidly growing group of senior tourists as a result of the increasing aging population. It is important to consider the needs and desires of the various segments and to develop travel services corresponding to the unique needs of each segment. Cycling families will prefer family orientated accommodation, empty nesters and seniors will look for comfortable high category accommodation and experienced cyclist will look for more challenging tours.

Cycling tourists can be divided into different market segments. We divide them by demographic, distance, needs, motivation and preferred location.

1/ Occasional cyclists - families with children, mature adults and seniors. They bike in a small groups with friends, families with children. They ride short distances 10 - 15 km. Main motivation is fun, family and social activity. They require safe segregated paths or sidewalks, parks, recreational areas and attraction for children.

2/ Regular short distance cyclists - families with children, mature adults without children, pensioners. They bike with family, friends, in groups or individually. Day ride distances is of 30 to 40 km. Motivation - biking for fitness, social activity, family connection. Mostly they do day trips occasionally longer tours with overnights. They require well marked safe cycle paths or roads with easy traffic, comfortable economical accommodation, good restaurants. They go on organized holidays abroad with arrangement for bicycles and accommodation, sometimes with luggage transport.

3/ Regular long distance cyclists - Mature adults and pensioners. They bike with grown up children, friends or solo. Day ride distances is of 65 to 100 km. Motivation - biking for fitness, pleasure, experience. They do multi-day tours close to home or cycling vacation abroad to get to know the different countries cultures and traditions. They require maintained trails, roads with easy traffic, some of them enjoy topography, comfortable accommodation, sometimes the best available. Mostly they do not go for organized holidays.

1.3 General cyclists profile

The latest Czech Cycle Research from November 2011 is focused on cyclists' expectation, needs and favourite route, but doesn't describe very clearly a demography, educational background, profession and income of tourists. To look at these characteristics we used the VeloQuebec research, which is in agreement with author's professional experience. The research reported in "Bicycling in Quebec 2005" states: "*Over the past decade, the rate of cycling has remained stable among 35-54 year olds, while the rate among the 55-64 age group has increased substantially, from 34 to 43%. The survey of Bike On Tours clients noticed: 'that most cycling tourists had professional - white collar jobs with annual incomes of over \$60 000. 47% had annual incomes of*

\$60 000 to \$80 000, or 18% had annual incomes of over \$80 000, 12% had annual incomes of \$40 000 to \$60 000 and 23% had incomes under \$40 000". Cycling enthusiasts are likely to live alone or with one other person. 70% had no children living at home. This increases the likelihood that they have a relatively high disposable income". VeloQuebec reported that: "cycling enthusiasts are well educated (45% are university graduates, as compared with 31% of the general population) and relatively affluent (68% earn more than \$40,000 per year)". European research proofed the Canadian results. The following generalised profile is based on an analysis of 8 market studies from 5 countries (ETI, 2007; Fietsplatform, 2009a, 2009b; Ickert et al., 2005; MANOVA, 2007; Mercat, 2009; Öhlschläger, 2007; Trendscape, 2010):

- *Average age: 45-55 years;*
- *Gender: 60% male, 40% female. More equal shares with day excursionists;*
- *Education level: secondary education and significant minority university education and professional status;*
- *Group composition: 20% alone, 50% in pairs, 20% in small groups of 3-5 people;*
- *Household income: wide range but in a recent comprehensive German Study the mode was €24-36,000 per annum (Trendscape, 2010).*

The socioeconomic characteristics of recreational cycle tourists in many surveys are often similar - high education level and income, middle aged, travelling in pairs without children.

1.4 Economic impact of cycle tourism

Although cycle tourism is not a mass tourism in volumes it can bring prosperity to otherwise not very tourism attractive regions. Cycle tourists in comparison to tourists travelling by cars have to travel light and shop at a local businesses this supporting local service providers and creating new jobs. *In the UK, for example, a cycle route from the Irish Sea to the North Sea across a range of hills (The Pennines) is promoted as the C2C. It attracts over 100,000 trips per annum; 10-15,000 people per annum cycle for the entire length. Accommodation providers and shops in many of the rural areas through which it passes report that their businesses have developed mainly because of cycle tourist trade (Brown, 1997). More recently, the development of the Danube Cycle Route in Serbia, also part of EuroVelo 6, has brought about an increase in the accommodation sector: 80 businesses were set up in 2008 alone (Limbert & Matijasevic 2009).* In the absence of the statistic data on cycle tourism the estimations have to be made to get the idea of the market share and volumes of the cycle tourism. Cycle tourism is not recorded in a separate format in EuroStat tourism, there are not statistic data on domestic and international tourism. Some countries keep records on cycle tourism but using the various methods for calculation. Some of them are based on based on a mixture of exact counting, survey results and extrapolation of these data; others are simple estimates of cycle tourism's share of total tourism turnover. So the comparison would not give the correct answers. It is estimated that there are 2.295 billion cycle tourism trips in EU countries, Norway, and Switzerland per annum. The total estimated economic impact for these trips is almost €44 billion. The estimated economic value of some EU countries and Switzerland is in Table 1.

Tab. 1 Overview of estimate of economic value of cycle tourism in Europe (EU + CH)

Country	Daytrips (million)	Overnight trips (million)	Daytrips (billion €)	Overnight (billion €)	Total (billion €)
Austria	62	0,46	0,96	0,20	1,16
Hungary	98	1,00	1,50	0,44	1,94
Slovakia	17	0,14	0,26	0,06	0,32
Switzerland	55	0,42	0,85	0,18	1,03
Czech Rep.	55	0,56	0,85	0,24	1,09
Slovenia	9	0,07	0,15	0,03	0,18
Germany	607	4,62	9,34	2,03	11,37

Sources: Expert estimates plus Eurostat (2008), Peeters et al. (2004), The Gallup Organization (2011).

2 EuroVelo - European cycle route network

2.1 General description of EuroVelo network

EuroVelo (Figure 1) is a network of 14 long distance cycle routes connecting and uniting the whole European continent. The routes can be used by cycle tourists as well as by local people making daily journeys. EuroVelo currently comprises of 14 routes and it is planned to be completed by 2020. EuroVelo is a European cycle route network developed to promote a sustainable tourism. The overall length is of about 70,000 km. It is estimated that approximately 45,000 km are in existence. The network is managed by the European Cyclists' Federation (ECF) which is working to ensure that all routes offer high standards of design, signage and promotion throughout Europe. From May 2013 the network is promoted via its own website which brings together all sources of information relating to the European cycle route network and cycling tourism in all European countries. The development of EuroVelo has involved a wide range of stakeholders as national governmental institutions, NGOs, civic associations, and cyclists' communities in different countries to progress sections of the proposed network across Europe. EuroVelo uses existing long distance routes in each country and seeks to make use of local knowledge. The approach is essentially about upgrading a route to a high standard and then re-branding it as EuroVelo in terms of signage, interpretation and market communications. This is a fragmented process given the different levels of resources that are available in each country and thus the network is currently best described as in the making. Some parts of the network are well advanced such as EuroVelo 6 from the Atlantic to the Black Sea. It is an easy track, very popular among families with children and soft bikers. It has very good developed infrastructure, mainly the Austrian part, with a wide range of accommodation facilities. The whole trail is detailedly described in various guide books. Other routes are no more than lines on a map or routes which "pioneer" cyclists follow to explore new destinations. This is a current weakness which is holding back a European wide

transport facility and tourism offering. There is a lot of promotion of a route known as "Iron Curtain Trail" or Eurovelo 13. It is the initiative of Michael Cramer, Green member of European Parliament. The European Parliament recognised it as a model project for sustainable tourism and called upon the Member States for support. It is expected to be one of the most visited bike path in the world. The total length would be nearly 7000 km.

Fig. 1 Map of the EuroVelo Network



Source: European Cyclists' Federation on <http://www.ecf.com/projects/eurovelo-2/>

2.2 Role of EuroVelo

European Cyclist Federation has stated the role of EuroVelo as follows:

- Enhance domestic tourism and to reduce tourist travel in relation to longer distances to destinations thus causing a high contribution to CO2 emissions.
- Encourage cross border tourism with minimal environmental impact and a low impact on travel distances and low level of emissions.
- Encourage people to make use of public transport to get to the cycle destination, thus causing less environmental impact than private cars or air transport.
- Re-use assets such as old railways, forest tracks and canal towpaths.
- Stimulate economic development in rural areas which are not prime tourism destination areas.
- Bring about a diversification of land based businesses to provide accommodation, attractions and food and beverage for local consumption.
- Offer local residents an improved quality of life through enhanced physical exercise.
- Generate near zero carbon dioxide emissions by users on the route.
- Offer a form of slow travel which encourages interest in the richness of local gastronomy, heritage and community life across the different countries and regions of the EU.

Tab. 2 Estimated annual volumes and direct revenues of the EuroVelo network

	Volumes	Direct revenues
Overnight cycle trips	14.50 million	€6.38 billion
Day trips/excursions	45.54 million	€0.70 billion
Total	60.04 million	€7.08 billion

Direct revenues

It is estimated that a total of over €7 billion of direct revenue can be attributed to EuroVelo as a cycle tourism product.

As EuroVelo makes use of existing routes, this value represents the gross revenues for the total network, not the net additional revenues of EuroVelo concept itself. This is the estimation made to the ideal circumstances. The real revenues and the effect of the micro-multiplier will depend on an adequate and regular supply of facilities like cafés, restaurants, shops, etcetera. If these are absent estimated revenues cannot be reached. The EuroVelo project corresponds to the EU tourism policy to promote the competitiveness of EU tourism sector by promoting cooperation between the Member States, particularly by the exchange of good practice. This is the way how EuroVelo concept can contribute to "Europe 2020 – A European strategy for smart, sustainable and inclusive growth" and towards strengthening the concept of European citizenship. It is EC's intention "to encourage a coordinated approach for initiatives linked to tourism and define a new framework for action to increase its competitiveness and its capacity for sustainable growth.

2.3 Is EuroVelo Network a leading European cycle tourism destination?

UN WTO defines the destination as a physical space, administratively and physically limited. Novacká argues that "destination may not be presented only geographically. The destination can be created and can be present at the global, international, transnational, national, regional, cross-border, and local level. The destination can be created by using a single content orientation (e.g. Mines path in Slovakia or the world Silk Road, which passes through several continents, or cycling route along the Danube River from its source in the German Black Forest to the Romanian delta on the Black Sea and so on)." (Novacká, 2010)

Palatková defines the destination as "*a bundle of different services concentrated in a particular place or area, which are offered according to the potential of tourism (attractions) or area of interest*". (Palatková, 2011)

EuroVelo Network is an international tourism destination being created for cycle tourists. The development of the EuroVelo is run by ECF with a support of European Union in order to create the conditions for sustainable tourism and to keep Europe a leading tourism area. EuroVelo Network passes through EU member and non-member countries offering possibility to experience different natural sceneries, authentic culture and traditions and contribute to mutual understanding and support of local economies in the regions.

There is no doubt that tourism is major global economic force and it is driven by multi-national corporations and geo-political forces. Globalization and technological improvements brought changes to the tourist preferences for products and services. "A new type of tourist" is not so much interested in mass tourism although still prevalent, s/he wants customized products and individual approach. The new tourist is responsible and cares about environment about local community and wants to have contacts with local community, its culture, gastronomy and traditions. Paradoxically the other side of globalization is a support to local aspects and their growing importance in new tourism. National governments play very important role in coordinating the tourism marketing campaigns and shaping tourism demand and supply. Regional and local communities are influenced by tourism and they also play important roles in shaping the nature of the tourism offer. Tourism industry depends on natural and cultural resources which are regional in nature. No global or multi-national corporation can provide the destination with its local character. Communities are considerably increasing their influence on tourism industry. "Community is of vital importance as an intermediate level of social life between the personal (individual/family) and impersonal (global/institutional). *"Tourism, in simple terms, must be viewed as a transaction process which is at once driven by the global priorities of multi-national corporations, geo-political forces and broader forces of economic change, and the complexities of the local – where residents, visitors, workers, governments and entrepreneurs interact at the industry 'coal-face'.*" (Milne, Ateljevic, 2001)

Community based principle together with networking are very important factors in successful tourism development. Tourism is often seen as a tool which enables communities destroyed by economic restructuring to regain their economic position in a region or country.

EuroVelo Network is a very good example of the importance of national governmental institutions, local communities, national and local cycling associations in developing EuroVelo bicycle trails. National governments play a vital role in marketing activities of EuroVelo trails. Success of EuroVelo depends on the national governments and regional and local communities. There are already good practices in the cooperation of EU institutions, national governments and local communities.

Conclusion

In this paper we brought description of cycle tourism in its complexity focusing on recreational cycle tourism which concerns the concept of EuroVelo Network. Cycle tourism according to the recent studies belongs to a rapidly growing market. The rapid growth is much influenced by changes to the tourist profiles. New consumers are becoming more globally orientated. They are self-sufficient, using modern communication and information technology to book the services and to get information. They care much more about getting a unique experience. They want to travel green, ecologically not harming the environment but protecting nature, reusing resources and having good relations with the local communities. Cycle tourism is in accordance with these requirements. It offers a sustainable way of vacation, independency even in case of guided tours, uniqueness and authenticity. With some little adjustment is suitable for every segment.

We have searched the position, potential and future of EuroVelo Network in the cycle tourism. Based on an on-line survey of experts within cycling, cycle tourism and the cycling industry as a part of the Study (*The European Cycle Route Network EuroVelo*) and the Study itself we have come to the conclusion that EuroVelo is not a leading cycle destination of Europe as it has not been completed yet and promoted sufficiently. But we can see its great perspective in the future as it is unique offering sustainable tourism crossing the borders and unifying all EU countries. It is a challenge for tourism providers, national and local governments, and communities to cooperate, share good practices and support slow travel nearer to home avoiding usage of air travel. It is a challenge to enhance a cross border travel for cultural and heritage traditions and mutual understanding mainly neighbouring countries.

To reach the goal EuroVelo as a leading European cycle tourism destination the EU should stronger support financially and personally not only the Network but cycling both as a leisure activity and as an everyday mode of transport is becoming more popular. The benefits of promoting cycling, for health, improved social inclusion, reducing carbon emissions and congestion, as well as the economic benefit, are universally recognised. Many urban settlements across Europe and worldwide are improving conditions of bicycle transport and introducing bike sharing forms. With growing percentage of population moving on bikes in urban settlements we can expect the increase in interests in cycle holidays this theory is proofed by cycling nations as Denmark, Netherlands and Germany.

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Marketing of Technological News in the Field of Robotics¹

Barbora Paholková – Peter Pajonk²

Abstract

Technological news and innovations of different areas of research and development play key role in each economy. Just globalization and developing economy bring new opportunities and trends. If companies would become inventive and competitive not only in the B2C sector but especially in the B2B sector, they have to respond flexibly to new trends. In the field of technological news and innovations it is marketing which plays important role because helps companies to react correctly on the market needs and to present their innovative products. The aim of this paper is point out the technological news and their original testing in field of robotics with participation of stakeholders.

Key words

technological news and innovations, marketing of innovation, testbed, B2B

JEL Classification: M31

Introduction

The impact of globalization is visible not only in the global economic order but brings also new opportunities and challenges for many companies. In a very short period there have been many changes not only in economics, marketing, but also in innovation. Just innovation and technological innovations are one of the solutions to respond flexibly to the rapidly growing consumer needs and preferences. Currently, if a company wants to be successful, must keep pace with the best and should pay attention to innovations not only in the B2C sector (products and services to consumer) but also in the B2B sector (technology, materials, processes). Not only generating of product's technical changes and technological leadership in the production processes can ensure success. The important aspect is the correct integration of the processes of research and development, sales and marketing, corporate resources and organization's knowledge. The first place is to become inventive and competitive but on the other side it is necessary to take into consideration what the consumer or the market expects of technology news. It is challenge to correctly identify and develop a product that at the most satisfy market requirements by its own functionality and design.

The Government of the Slovak Republic deals with the idea of innovation and in 2012 updates National Reform Programme of the Slovak Republic. Government identi-

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fied a number of priorities that had impact on growth of GDP and quality of life. One of these priorities are the innovations. Government notes that will create conditions for improving the environment for new innovative start-ups and spin-off through administrative support of technology transfer from public institutions of science and research. The government aims to support the creation and functioning of high-tech clusters by simplifying its administration. In the framework of Danube Strategy the promise of government is to set up an implementing agency for the financing of industrial research, experimental development and innovation in the area of industrial enterprises. The government is also considering a change of legislation and set an environment that will encourage private sector to increase its expenses in research and development. (National Reform Programme, 2012)

Also the European Commission modify the allocation of funds in the 7th Framework Programme, in the part of the research and development, competitiveness and innovation or in the specifically oriented programs, often with an emphasis on cross-border cooperation. One of them was the project "Cross-border Hi-tech Centre", in the program of cross-border cooperation between Austria and the Slovak Republic 2007-2013 represented by the Vienna University of Technology, Vienna University of Economics, INITS and University of Economics in Bratislava. (EC, 2006)

The main objective was to facilitate the entry of high-tech products on the market by creating a "Testbed" in B2B environments, which provides:

- market research for companies working with high-tech products,
- transfer of know-how to the business practice (knowledge management),
- preparation and assistance for the elaboration marketing strategy for innovative high-tech products,
- support of creation of innovative companies focused on high-tech products,
- support of businesses using high-tech technology,
- providing specific tasks in the field of market research for beginning innovators,
- close cooperation with universities in market research and marketing strategies.

The target groups of the project are high-tech companies in Slovakia and Austria, companies of technological research in Slovakia and Austria, beginning high-tech companies in the Slovak Republic and Austria, universities of technology in both countries and students with an interest in high-tech marketing.

Nowadays, an increasing amount of research devotes the technological innovations that have an importance not only in theoretical and practical terms, but also in marketing of innovations. Innovations can be seen as one of the driving forces of the market, which affects not only the B2C sector but also the B2B sector. Floating business environment, exacting customer requirements, global market, growth of product offerings and competition give rise to innovations.

The aim of this paper is to define the area of innovation. Primary point out the original research testing of robot with participation of stakeholders and the possibility of linking potential users with a new innovative solution in the field of robotics. Then make recommendations and conclusions for the management practice.

1 Theoretical background of innovation

The concept of innovation is not clearly defined as there are about two hundred definitions of this term. The word innovation comes from Latin and means renewal or restoration. Is defined as the translating an idea or invention into a good, services, processes, systems and relationships. In general, an innovation is identified as a process, which combines existing things in the new ways in order to create unique thing. Innovation activities includes a complex assembly since new ideas to practice.

Innovation can concern more areas. It may be a product innovation, technological innovation, innovation of professional and qualification structure, organizational innovation or marketing innovation. Quantitative and qualitative changes can produce positive and negative socio-economic consequences.

Many influential economists such as A. Smith, J. S. Mill, K. Marx, and A. Marshall tried to characterize the concept of innovation. For Adam Smith, invention and technological change were important factors in creating „the wealth of nations“. One of the important authors defining the term innovation is the Austro-American economist J. A. Schumpeter. In his view the innovator creates something but in doing so destroys something else, often the competitive position of a rival firm. So innovation creates and destroys at the same time, but with luck the value of creation will exceed the value of destruction. He insisted that this creative destruction was a much more important force for competition than the traditional concept of price competition. (Swann, 2009, p. 11) It is very important to differentiate between innovation and invention, because invention is a creative ability and innovation is method, idea, product or process of innovating.

According to Peter Drucker „innovation is the specific tool of entrepreneurs, the means by which they exploit change as an opportunity for a different business or a different service. Entrepreneurs need to search purposefully for the sources of innovation, the changes and their symptoms that indicate opportunities for successful innovation. And they need to know and apply the principles of successful innovation.“ (Drucker, 2007, s. 17)

According to Everett M. Rogers innovation is an idea, process or thing, which is adopted as new by an individual or some entity. (Rogers, 2003)

Technological product and process (TPP) innovations comprise implemented technologically new products and processes and significant technological improvements in products and processes. A TPP innovation has been implemented if it has been introduced on the market (product innovation) or used within a production process (process innovation). TPP innovations involve a series of scientific, technological, organizational, financial and commercial activities. The TPP innovating firm is one that has implemented technologically new or significantly technologically improved products or processes during the period under review. (OECD, 2005)

OECD Oslo Manual defines four types of innovations that include a wide range of changes in the companies' activities:

- Technological product innovation
- Technological process innovation
- Organizational innovation

- Marketing innovation

Technological product innovation can take two broad forms: technologically new products and technologically improved products. A technologically new product is a product whose technological characteristics or intended uses differ significantly from those of previously produced products. A technologically improved product is an existing product whose performance has been significantly enhanced or upgraded.

Technological process innovation is the adoption of technologically new or significantly improved production methods, including methods of product delivery.

Organizational innovation in the firm includes the introduction of significantly changed organizational structures, the implementation of advanced management techniques and the implementation of new or substantially changed corporate strategic orientations. In principle, organizational change counts as innovation only if there is a measurable change in output, such as increased productivity or sales.

Marketing innovation includes implementation of new marketing methods. There are changes of product's design, packaging, promotions as well as methods of pricing and services. (OECD, 2005, p. 13)

Document Green Paper of Innovation issued by European Commission in 2006 defines innovation as synonymous with successful production, assimilation and use of news in the economic and social field. Innovations offer new resolving of problems and make it possible to satisfy the needs of individuals and society. (EC, 2006) Nowadays, at the time of new trends and opportunities the innovations are becoming an instrument of competitiveness not only in domestic market but especially in global markets.

A priori marketing plays key role in the field of technological news and innovations. Thanks to marketing it is possible to introduce innovations to customers in the B2C or B2B sector. Classic theory of marketing knows the model of „4P“. One of its components is innovation, especially innovation of products. This objective can be easily achieved if whole environment of company, micro and macroenvironment, is disposed for creative thinking and innovation development, as well as application of innovation in practice through marketing tools.

Kotler and Trias de Bes in their work Lateral Marketing dealt with extension of traditional marketing. Lateral marketing complements traditional marketing by providing an alternative route to generating fresh new ideas. According to Kotler and Trias de Bes „customers became selective“. They began to ignore traditional form of communication. Just innovation is the way how to attract their attention. (Kotler, Trias de Bes, 2003, s. 8)

2 Practice application in example TESTBED ROBOTICS

A practical example is focused on original testing of high-tech product - robot detecting dangerous substances. As a starting point we used the methodological characteristics of the testing process with the participation of professionals. An important part of testing was the participation of members of international Cross-border Hi-Tech Center. The CHC prepared, realized and interpreted this testing. Consequently members of CHC present proposals of particular use in practice.

To test were used the following methods:

1. The concept of Testbed,
2. Preparing environment and test plan – the model situation of accident of wagons carrying dangerous gases,
3. Arrangement of fire brigade participation – emergency service of Railway of Slovak Republic,
4. Preparation of structured interview – qualitative research (Annex A),
5. Application of test results and qualitative research, preparing of business model for the commercialization of the robot in the environment of railway - emergency service.

2.1 Participate of stakeholders – TESTBED ROBOTIKA

The main actors without which the original research of robot's testing couldn't be realized are Railways Fire-Brigade Bratislava, Vienna University of Economics and business, Vienna University of Technology, University of Economics in Bratislava, IniTS, companies TAUROB and VIRTE. In April 2013, after several months of testbed preparation and mutual cooperation, a testing was held at the „East station“ in Bratislava. Test with participation of potential users, 8 regional railways fire-brigades and management of Railways of Slovak Republic, was focused on integration of robot into the equipment of fire-brigades.

2.2 Research characteristic

The aim of this original research was testing of robot. Test was held in several phases:

Phases of testing process:

1. Analysis of current system
2. Concept of test-bed
3. Realization phase
4. Evaluation phase
5. Implementation phase

Test was held on 18 April 2013 at the „East station“ in Bratislava in cooperation with companies TAUROB and VIRTE and universities from Bratislava and Vienna. One of the testing part was the realization of qualitative research - structured interview by structured questionnaire. The aim of the research was to find out the views and attitudes of fire brigade's members and their superiors from different regions of Slovakia on technological innovation and its use in practice. Another part of the test was also opportunity to work with robots in practice. Railways Fire Brigade Bratislava prepared on the railway the simulation of accident with leak of dangerous substances from the wagon. Interviews were realized with the participation of 22 respondents of different ages and different regions of the Slovak Republic. We decided to put several facts resulting from research into next graphs and tables. We considered the return of ques-

tionnaires as successful. The 17 of 22 respondents expressed their opinion, what presents 77.3% of return. (Filo, P. – Orgonáš J. – Paholková, B. – Pajonk. P.)

2.3 Qualitative research or part of analyse

In this chapter we focus on the evaluation of responses, opinions and attitudes of respondents classified into following groups:

- technological innovation – robot is new object,
- usability,
- usefulness for risk detection of hazardous accidents,
- level of innovation,
- little complexity,
- usefulness and advantages,
- control and correct robot-failures,
- integration in the equipment of fire brigade,
- robot is compatible with the existing equipment,
- support the purchase of robot,
- kind of investment,
- type of investment,
- trial of robot,
- communication with producer TAUROB company.

From research we find out that robot presents a technical new for 71% of participants when 12 from 17 respondents answered „yes it is a technical new“. By next question we wanted to see what respondents think about functionality and control of the robot. The majority of respondents, 59% answered positively. Of course, the respondents had the opportunity to test control and functionality of robots directly during simulation of accident with leak of dangerous substances from the wagon. One of the questions was related to the use of the robot in dangerous situations with leak of hazardous substances. 41% of respondents said that use of the robot in dangerous situations is very good and 47% said that their use is good.

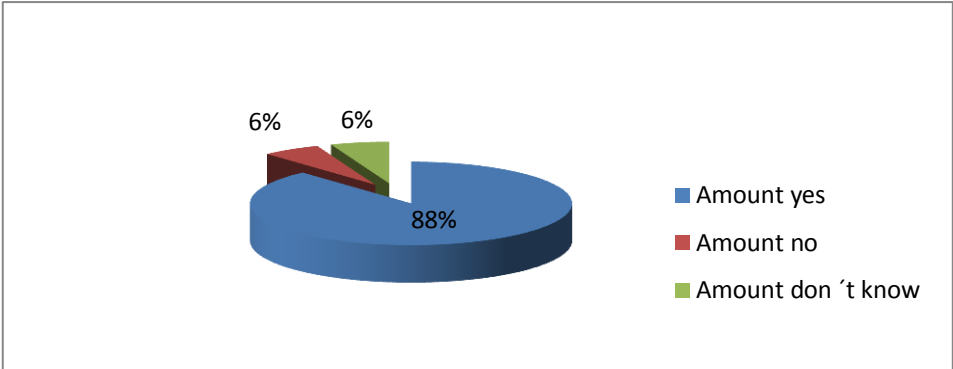
Regarding the degree of innovation, 11 respondents, which represented 65% of all respondents gave a positive opinion and considered robot as great. 65% of the participants considered the control and correction of errors as good and 23% as very good. One of the important opinion is also, if the potential users can imagine to work with this robot. 88% of respondents answered positively.

Considering the different position of respondents in the fire brigade, also the answers to questions about integration of the robot into existing technical equipment were different. Research showed that 65% of respondents can imagine the integration of robot into existing technical equipment of fire brigade and only 35% cannot imagine it.

In the field of technological innovations we also were interested if the respondents would support the development of this kind of robot. 88% of respondents expressed their positive opinion. You can see on graph 1. Then we wanted to know what the participants think about the trial version of robot and work with it. All respondents agreed that the use of the robot and work with it is very helpful and appreciated op-

portunity to try this trial version. 100% of respondents answered positively on this question.

Graph 1 Support the purchase robot



Source: own processing

Next question was about communication of respondents with producers of robot. 53% of participant considered communication as very interesting and useful and 47 % as useful. For effective communication with producers there were interpreters from universities and company VIRTE.

Very important goal of research was determinate the price which the respondents are willing to pay for this technological innovation and what type of investment would prefer. The answers differed in dependence on work position in fire brigade. Some participant didn't answer because they can't make a decision of purchase. In regard to the type of investments 11 respondents would prefer leasing not buying which represented 65% of respondents. Only 29% of respondents chose the direct purchase and 6% of respondents did not respond to this question. Supervisors responding on this price question, would be willing to pay 20 000 to 30 000 EUR depending on financial resources of fire brigade.

During the research we investigated not only mentioned opinions but also attitudes to this presentation of technical innovation. Most of them appreciated the opportunity to work with this technological innovation. (Filo, P. – Orgonáš J. – Paholková, B. – Pajonk. P.)

Conclusion

The market environment which is constantly changing creates many questions not only in field of innovation, but also questions how to present and offer them to customers. Testbed is one of appropriate solutions how to present innovations to potential users.

Human economic activity brings the reality of accidents. They come unexpectedly, disturb the standard environment and largely eliminate the existing infrastructure. Test showed the necessity of this technological news during interventions which can be really very dangerous. Simulation of accident highlighted the fact that if accident is caused by chemical or explosive substances, intervention of fire brigade is more complicated. Traffic accidents can be created in a tunnel or other place with difficult access. Identification of degree of risk by analysis of chemicals in place of disaster is possible only by sending the fireman or the robot with the appropriate equipment to detect dangerous substances. This eliminates the risk of loss of human life.

The intervention of fire brigade is quite complicated. Except quality of training it requires rapid detection of potential risks and protection of firemen. Before real implementation of robot it is required to make tests oriented on potential users. Testbed creates a place for meeting of potential users, producers and marketing specialists. The preparation of this platform is the principal base of qualitative market research in B2B sector. It creates conditions that correspond to the real implementation of technologies.

This test showed that some practice requires repetition and addition of another dangerous substances or implementation of robot in other environment for example in the mine. Development team must also modify and add the qualitative parameters as additional technical equipment or improve the service and speed of intervention (utilizability), simplify the use of robot as well as the algorithm of steps (comfort users).

This research highlighted the use of the testbed as one of the options to present technological innovations and also that if it is managed by professionals, it has real value to the needs of practice. Future developments and linking of innovative solutions with potential users depends on many external factors. Appropriate solution is testbed which can be used not only in field of technological innovations.

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Significance of SEO in Marketing Strategy¹

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Abstract

The aim of this article is to explain the advantages of implementation, pitfalls and main strategies within SEO. Although search engine optimization is a simple, systematic and easy-to-understand approach for sustain success, it can be easily ruined under various circumstances. The success of implementation depends on effective approach based on three main strategies using content, social networks and back links.

Key words

search engine optimization, keywords, marketing strategy, content strategy

JEL Classification: M31

Introduction

Today's digital time provides for many consumers an ideal environment and conditions for obtaining reliable information, particularly through the constant development of mobile technologies. The current market of mobile communication technologies undergoes extensive shift and transition from basic mobile phones to multimedia devices such as smartphones and tablets. These devices provide simple, fast and affordable access to the internet for many people. Text search is in these days available to the vast majority of the world population thanks to these technologies. The key element in many cases becomes the ability to provide an ideal object of search to the potential and current customers. It is one of the main reasons why it is so necessary to devote their efforts to these activities for successful businesses.

The main principle of this modern method is relatively simple. In today's highly competitive environment is a top priority for every ambitious company to develop a successful strategy not only in traditional mass media but predominantly on the internet as well. Nowadays it is not enough to use the services of traditional paid online advertising. Period in which consumers depend on sources of information from the marketing environment and advertising is over. The development of modern technologies simplified B2B, B2C and C2C communication. Despite the fact that today's customers are inundated with more types of advertising than ever before, the truth about the communication can be much easily verified than ever before. Customer are much smarter, more experienced and in many situations, refuse any kind of persuasion or coercion on the part of marketers and advertising. Consumers prefer a

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more proactive approach and use their own experience, knowledge and standards when they decide about their needs and overall purchase (Grewal – Levy, 2008). Many successful companies have realized this fact and adapted to this changed behavior and trends for the coming years. Nowadays it is more important to provide customers with the information they require and adapt to change in their behavior and needs. On the internet this means providing visitors with web sites for their quality and valuable content that is always updated and provides relevant information on a given topic. Even companies that adhere to the basic principles, however, happen that due to the high competition in the first search engine result pages that are most visited and the key consumer decision making. For this reason, many companies are increasingly conscious in use SEO in their marketing activities.

1 Search Engine Optimization

1.1 Characteristics

The concept of search engine optimization (SEO) can be defined as the name of various techniques dealing with a way to place the page on the top position in the search engine result page (Kubíček, 2008). It can be also described as the process by which individual web pages are prepared and optimized for different search engines in order to achieve maximum visibility and achieve a leading position in the organic search results.

The essence of this modern method is to understand the differences between paid and so-called organic search results. Sponsored links are usually displayed in the top position in search for the searched keyword. However, internet users have no problems with identifying these links and finding main differences from organic. It is this non-displayed relevant results which determines the ranking algorithm is perceived in similar way and consumers who find web pages displayed on the top tier as highly relevant to their specified keyword.

Attracting and retaining top tier position in the search results required, especially in a highly competitive environment, a good effort, but in the long run creates the potential for revenue growth and creating long-term relationships with customers. For many companies, this method provides great potential for striking improve their marketing efforts on the internet. For this reason, it is particularly appropriate to give reasonable efforts also mentioned this method.

The most important motivating factors for the use of SEO include (Enge , 2010):

- *Visibility (branding)* - Consumers assume that the top placement of websites in the search result page is a guarantee of their quality. This assumption underlies all activities leading to the achievement of the virtual position in consumers' mind.
- *Number of visitors* - in today's highly competitive environment, it is highly necessary to make a notable effort to achieve the planned web sites traffic. Uniqueness of this method is the ability to bring the site users who lost interest in traditional media.

- *High level of return on investment (ROI)* - For many companies, especially those dealing with the retail sale or services through the Internet, these activities tend to generate direct and indirect sales. An important part of this method is the ability to not only bring traffic but this traffic convert to overall income.

1.2 Main forms and categories

The search engine optimization method is based on two approaches, namely:

- *On-page*: optimizing a website in the source code, this focuses primarily on the work of the techniques associated with enhancement factors directly into web pages, covering three main areas. From a technical point of view addresses the processing of source code in a way that search engines could index their content as simple and trouble-free rate programming. From the content point of view is all about creating quality and relevant content for users - copywriting, as well as the presence and location of keywords.

Under this classification, we can understand the optimization areas as:

- The domain name and URL addresses,
- The meta tags,
- The contents of the site and
- The structure of the site.
- *Off-page*: this approach is based mainly on link building. Creating back links is one of the most important areas of optimization. These links can be obtained from various sources, mainly (Kubíček, 2008):
 - By purchase ,
 - By the exchange ,
 - In the natural way ,
 - By registration in catalogs ,
 - Using PR ,
 - Participation in forums and discussions ,
 - Participating in publishing or blogs,
 - By using its own sites for creating attractive content (link baiting)
 - By publication in the advertising servers
 - By the illegal practices, including spam, reflection spam, viruses and so on.

The main objective of these activities is to achieve a state called "Ideally optimized web page", which should meet the following criteria (SEOMoz, 2013):

- Relevance of content in the specific topic (usually related to a product or a separate topic), including:
 - The subject in title of the page ,
 - The object URLs,
 - Name of images ,
 - The multiple specification objects directly in the text of the document
 - The uniqueness of the content of the subject.
 - Linking to the home page, category page and subcategories.

1.3 Implementation effects

SEO brings in the long term many potential benefits, particularly in the use of synergistic effect consisting in the combination of this method of marketing activities on social networks and creating viral campaigns.

Among the most important benefits of implementing SEO within the communication strategy might include:

- Effective way in building long-term relationships with the high quality customers,
- Improvement of the visibility of website,
- Targeted traffic,
- Positioning of the web page.

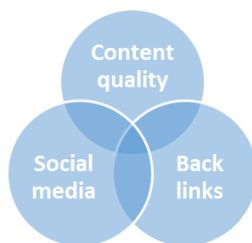
With the implementation of SEO undoubtedly related to certain risks and pitfalls, the most important of them can be considered:

- Results will not appear immediately but after some time,
- Not applicable for short-term campaigns,
- Constant change of the search algorithms require constant monitoring and additional expenses.

2 Main pillars of SEO strategy

Precisely developed SEO strategy is one of the main differences between simply searchable company and one lost in the thousands of other search results. The success of these activities in the next years could significantly depend on the establishment of a robust strategy, formed from a combination of three basic elements shown in Chart 1.

Graph 1 **Three main pillars of SEO strategy**



Source: DEMERS, J. 2013. The three pillars of SEO in 2013: Content, links and social media. [online]. [cit. 2013-09-21]. Available at: <http://www.forbes.com/sites/jaysondemers/2013/05/23/the-3-pillars-of-seo-in-2013-content-links-and-social-media/>

Each pillar of element is only one part of a successful SEO strategy. Only balanced combination of all three components can provide customers with a high

added value, achieve a certain level of authority and brand value as well as deliver an actual content through the new channels.

Content quality - the first pillar of an effective SEO strategy is based on transparent structure and quality content. Increasingly more prominent role in optimizing websites gets just optimizing the content itself. We set out a five key aspects that improve the quality of the content:

- Keyword research - is a fundamental basis for making any SEO strategy. The primary concept is based on optimizing the web site based on a content analysis search analysis a defined target audience.
- Keywords structure - another important element is formed from a list of keywords, created an organized structure, which is essential for a successful optimization following the next steps.
- Content Optimization - after a keyword analysis and clear structure been made, is one of the most critical steps to optimize the content of sub-pages with regard to defined keywords. In many cases, a misunderstanding leads to excessive step up to extreme use of keywords, which in some cases may be rather counterproductive. In many unprofessional optimization projects, however, implementers realize the importance of proper placement of keywords in the page title and Meta tags, compared to the quantity of content.
- User Experience (User Experience - UX) - this refers to a summary indication of how users visit sites and their ability to quickly and effectively use this environment. One of the primary ways to determine the need to achieve higher levels of user experience is the use of so-called bounce rate variable in Google Analytics. This indicator shows the percentage of web site visitors, who immediately leave the site right after entering. The term "bounce" means that the incoming visitor visited the exactly one page, which he left without continuing to the next page of the same website (SEOExpert, 2013). Achieving a high level of this indicator may indicate content optimization for irrelevant keywords, respectively, excessive complexity of its design. It is therefore necessary to monitor the trends in user behavior in order to simplify and adapt the design to their needs.
- Web site design - one of the primary indicators of professionalism is simple but precise processing design, tailored to the requirements of the target group of users.
- A regularly updated blog - one of the latest Google algorithm update, the inclusion of a premium assessment for web sites that regularly update their content. One of the easiest ways to achieve this benefit is to create an additional blog. Regular addition of articles that create value to the readers helps to build an authority and improve evaluation and rank in search engine result page. An additional benefit of regularly updated blogs lies in the rapid establishment of sufficient content, which may be different search engines then evaluated.

Backlinks - links that send important signals to the search engines about the relevance of the content and context of content with other sub-sites or other content of external sites. The more links directed to the web site, the more valuable the site appears in search engine evaluation process. This significantly related to other effects, such as

achieving a higher credibility, authority and associated higher rating (ranking), which in return brings more traffic.

In recent years, the strategy of creating backlinks focused mainly on quantity, i.e. acquisition or placement targeted backlinks to any kind of web sites in order to gain the maximum number of links. Nowadays, the strategy of creating backlinks shifted from quantitative to qualitative approach with a focus on creating value for customers. Their number as one of the basic valuation parameters remained unchanged, but much greater emphasis is creating links with high quality. Under the high quality links can understand outbound links from sites with high reputation and relevant reference to the content of that page.

The main current back link strategy contains (Demers, 2013):

- Host blogs (Guest Blogging) - nowadays we can see ever stronger trend in approach of gaining particular organic links. The basics of host blogs lies in the use of freelance writers' articles on their blogs.
- Distribution of press releases - press releases provide an easy way to create backlinks and help to clearly identify and brand presentation. This principle is based on two pillars. The first is based on the current search for new stories and active creation of a new press release. The second way is to use effective distribution of press releases. Many of these systems are for free.
- Change the original content - many companies use this effective strategy, consisting in the use of existing content and its adaptation to other platforms and media. One of the favorite ways of altering the original content is the creation of viral infographics, whose essence is as simple graphically show the essential facts regarding the subject.
- Linking to the real events - often used in sponsoring local events for limited period of time. Many of these events provide an opportunity to present the facts on different pages with information about the company or brand.
- Focusing on high-quality catalogs - in the past it was standard to apply to register to any available catalog which existed. At present it does not bring any benefit to be registered in the free or low quality catalogs, not too broad or focused dedicated to a different topic than the content of registered web sites.

There are currently three types of current catalogs, which can bring up web site additional benefits:

- Local catalogs - Registration in local catalogs brings additional benefits resulting from higher user search engines due to local keywords.
- Narrowly focused, professional Inventories - Inventories specialized niche focus on one topic in the industry.
- The established of catalogs - particularly preferably used established catalogs, which contain different sections focusing on various areas studied topic.

Social media - in recent years we can observe that the social networks have extended, enrich and transform the way insight into SEO. Nowadays the behavior and preferences of users on social networks important position and influence the way the individual web sites evaluated in the search results. It is therefore necessary for the SEO activities, use the following principles:

- Interactions with Social Media - nowadays it is almost a necessity for every ambitious company also existed in the field of social media. The mere attendance is only the first step, because successful progress in this area requires constant update and innovation as well as sharing content that is valuable to users. In this context, the term is often used term commitment, which means the involvement of users in sharing the contents of other users' comments or discussions.
- Building a brand - social networks are especially suitable media for use in activities aimed at building the brand. Attendance brands on social networks in various discussions helps to create word of mouth communication, which it then presents to customers, their values and finally, back links. One of the main steps is to create a specific profile of the brand with a link back corporate web page. After performing these basic steps to monitor vital part of professional sharing content on the brand or company itself.
- Generating social interactions simply by creating distributable content - currently it is almost inevitable that each page contained a single button used to easily share content. Every company should in their own interest as easy as possible and to encourage users share the content further spread of the relevant networks. The basic platforms that can be used in this context are Facebook, Twitter, Google+ and Interest.
- Existence of platform strategy - one of the most common approaches that many companies use, attendance is available on all networks and platforms. It is, however, considering the capabilities of each company, a very difficult strategy, which is only in exceptional cases, the most effective option. Precisely a strategy takes into account behavioral behavior of the target group for social networks and accordingly adjusts all your efforts.
- Google+ - for strictly practical reasons. It is important to present your brand or company in Google+ because Google explicitly stressed that social signals that send individual users in social sites are used in the search algorithm. Twitter and Facebook include some of these signals, but many of them are confidential. For this reason, the highest share of just Google+ network. It is especially essential to ensure interconnection between different networks and corporate web site and devote enough time activities for the benefit of the target group.

Conclusion

Activities in the field of optimizing websites for search engines are one of the more significant ways to ensure the long-term competitiveness in the online environment. Many businesses today are increasingly turning to this method with the requirements appear among the top search results for a certain keyword. Without revamped, these activities often spend effect and end up as a failed project or financial loss. It is important to note that to achieve success in SEO is substantial efforts already in preparation and Pre-preparation phase , which involves basic keyword analysis , evaluation and subsequent adjustment strategy which must be especially adapted to the specific situation and needs of the target group Finally, the strategic objective of the company . Only under the following conditions can be a successful SEO strategy to achieve your objectives. One of the key findings is the fact that activities in this area are never ending process optimization and adjustment, as human

needs as well as search algorithms are in constant dynamic process of change, which over time will require marginal or total change of attitude and SEO strategies.

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Multiculturalism in Management of Foreign Companies

Alexander Pechersky¹

Abstract

Multicultural team is the main source of creativity and flexibility in Multinational corporations. However, management of them entails complex problem solving and arousal of conflict based on the different cultures. Author reviews literature based on Multiculturalism, management of multicultural teams, its influence on corporate culture and provides suggestion for management framework on managing multicultural teams in foreign companies.

Key words

multiculturalism, intercultural management, corporate culture, cross-cultural management, national culture

JEL Classification: M10

Introduction

"Globalization is a process that encompasses the causes, course, and consequences of transnational and transcultural integration of human and non-human activities." (Al-Rodhan et al., 2006). Globalization can be traced back to ancient times with a simple exchange of cultures or ideas. During modern times intense familiarization with term "globalization" started during Post Cold War era. One of the four basic aspects of globalization is migration and movement of people (IMF, 2000). During the second half of 20th century migration has significantly increase. This can be viewed by various factors; however, one undisputable factor that cannot be doubted – is Labor demand in developed countries and outsourcing demand (Doh, 2005). Globalization, development of new technologies and increased transportation activities has lowered barriers in trade activities and enriched people interaction worldwide. The number of people moving from one country to another has rose with increased level of cross border mobility. In the modern world in times of globalization cultural differences play a crucial role. Cultural difference can increase effectiveness of performance in multicultural teams as well as hinder it and create negative results. The aim of this paper is to come up with suggestion of framework on how to utilize national cultural differences in prospective way and align them with predefined company's goals and corporate culture. Author will perform review of literature on corporate management structures, its cultural complexity, and possible collisions with National cultures.

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1 Types of Corporations

In the past 20 years global market has undergone major changes. Corporation operation on domestic markets became has changed to Multinational business. This changes has been led by abolishment of the country boundaries as well as increase of mobility in human capital. "Multinational business has only one distinguishing character – it is business involving two or more nations" (Frayerweather, 1978). Every business entity that strives to "go abroad" chooses between 4 different models on effective management. Miroshnik (2001) provides analysis of each model.

- Global – achieves high efficiency but low local responsiveness
- International – has low efficiency and low local responsiveness
- Multinational – low focus on global efficiency but high responsiveness
- Transnational – high responsiveness and company integration resulting in global efficiency

Each models has its advantages and disadvantages, however every company's goal is transnational structure. It will allow achieving global efficiency and maintaining local focus. Resolving "golden straightjacket" on how to achieve global integration and balance with local overview successfully penetrating such company as British Petroleum (Miroshnik, 2001).

2 External and Internal operational environments

Environment in which company operates consists of many variables. Therefore in order to successfully manage international company, managers should pay close attention to external economic activities but at the same time taking into consideration national variable too. There are four variables that national environment consists (Phatak, 1986):

- Legal;
- Cultural;
- Economic; and
- Political;

Based on the Phatak (1986) and other analysis, culture - is one of the main factor that influence company's prosperity as well as stands in the roots of company's failure and major conflicts.

2.1 Culture and Diversity

Multinational companies are actively using multicultural team in order to operate on international arena and strive for international development. Multicultural teams can bring high level of flexibility and sense of adjustment based on international changes. This allows to effectively utilizing human resources which in turn increases competiveness of the company.

There are many advantages in multicultural team such as generation of new ideas, obtaining new competences and expertise, etc. In diverse ethnic groups idea generation bring higher potential in the process of brainstorming. Multicultural teams in comparison to mono-teams leverage its advantage when problem solving skills needed or solution generation. In multicultural teams team members create its own team culture through interaction with each other. Multicultural teams unlike monoculture teams do not have their own identity; therefore team throughout process of formation develops its own attitudes, rules, expectations, and simplified culture. Main disadvantage of diverse teams is high degree of conflict arousal. One of the research results in solving multicultural conflicts is explained in research done by V. Videnova (2012) based on the Tuson's model.

In order to find out what initiates conflicts between multicultural teams one should understand from what culture consists of and what aspect it is influencing on. Based on the accepted definition : " Culture consists of patterns, explicit and implicit of and for behavior acquired and transmitted by symbols, constituting the distinctive achievement of human groups, including their embodiment in artifacts; the essential core of culture consists of traditional (i.e. historically derived and selected) ideas and especially their attached values; culture systems may, on the one hand, be considered as products of action, on the other hand as conditioning elements of future action. Culture is something that is shared by almost all members of some social group; that the older members of the group try to pass on the younger members and something (as I in the case of moral, laws and customs) that shapes behavior " (Kroeber and Kluckholm, 1952). Every individual has certain values that shaped through experiences and culture. In turn values directly influence our behavior and norms (Miroshnik, 2001). To highlight the importance of national culture Laurent (1983) in this research proved that managers in international companies are strengthening their national differences than their counterparts in the national companies (Miroshnik 2001).

International managers leading intercultural teams should know that team cannot be judged based on professional attitude at work place and solely based on results but should consider cultural differences. There are five values that manager should be aware of for effective management (Phatak1989):

- Individualism – how independent culture is.
- Formality – procedures before the business
- Materialism – how culture sees the nature and environment around us
- Change – whether man or nature controls the change, progress
- Time – how aspect of time is perceived

3 Corporate culture and its emerging

There are two main schools of researchers debating on how corporate culture emerges and what are the main factors shaping and influencing it. Hofstede (1990, 1993) provides evidence that national culture is directly influencing corporate culture of organization. These results in that employee's practices are the main root of corporate culture. Kotter and Heskett (1992) believe that strong leader not only influences corporate culture but as well shapes companies guidelines (Miroshnik 2001).

4 Team management theory

Focus of organizational structure is on division of labor and hierarchical structure. In the long run it will only decrease productivity and efficiency of the employees by eliminating diversity and uniqueness of the employees (Fine, 1995). On the contrary Team management theory strives to create cooperating environment and work toward common goal. One of the main programs that company should introduce in order to eliminate conflicts and underline team management theory is increase trainings in the company. Before every project team should receive training on clear set of responsibilities, goals, and team structure during planning of the project. Moreover, by eliminating hierarchical structure and creating flat structure with decentralized power. This will improve decision making process and negotiation of the team (1996, Shreiber).

Snow (1996) identified four main characteristics that creates flexible culture in multicultural teams.

1. Goals. Agreement on common goal allows team member to align themselves in a much better way as well as it eases understanding of necessary tasks and skills needed to achieve common goal.

2. Split of roles and responsibilities. It was very important that every team member will understand their role and responsibilities within the team. Split of roles will prevent potential personal conflicts. If members have clear understanding of his/her responsibilities probability of conflicts with other members greatly reduces.

3. Rules and social interaction. In the team should be set clear understanding of what are the rules in person interaction with each other, what is the way for conflict resolution, how resources and rewards inside the team should be distributed. Rules of the team that every member accepts are channel and guidance in any situation.

4. Reporting and monitoring. In a global setup multicultural teams can be dispersed in different geographical locations. Different time zones and remote locations can create challenges therefore reporting and monitoring guidance is needed in order to coordinate teams work.

Conclusion

In our modern world where national boundaries are minimal companies are striving to conquer international markets in increase their revenue. One of the competitive advantages that companies are trying to utilize is diverse teams. Multicultural (diverse) teams bring higher degree of flexibility, creativity and responsiveness. However, since members of the team are from different cultures, share different religions and perceive actions through different values this creates complex problems in management of the team.

Corporate culture proved to be crucial factor in achieving companies effectively. In case of multinational companies corporate culture is heavily influenced by national culture, experiences and values of its employees. Other researchers agree that company leader is the one shaping corporate culture and creating guidance for the employees.

After literature analysis author suggests following framework: by utilizing advantages of multicultural team and based on the team management theory, team can be aliened to single company goal. This will create synergy of the team toward one goal eliminating cross-cultural conflicts and creating positive influence on corporate culture. Leader, in turn, will choose necessary organization type in which company goal will be reached.

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Woman – a Significant Player on the Luxury Product Market?

Women`s Attitude Toward Luxury Products and Brands

Klaudia Plażyk¹

Abstract

Nowadays women are the most powerful consumers in the world. One of the most obvious effect of these changes is the increasing women`s income. In the last decade Polish female consumers have become an important player on the Polish luxury goods market. They want to live on the same level as the other women in developed countries. The article shows the results of a study conducted among women concerning their attitude toward luxury products and brands.

Key words

luxury products, luxury brands, woman, consumer behaviour

JEL Classification: D1

Introduction

Women are the most powerful consumers in the world. She spends her own money, as well as her husband's money. Her purchasing power in the area goes much further than the traditional areas, such as clothing, furniture and food.

The next important issue is that women decide to postpone marriage and motherhood. They want to be well educated and to do careers. One of the most obvious effect of these changes on the labor market is the increasing women`s income. Their financial strength is growing fast and for luxury goods manufacturers woman is an ideal customer.

The main purpose of this article is to show women`s consumer behavior on the luxury goods market and their attitude toward luxury goods.

1 Luxury goods market in Poland

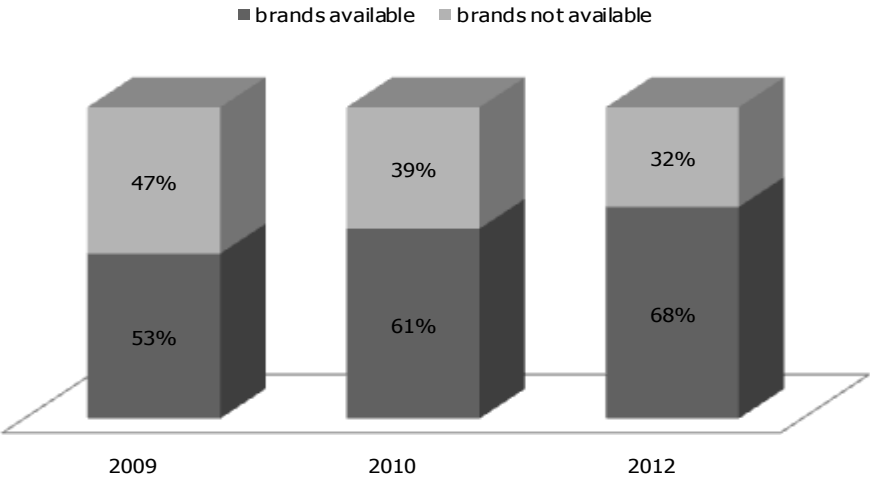
The main factors influencing the demand for luxury goods are: the number of people with relatively high income, the level of income and the propensity to spend those earnings on luxury goods.

In the third edition of the report "The luxury goods market in Poland. Edition 2012" KPMG found that, compared to 2010, in the end of the third quarter of 2012, the proportion of luxury brands present in Poland increased by 7 percentage points (from 61% to 68%). The report took into account 200 brands from seven key market

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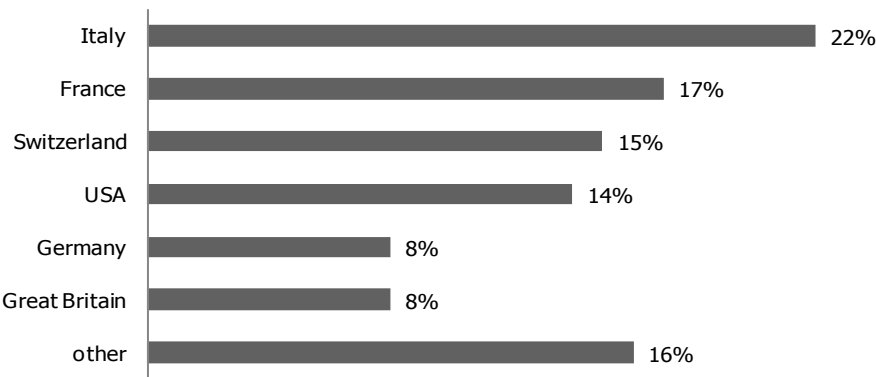
segments. Still, more than one in three luxury brand is not yet available in Poland (KPMG, 2012).

Graph 1 The presence of luxury brands in Poland



Among luxury brands present in Poland, the largest share belongs to Italian brands (22%). The same situation was in the previous edition of the report in 2010 (KPMG, 2011) and compared with the previous year, the share of Italian brands increased by one percentage point. The following places, as in the previous study were French brands (17%), Switzerland (15%) and American (14%) (KPMG, 2012).

Graph 2 The origin of luxury brands present in Poland



Polish luxury goods market is relatively young. However, from year to year, the number of wealthy Poles and their increasing incomes confirm that we should expect a growing interest in the Polish market by the global luxury goods manufacturers. H. Mruk observed that in Poland average income of households belonging to the group of highly affluent is growing much faster than the rest of consumers. He pointed out that, when considering the evolution of demand for luxury goods, we can identify three stages (Muk, 2007):

- the first stage includes demand for external material goods, such as houses or cars;
- the second phase is associated with an increasing demand for home furnishing articles and housing (paintings, household appliances, etc.);
- the third stage is combined with quality of life, resulting in an increasing demand for health products and services, self-image, entertainment, education.

The author pointed out that in the coming years in Poland will increase the demand for products and services related to quality of life. This is connected with the global trends called wellness and wellbeing.

In recent years on the luxury goods market, including Poland, we can observe the trend toward democratizing luxury goods. It is based on the fact that luxury goods, which until recently were available for a small, elite group of the wealthiest people are becoming affordable to a wider, more mass audience. There are two reasons of this phenomenon (Sęk, 2004):

1. In order to raise capital and to compete effectively in the market, companies are entering the stock exchange. The consequence of this situation is the pressure of investors to improve financial indicators. The companies want to get the largest number of customers.
2. An equally important reason is the emergence of a new customer. Currently, more people can afford to buy luxury products (increasing number of wealthy individuals) and new customers are mainly young people. The new consumer is relatively poorer and less loyal than traditional consumer but is more attractive for luxury goods companies because of its quantitative advantages over traditional customers.

Due to the global economic slowdown forecast for the luxury goods market was rather not optimistic, but the future of the Polish luxury goods market draws significantly more optimistic, because luxury goods are becoming more desirable and the demand for them is growing. Polish consumers began to buy more high-end products, looking for a more sophisticated international brands. Economic forecasts indicate that the availability of luxury brands on the Polish market will be increasing and producers of luxury goods will want to locate their corporate lounges on the prospective Polish market.

2 Women`s attitude toward luxury products

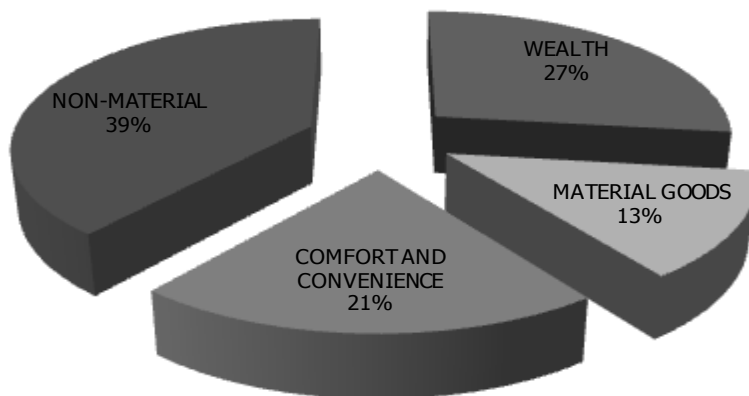
The survey was conducted in the Southern Poland in the period of July to September 2013 by the direct interviews and partly by Internet on a sample of 100 women who claimed that they regularly purchase luxury goods.

The study began by asking about notion associated with a phrase *luxury*. The results were grouped into four categories:

1. WEALTH – consumers said such expressions as money, wealth, prosperity;
2. MATERIAL GOODS - car, jewelry, clothes, perfume;
3. COMFORT AND CONVENIENCE - travel, holidays, comfort;
4. NON-MATERIAL ASPECTS - independence, a sense of freedom, no restrictions, prestige, elegance.

The figure below shows the distribution of answers.

Graph 3 Connotations associated with the notion *luxury*



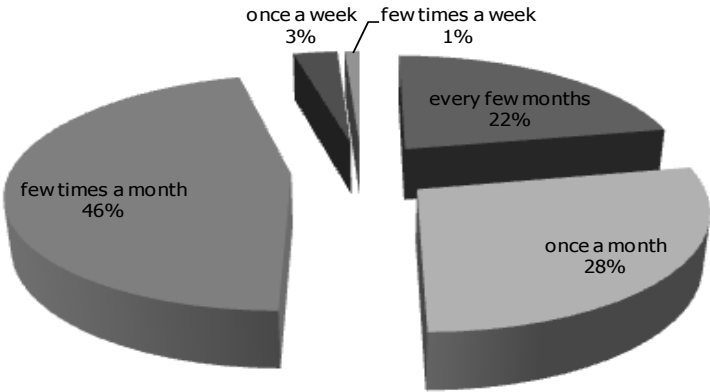
The study showed for the women luxury is primarily synonymous of freedom and independence. 39% of respondents indicated luxury with a subjective feeling of independence, a sense of freedom, the lack of restrictions and prestige. Another position is wealth (27%) indicated with money, wealth and prosperity. 21% of the responses were related to comfort and convenience. The term also referred to the ability for travel and holidays. 13% of respondents referred to the material goods such as a car, jewelry, clothes and perfume.

In the study conducted among women luxury connotations are mostly intangible (in the studies carried out among men and women the notion *luxury* has more materialistic nature) (Sikora, 2010). For women *luxury* is a sense of independence, freedom, no restrictions.

In the results was showed that 46% of respondents declared that they are buying luxury goods several times a month, 28% once a month, 22% every few months, 3%

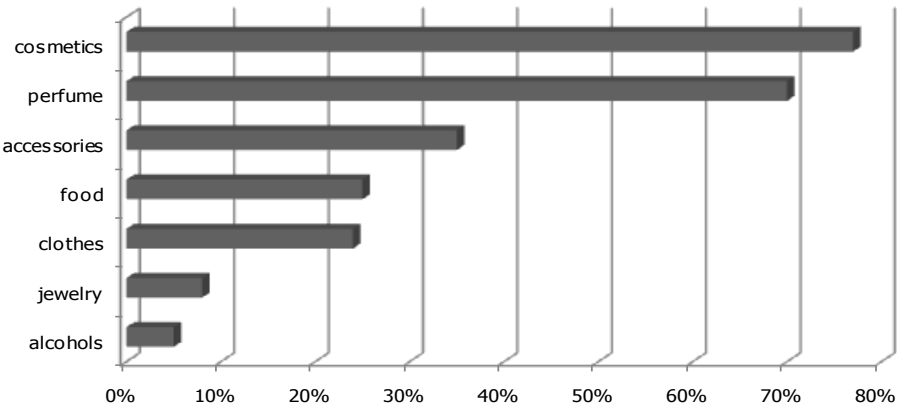
of the consumer buy such goods at least once a week. Frequency of purchase of luxury goods increases with age, the higher professional position and higher wages.

Graph 4 Frequency of purchase of luxury goods



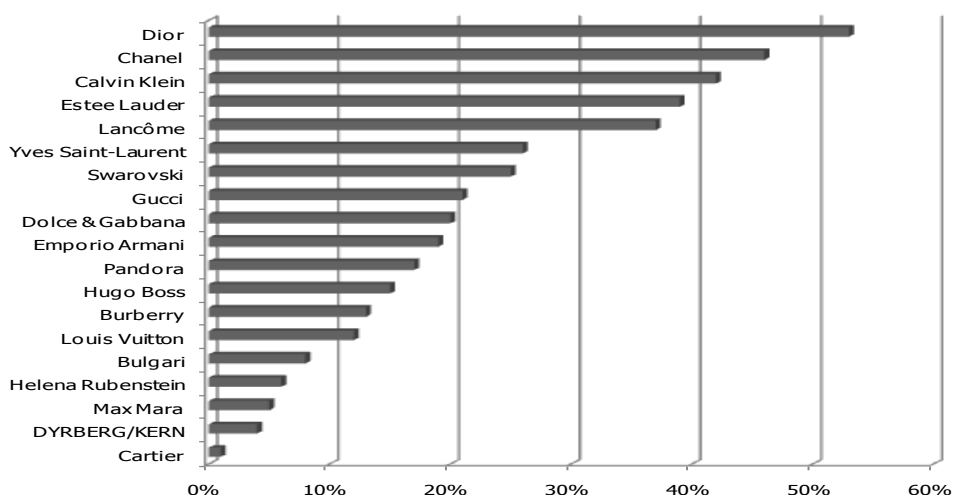
Female consumers often purchase cosmetics (77%) and perfumes (70%). This was followed by accessories (35%), food (25%) and clothes (24%). The presence of cosmetics and perfumes in the forefront of best-selling luxury goods is not surprising. In the segment of luxury goods these products are the cheapest and today many people can afford to buy them. In addition, the distributors of luxury cosmetics and perfumes often offer different types of discounts which often reach 50% of the original value of the product. Also tourism and duty free zone cause that consumer often purchase luxury cosmetics and perfumes. The frequent purchases of goods in this category is also supported by the time of consuming these goods - clothing and accessories are used sometimes for several years, cosmetics and perfumes for a few months.

Graph 5 Purchased luxury goods



Polish female consumers often purchase luxury goods of Dior (53%) and Chanel (46%). These two brands are at two top positions despite the fact that none of them does not have its flag store in Poland. The study showed that female consumers mainly purchase cosmetics, perfumes and accessories of these brands and the products of these segments are widely available in Poland. The following places were: Calvin Klein (42%), Estée Lauder (39%), Lancôme (37%) and Yves Saint-Laurent (29%). As we can see, the most popular brands of luxury goods segment are mainly associated with luxury clothing, accessories and cosmetics. Luxury clothes, accessories and cosmetics consist 73% of all purchased brands of luxury goods. Luxury jewelry and watches are 27% of all indicated luxury brands. The most popular are Swarovski (25%), Pandora (17%), Bulgari (8%), Dyrberg/Kern (4%) and Cartier (1%).

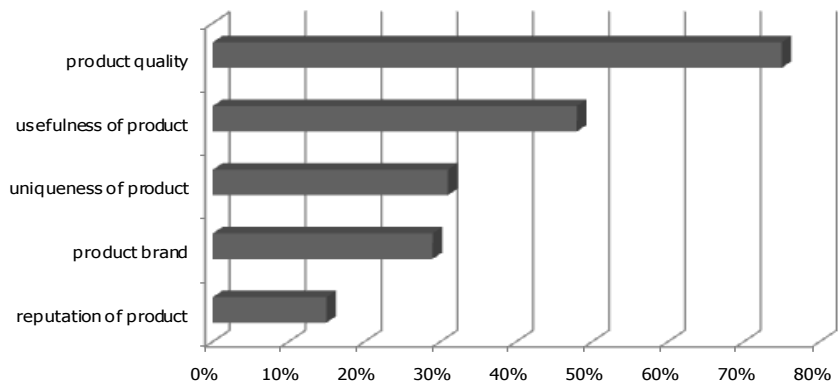
Graph 6 Most popular luxury brands



At the time of purchase female consumers mainly pay attention to the quality of the product (65%). Luxury goods are expensive products and high price is identified with a high quality. For 50% of female consumers is important the usefulness of the product. The following places were the uniqueness of the product (27%), product brand (25%) and the reputation of the product (11%).

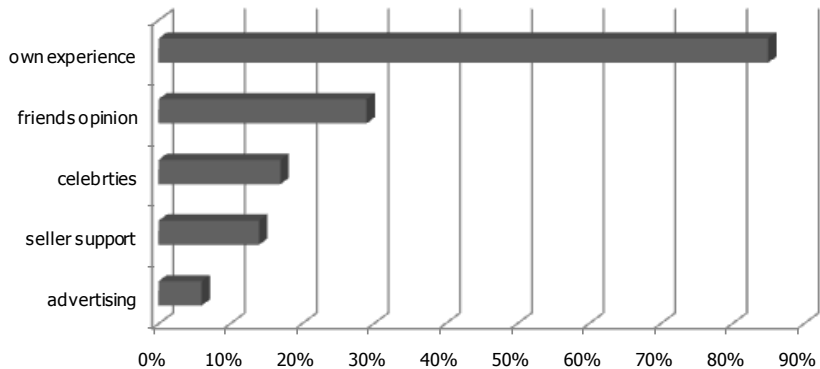
As study showed women primarily pay attention to the utility or the quality of the luxury goods, and then to the aesthetic qualities of the product, such as uniqueness and good look.

Graph 7 Most important features of luxury goods



The next question concerned factors that influence consumer buyer behaviour. 85% of female consumers indicated that the most important thing in a buying process is their own experience. The second place (29%) went to the friends opinion. Women like to exchange their opinions about various products. 17% of female consumers indicated that a significant impact on the decision to buy luxury goods is the role of celebrities and their lifestyle. 14% of all indications was the role of seller and only 6% of advertising. Low percentage indicated these factors is probably dictated by the overload of advertising in the marketplace and their satiety, which means that the majority of them does not pay enough attention.

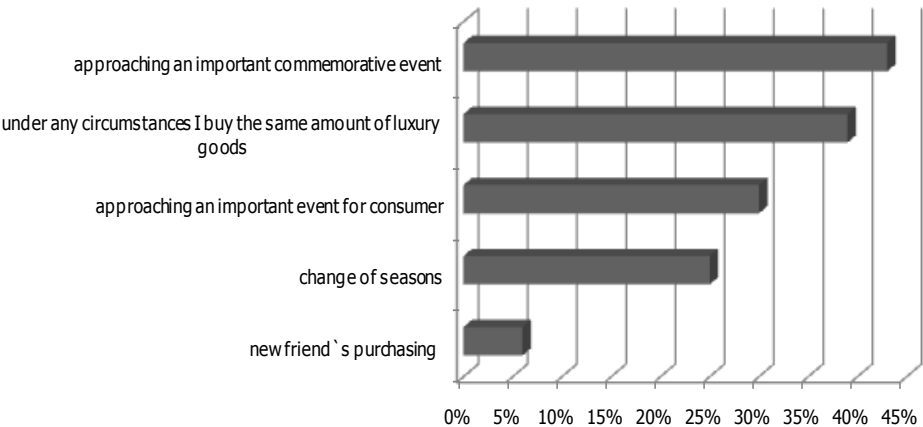
Graph 8 Factors influencing the buying decision



The female consumers indicated which specific situations cause that they buy more luxury goods. 43% indicated occasional important events such as birthdays of family members or friends, holidays, anniversaries. 25% of all women buy more luxury products with the change of seasons. It is associated with changes in fashion and trends. 39% of women responded that regardless of the different situations and circumstances acquire the same amount of luxury goods. Only marginally affect on the purchase a friend and its possession of luxury product (6%). However, we can assume

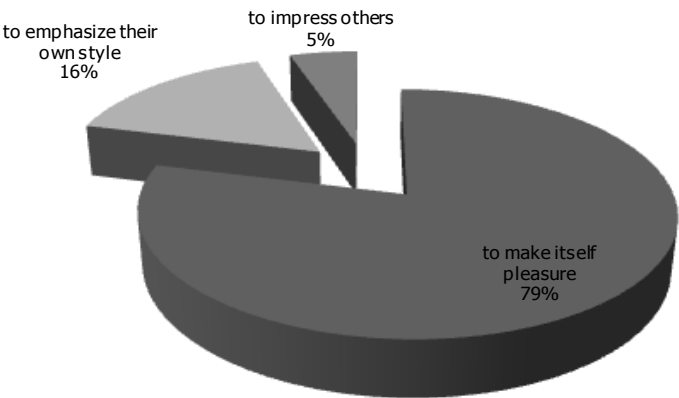
that consumer do not want to admit that their purchasing decisions is driven by the desire to have what others have.

Graph 9 Special considerations affecting on the purchase



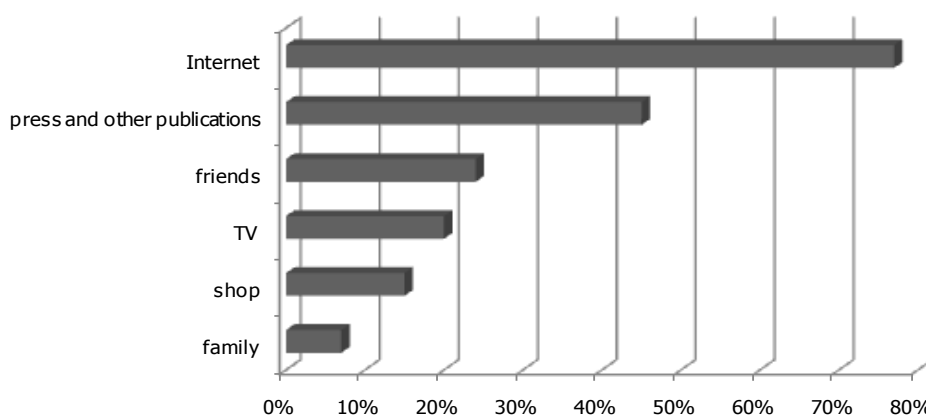
79 % of female consumers purchasing luxury goods to make itself pleasure. We can see here the individual aspect of consumption of luxury associated with hedonism - certain products and services provide some emotional value, intangible benefits. 14% of women buy luxury goods to emphasize own style, maintain and develop own identity and to create luxurious image. It is also the individual aspect of consumption of luxury but it is conducted to emphasize self-identity Only 5% of women said they purchase luxury products to impress others. This is due to the social aspect of the consumption of luxury - "visibility" (more Wiedmann, Hennings, Siebels, 2007). In fact, the percentage of women who buy luxury goods in order to impress others may be larger because consumers are generally more reluctant to admit that they are doing something in order to impress others.

Graph 10 Purpose of acquisition of luxury goods



Female consumers derive information on luxury goods mainly from Internet (77%). Internet is a place where people can find quickly information about everything. The forums and chat rooms is exchanged views on various products. 45% respondents pointed to the press as a main source of information about luxury goods (especially women's press). 24% of women indicated friends, so here is important role of whisper marketing. 20% of female consumers take information about luxury products from television (advertising and women's channel). 11% of consumers obtains information on luxury goods from sellers. Here is an important role of seller knowledge about products. For this reason, all luxury companies make a strong emphasis on the training of their employees.

Graph 11 Sources of information about luxury goods



The results of the study may suggest that the Polish luxury goods market begins to approach the global market. In many respects is different, and probably for a long time will be different but for producers of luxury goods is a market perspective. On this market the important role begins to play a woman who is more and more aware of their needs and becomes a major consumer of luxury goods.

Conclusion

Poland is not known as a key market for luxury goods. Regarding the number of wealthy consumer Polish market gives way to many Western and developing economies. Despite this, in the last decade Polish female consumers have become an important player on the Polish luxury goods market. Even the less wealthy women can afford to purchase a luxury product. The generation of women who remember times of socialism and younger generation of Polish women want to live on the same level as the other women in developed countries.

In the 90s luxury brands were increasingly available in Poland - but the level of income does not allow for the mass consumption. With the increasing in wealth that

took place in the last decade, the barrier of low income is no longer an obstacle for purchase luxury goods.

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Theory and Practice of the EU Anti-dumping Policy on the Example of a Specific Case

Zuzana Silná¹

Abstract

Dumping is a predatory pricing strategy, which occurs when a producer exports a product at a price below the price charged in the domestic market or its production costs. The goal of this paper is to provide brief review of literature on dumping and anti-dumping policy from the perspective of economic, political and legal sciences, and to point out the practice of the EU on the example of the recent case of solar panels consigned in China. The case study shows a piece of empirical evidence on the severe effects of information deficit in terms of securing the national (regional) welfare while maintaining good diplomatic relations with an important trade partner and the preference given by the government to the profit of domestic producers over the lower cost producers.

Key words

dumping, anti-dumping policy, allocative efficiency, welfare, European Union, solar panels, China

JEL Classification: F02, F13

Introduction

Dumping practices occurred first at the end of 19th century (Viner, 1923). The first anti-dumping law was adopted by Canada in 1904. Since then the trade environment and thus the motivation of governments to impose anti-dumping duties have changed. Previously meant to eliminate the market failure caused by dumping, which reduces the allocative efficiency, anti-dumping measures developed to the major instrument of domestic market protection.

The goal of this paper is to provide brief review of literature on dumping and anti-dumping policy from the perspective of economic, political and legal sciences, and to point out the practice of the EU on the example of the recent case of solar panels consigned in China.

Dumping is a predatory pricing strategy occurring when a producer introduces a product in a foreign market at a price below the price charged in the domestic market. In an environment of asymmetric information where the information deficit is symmetrical among the producers, there would be no market failure. The factor of transport costs changes the situation significantly and enables the domestic, higher cost producer to serve the market. Similarly, the existence of national anti-dumping law does not motivate domestic producers to lower their prices as they feel protected from the

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competition of lower cost foreign firms. In case of national anti-dumping policy the government usually decides in favour of the domestic firm: in order to maximise the national welfare the government values the profit of domestic producer over the profit of a foreign one. If the anti-dumping policy was run by a global authority, the policy-maker would give the market to the most efficient producer as it aims at maximising the global welfare.

Nowadays, governments use anti-dumping measures to protect domestic industries. The practice of anti-dumping measures is much more complex and complicated, though. The case study of anti-dumping measures imposed by the EU on solar panels consigned in China shows the influence of information deficit. Furthermore, it emphasises that even in case of a complaint submitted by the majority of an industry, enormous opposition may arise among other firms of the same industry. Anti-dumping investigation against sensitive product may result in retaliation, even trade war: China responded to the European investigation by initiating an anti-dumping procedure against European wines.

1 Theory of Dumping and Anti-dumping Policy

Dumping is a predatory pricing strategy, which is denounced, however, not prohibited by the World Trade Organisation (WTO). Accordingly, the WTO established a set of rules to be followed by countries, which aim at protecting their industries from unfair trade practices.

With advanced world trade liberalisation, anti-dumping measures shifted from instruments restoring market balance to restrictions with obvious protective function. Economists have conducted research on dumping and anti-dumping policy ever since Jacob Viner published his work "Dumping: A Problem in International Trade" in 1923. This paper presents the results of selected studies. It contains a review of the relevant literature; shall be, however, viewed as initial research only.

1.1 Economic Aspects of Dumping and Anti-dumping Policy

Richard Caves and Ronald Jones (1977) explain the phenomenon of dumping by the standard theory of monopolistic price discrimination: a profit maximising firm perceives the demand elasticity to be higher in a foreign market and is able to discriminate between foreign and domestic markets. Subsequently, it will supply the foreign market at a lower price than it charges at home.

James Brander and Paul Krugman (1982) argue that dumping arises from an oligopolistic competition and may even occur in the form of "reciprocal dumping", which means that the two competing firms supply own and competitor's domestic markets with slightly differentiated products. In such case we could question the efficiency of free trade in terms of maximising the global welfare. On one hand, the firms spend their resources to pay for transport costs to supply a market with a domestic producer that results in welfare decline, particularly if the transport costs are high. This would give rational to impose trade barriers preventing from such trade. On the other hand,

free trade – even under the condition of reciprocal dumping – increases international competition, which leads to lower prices and reduces the monopoly distortions.

McCalman, Stähler and Willmann (2009) develop a rational for anti-dumping policy based on allocative efficiency. If the policy-makers have complete information about the costs, the decision on optimal allocation of resources is simple. With increasing information deficiency the criteria for determining government intervention become less transparent. The authors set their analysis in an environment of asymmetric information where both the policy-maker and the competitors in the model of international competition do not have complete and reliable information about the cost structure. The authors, however, assume that the information deficit is symmetrical among the competitors and therefore, there is no market failure and no need for government intervention. Introduction of transport costs into the model has serious implications for the allocation of resources. Since the transport costs increase the final price of a product, the higher cost competitor can become the supplier in the market after all. This disadvantage of the foreign firm may result in a more aggressive pricing strategy, i.e. dumping. The authors develop their theory, first, under the conditions of one global policy-maker, and second, under the conditions of nationally defined anti-dumping policy.

In case of **globally optimal anti-dumping policy** we assume the existence of a global organisation (global policy-maker) that follows a globally efficient policy and aims at maximising the global welfare. The policy-maker would intervene anytime a less effective firm supplies the market.

In a model of nationally implemented anti-dumping policy the intervention always goes against the foreign company. This may not be the case with global anti-dumping policy. If a firm (whether domestic or foreign) prices aggressively (attempts dumping), in the end, however, applies a price equal to the price of the competitor, it is clear that the competitor produces at lower costs. The policy-maker will intervene and give the market to the lower cost firm. Under a global anti-dumping policy the domestic country is not automatically better off in comparison to laissez faire conditions as the decision of the global policy-maker always goes for the most efficient producer to maximise the global welfare. Furthermore, the gains of intervention under a global policy are rarely distributed symmetrically among the respective countries.

Under **nationally optimal anti-dumping policy** national governments pursue the goal of maximising national welfare. To do so, they do not necessarily seek the most efficient producer (the lowest costs firm) as they value the profit of a domestic firm over the profit of a foreign producer – rent shifting aspect. The foreign firm will only be able to supply the domestic market at prices lower than the cost of domestic producer, because on this level the gains of the domestic consumer overrule the profit loss of the domestic firm. If the foreign firm supplies at a price above the costs of the domestic supplier, the policy-maker will intervene. As a consequence, national anti-dumping policy favours conditions resulting in inefficient market supply (the higher cost firm supplies the market).

Under laissez faire conditions foreign firm will price aggressively, because it will not face any counter-measures. Even announcement of an anti-dumping policy can contribute to more efficient supply. Nevertheless, a nationally optimal policy may favour a less efficient domestic producer over a lower cost foreign firm, since the policy-

maker values the profit of a domestic firm over the profit of a foreign one. At this point we come to the question of relative costs of market versus government failure. In case of a globally optimal anti-dumping policy the global policy-maker will always give the market to the most efficient supplier, which results in the growth of global welfare, however, under asymmetrical distribution of gains among the individual countries. The study made by McCalman, Stähler and Willmann shows that dumping usually does not appear when trade barriers are either very high or very low. In this context every further step of the WTO on the path of trade liberalisation caused immense growth of anti-dumping cases; at the end, however, it should induce such lowering of barriers which will result in a decrease of anti-dumping cases.

1.2 Political and Legal Aspects of Dumping and Anti-dumping Policy

Anti-dumping measures are influenced by a rare combination of political and economic factors (Blonigen, Prusa, 2001). While the most trade restrictive measures have been disciplined by GATT/WTO, anti-dumping measures persist. WTO members have filed more anti-dumping complaints than complaints under any other GATT/WTO laws together (observed by Blonigen and Prusa in the period of 1980 – 2003). Anti-dumping agreement was revised in every liberalisation round and individual countries (especially the EU and US) often amend their policies to make it easier to the firms to file a request for anti-dumping protection. Lost anti-dumping case shall not be understood as fair treatment of foreign competition; it rather is a reason for a change of anti-dumping law. Domestic industry is not motivated to lower its price as it benefits from highly probable anti-dumping protection. Foreign supplier can only be successful in the domestic market if it charges higher prices. In case of filed anti-dumping case foreign supplier's resistance to participate in the anti-dumping procedure can be understood as admission of guilt, on one hand. On the other hand, foreign producer can relocate its production to avoid the duties.

Bruce Blonigen and Thomas Prusa (2001) claim that economic theory has been focused on such aspects of dumping and anti-dumping policy that are far from reality. Economists explore the impact of dumping on the efficiency of resources allocation and evaluate the effects of market distortions caused by dumping on the global or national welfare. In practice anti-dumping policy serves the goal of providing politically important domestic industry with protection against foreign competition.

First country to establish an anti-dumping law was Canada in 1904 followed by Australia (1906), South Africa (1914), the US (1916), Japan (1920), and France, New Zealand and the UK (1921) (Zanardi, 2005). Anti-dumping provisions were also included in GATT 1947. The agreement defined dumping as the practice whereby the "products of one country are introduced into the commerce of another country at less than the normal value of the products" (Blonigen, Prusa, 2001). Anti-dumping measures were only allowed in case of "material injury" caused to a domestic industry.

Anti-dumping provisions of GATT have been supplemented by specialized agreement establishing rules for anti-dumping measures under the WTO. The very basis for any anti-dumping action is Art. 6 GATT. The Anti-dumping Agreement (the Agreement) elaborates on precise rules of dumping, anti-dumping procedures, material injury etc. The Agreement allows the countries to take action, which would be other-

wise inconsistent with their concessions (bound duties) and the most-favoured-nations clause (MFN clause), which obliges any WTO member to treat all WTO members equally.

According to the Agreement a product is considered as being dumped if it is introduced into the commerce of another country at a price below its normal value, while the normal value is defined as the price of the product in the market of the exporting country. When the product is not offered in the domestic market, the margin of dumping is determined by comparison with a price of the product when exported to a comparable third country or with the cost of production plus a reasonable amount of additional costs and profit (Art. 2 of the Agreement).

The importing country is only allowed to impose an anti-dumping measure if dumped imports cause or threaten to cause material injury to the domestic industry. Determination of the injury has to be based on positive evidence and should include an examination of volume of dumped imports and its effect on domestic price, and the consequent impact of such imports on domestic producers. The relevant authorities are obliged to examine the causal relationship between the dumped imports and the injury to the domestic industry (Art. 3 of the Agreement).

An application for initiation of anti-dumping investigation should be filed by a majority of the domestic industry defined as firms producing more than 50% of the total production. The application should contain evidence of dumping, injury to the industry, and a causal link between the dumping and the injury. The authorities examine the application to determine whether there is a reasonable cause for initiation of an investigation. The investigation shall be terminated if the margin of dumping or the volume of dumped imports is negligible (i.e. less than 2% of the export price or 3% of the total imports of the like product, respectively). The investigation is expected to be concluded within 12 months; in some cases, however, may be extended up to 18 months maximum (Art. 5 of the Agreement).

The authorities will notify all interested parties on the initiation of an investigation. The interested parties are welcomed to submit in writing any evidence they consider relevant in respect of the case. Interested parties include exporters, foreign producers, importers, government of the exporting country, domestic producers of the like product, and business and trade associations. The authorities issue a questionnaire, which they submit to exporters or foreign producers to obtain relevant information. The deadline for submitting a response shall be set at no less than 30 days (Art. 6 of the Agreement).

If in a preliminary stage of investigation the authorities determine the existence of dumping and consequent injury to the domestic industry, they can impose provisional duties. Any provisional measure shall not exceed the period of six months (Art. 7 of the Agreement).

Instead of imposition of an anti-dumping duty the authorities of the importing country may accept price undertakings from exporting producers. The undertaking should not be higher than necessary to eliminate the margin of dumping or the injury to the domestic industry; whichever induces lower undertaking (Art. 8 of the Agreement). The anti-dumping duties or price undertakings shall remain in force as long as necessary to counteract dumping causing injury. This period shall not exceed 5 years. The authorities review the measures in force on their own initiative or upon a request

by any interested party that provides evidence justifying the review. The authorities will terminate anti-dumping measure if the review provides evidence that the measure is no longer warranted (Art. 11 of the Agreement). WTO member should give special regard to developing countries when considering the imposition of anti-dumping duty (Art. 15 of the Agreement).

The European Union as a member to the WTO based its Regulation No 1225/2009 on protection against dumped imports from countries not members of the European Community on the respective rules under GATT and the WTO Anti-dumping Agreement. Furthermore, the EU has introduced a special feature when investigating on the reasons to impose anti-dumping duties, i.e. the Union interest. This is to legally prevent from adopting measures in favour of any particular member state. The EU applies the "lesser duty rule", which means that it imposes an anti-dumping duty on a level eliminating the dumping or the injury, whichever is lower.

In addition to the rules set up by the WTO the EU anti-dumping policy enables to extend anti-dumping duties to additional countries in case of circumvention. During an investigation the Commission, which is the responsible authority, invites exporting producers to cooperate. If too many producers respond, the Commission determines a sample of companies, which will be asked to respond to a questionnaire. Normally, if dumping and injury are proven by the investigation, companies responding to questionnaire will be subject to a duty corresponding the margin of dumping determined in case of every individual company, any other companies that were willing to cooperate will be subject to a higher anti-dumping duty. The highest duty applies to exporting producers, which were not willing to cooperate.

Anti-dumping measures as trade defence instruments are part of the common commercial policy; one of the oldest common policies where the authority rests with the supranational institutions in majority of cases. Initiation of investigation and the investigation itself are done by the Commission and supervised by the member states in form of a consultative working group. The Commission can impose any preliminary measures without consent of the member states or even in case when the majority opposes. Imposition of definitive measures, however, is subject to a positive vote of the Council and the Parliament acting jointly (ordinary legislative procedure).

As noted by several authors, anti-dumping policy is not aimed at restoring market balance and preventing unfair trade practices anymore. It is rather an instrument of domestic market protection and can result in sever political and diplomatic tension between countries. The following case study presents a very sensitive anti-dumping investigation against imports of solar panels from China.

2 The Case of Solar Panels from China

In September 2012 the Commission announced the initiation of anti-dumping investigation against imports of solar panels consigned in China. The application for this investigation was filed by companies, which represented 25% of the European industry. As the companies feared retaliatory measures from their Chinese counterparts, they decided to remain anonymous and file the case under the auspices of the association ProSun. The Commission's preliminary investigation concluded that imports from

China are dumped at a rate of 88% on average. Therefore, the Commission proposed the imposition of provisional duties.

In 2012, Chinese production capacity was over 55 gigawatt representing 150% of global consumption. In 2009, however, the capacity was only 6.5 GW. The significant raise of production capacities resulted from massive investment supported by the government. According to the Commission's data in the period of 2009 – 2012 40 EU producers declared insolvency, 6 stopped production, 2 quit solar business, and 4 were taken over by Chinese investors.

In the course of investigation the Commission sought information from the research agency EUPD Europressedienst, which turned out to be a very controversial information source. The company was established by a career journalist as a media agency with him as a single employee after breaking up with his business partner with whom he owned a research firm named Europressedienst. The business partner remained in the business and created the research agency EUPD Research, which is currently employing more than 100 employees. EUPD Research offers research services under commercial conditions. The EUPD Europressedienst run by a person who is not an experienced researcher claimed to collect the information, upon which the calculation of the margin of dumping was based, in telephone interviews. Such methods raise doubts on reliability of the information.

The Commission imposed provisional anti-dumping duties on the import of solar panels originating in China on 5 March 2013. To allow the operators to adapt to new conditions the provisional measures were introduced in two steps: a duty of 11.8% from 5 March to 5 August and a duty of 47.6% for the rest of the period. Definitive measures are due on 5 December 2013.

The Commission took the two step approach after experiencing vast opposition to its proposal from European downstream industry represented by the association AFASE, the member states (majority of them voted against the provisional measures) and Chinese exporting producers – Chinese government even threatened with trade war and responded with retaliatory measures aimed at chemical products, luxurious cars, and wines.

The Commission realized that the case of solar panels was too sensitive for the economy of China as the value of imported solar panels originating in China amounted to 11.5 billion EUR in 2012. Therefore, it attempted to step down from the originally proposed anti-dumping duties and save its face at the same time.

The imports of solar panels from China account for 80% of the European consumption hence represent an important supplier of the European downstream companies. Imposition of anti-dumping duties could preserve the existence of and employment in several European companies (there are 47 companies joint in ProSun), on one hand. On the other hand, it would increase the price of solar panels resulting in decline of demand and consequently put the existence of and employment in downstream companies at risk.

The five month period from March to August provided the Commission and the Chinese government (as well as Chinese exporting producers) with time for diplomatic talks and negotiations on the willingness to adopt price undertakings and their level.

At the end of July 2013 the Commission came to an agreement on price undertakings with Chinese companies after all. The levels of price undertakings remain secret. Price undertaking will apply for imported volumes up to 60% of the EU's consumption. Any further imports are subject to the original provisional duties.

The anti-dumping investigation focused on solar cells, modules and wafers. After objections made by interested parties claiming that wafers should be excluded from the investigation as they do not serve only for the purpose of producing solar panels the Commission reduced the scope of investigation to cells and modules.

Interested parties also objected the wording "consigned in China", which means that not only products originating in China are subject to the anti-dumping duties but also any solar cells and modules imported to the EU from China regardless of their origin. The Commission, however, argued that it used this wording from the very beginning of the investigation and so the interested parties were well informed about the scope of products subject to anti-dumping measures with respect to their origin. The Commission lowered the reasonable level of industry profit used for determination of the injury from 10% to 8%. Definitive duties should be imposed on an average level of 36.2%. The Commission proposed to charge the imports of solar cells and modules with anti-dumping duties for a period of two years. The standard period for definitive measures set by both the WTO rules and the EU basic anti-dumping regulation is 5 years, though. The member states are supposed to vote on definitive measures before 5 December 2013. It is unlikely they adopt the proposed definitive measures as a majority of them opposed even the provisional duties.

The question remains: Will the Commission be able to stop the anti-dumping investigation China initiated against European wines? It was expected that China terminates the investigation after reaching an agreement on price undertakings, which did not happen.

Conclusion

For almost 100 year the economists have conducted research on dumping and anti-dumping policy attempting at providing an explanation of their occurrence, impact on allocative efficiency and global or national welfare. Current trends show that the function of anti-dumping measures shifted from instruments that were meant to restore the market balance to trade restrictions widely used for the purpose of domestic market and industry protection. That does not mean that the thoughts of economists were wrong and useless. On the contrary, the case study of the EU's anti-dumping investigation against imports of solar panels from China shows a piece of empirical evidence on the severe effects of information deficit and the preference given by the government (the Commission) to the profit of domestic producer over the lower cost producer from China. At the same time, the information deficit prevents the government from making the right decision in terms of maximising the national welfare. The issues of dumping and anti-dumping policy provide an interesting field for further studies based on multidisciplinary approach considering the economic, as well as political aspects.

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The Role of Salesforce in the Era of Electronic Commerce

Jana Sitášová¹

Abstract

This article aims to discuss the role of salesforce in a B2B world where e-commerce and the possibilities of internet take over many activities. It brings the discussion on general tendencies influencing salesforce, the current approach of salesforce towards e-commerce and the importance of online presence and an operational website in B2B. Finally, it focuses on Generation Y salesforce who brought electronic commerce into many aspects of business.

Key words

salesforce, e-commerce, B2B, Generation Y, B2B website

JEL Classification: M12

Introduction

There are discussions about the role of salesforce in a new era of electronic commerce brought by the possibilities of the internet. A relationship between a buyer and a seller in a B2B context is based on trust and it is the personality of the salesforce that brings in this important variable. Something that the e-commerce will never be able to replace with even the best website or any e-commerce tool.

There is though still a place for online buying in B2B. The salesforce settles the basis for a purchase as it knows the needs of the customer and its specifics. The salesforce representative is the one that will provide detailed explanations and credibility that will go beyond the filling in of an online order or form.

This brings the question of what is the best balance between salesforce and e-commerce – the balance comes where the e-commerce helps salesforce achieve more and frees them to spend more time on creative activities.

1 General tendencies influencing salesforce

There are three major tendencies in the market that have touched B2B salesforce:

1. Switching from products to solutions has moved the sales force from being the "convincing agent" to the "education agent". The double knowledge about prospects and solutions becomes a major competitive advantage for the salesman;

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2. the sales process: selection costs, costs for education and retention of the sales force have increased in the last decades;
3. the prospects have diversified and thus are harder to serve;
4. generation Y is getting a bigger share of the labor market and with them come changes in work preferences.

These tendencies have a direct impact on the sales force:

- the automation of sales force to increase their productivity, to speed the flow of important information towards clients and the process of sales;
- the account management where one sales responsible becomes a reserved account manager for an important customer – he becomes its consultant, a “client expert” more than a “product expert”. He has to see the solution and the possibilities of externalization of products or services, if needed.

2 The approach of salesforce: an online transaction versus a traditional one in the B2B context

It is important for an organization to understand how the sales force approaches the utilization of tools connected with the era of electronic commerce and internet. The proportion of their usage has to connect with the experience of the personnel so that an exaggerated orientation on online transactions does not affect the quality, time and the field experience of the sales force in traditional face-to-face negotiations.

According to a study conducted in the United States of America, the sales force prefers in the majority of cases the traditional B2B – through personal contact on business meetings and negotiations – instead of B2B online. This research has shown that by 28 out of 32 products and services there is a general preference for traditional purchasing, over purchasing on the internet.

When it comes to the perspective of efficiency, tracking of the order in time and place, checking the disponibility of the products and the speed of delivery, the sales force prefers online B2B.

Sales force, either buyers or sellers, give priority to B2B online in case of repetitive and unchanged orders.

If a change is needed or requested in the delivery or it is the case of a new purchase, they prefer traditional B2B with a face-to-face contact and approach.

3 The importance of online presence

90% of the B2B decisions start with a research online. That is why it is crucial to adapt each website to the reality of B2B commerce.

The dematerialisation of order processes represents numerous advantages for companies:

- enhancement of the productivity of sales force and thus of the whole company;
- enhancement of the competitiveness of the company, especially in the order management;
- reduced costs connected with order management.

The sales force should have a word to say in the creation of the e-commerce website of the company. They put into practice their experience from the accounts they are handling and the projects that they oversee. This helps the sales force to align with the content and the structure of the website that they will be using themselves while developing buy/sell activities.

An e-commerce website brings numerous advantages:

- an easier access to the catalogue of articles, which can be consulted online anytime;
- a faster process of order in case of repetitive and unchanged conditions of certain deals;
- a perfect synchronization of information on your products
- any representational tools used on sales can be preserved on the site with a prolongation of its effects (any presentations, videos).

There is a possibility of a special website access for the sales force of the organization. The sales force can share documents, lists of contacts, information on prospects and track orders online this way. It can be a very useful tool for cooperation between sales representatives.

4 E-commerce as a potential competitor for sales force?

It is important for an organization to decide if it will grant commissions to deals and orders received via an e-commerce platform. It is crucial to judge subjectively whether the sales personnel had a direct impact on the decision making of the customer and thus played a decisive role. At this point, it will influence the sales force in the way they will perceive e-commerce.

If commissions are not granted in the e-commerce context, then sales force can perceive e-commerce as a competition element that is being implemented at their expenses. This will automatically lead to their reluctance to use the e-commerce system and dissuading customers to place orders through it. It is worth mentioning that placing an order via an e-commerce platform has a direct impact on transactional costs, which can be reduced.

The conclusion here is that sales force should not understand e-commerce like the competitor that will lower their commissions. On the other hand, the organization should profit from the possibility of considerably lowering costs through accepted e-commerce.

5 Sales force automation

Sales force Automation becomes in this new age of e-commerce a topic of high importance. An integrated B2B e-commerce site represents more tools that can be used for the efficient functioning of sales teams. And that not only of sales teams but also of customers. The most common questions asked on the phone concern

- the price,
- the disponibility and
- the current location of a certain product.

These information can be easily included in a working e-commerce system.

A system of the kind can easily speed up the whole process of buy and sell as the customer inserts directly the data of his order and these are directly registered with a lower chance for misunderstanding in communication. This system archives valuable information about the needs of the customer and their placement in time.

The e-commerce system represents an updated informational tool that can provide the sales force about actual promotions that they could suggest to customers. New sales force members can find it very helpful while getting to know the job with up-to-date information.

All the above mentioned factors help the sales force focus on the art of their job less than on the transactional part of it. This being one of the big advantages that electronic commerce can bring into the field of B2B.

6 The power of a B2B website

Many B2B organizations have to realize that the power of their web site can be of big importance – if it does not show the credibility needed, the prospective customer will leave and cross the potential supplier from the list – that before any other contact was made beforehand.

According to a study by Hybris in 2012, 88% of B2B buyers prefer to shop online but most B2B suppliers are not very eager to let them. 94% of B2B buyers wanted their suppliers to make their websites more like B2C websites. This does not mean that purchasers want a generalized approach and offers from suppliers but mostly that they demand a certain automation of the basic transactions. This is connected to workers from Generation Y who are much more internet oriented than their predecessors in Generation X. This young generation spends more time researching their potential suppliers online.

There are recommendations for sales force in terms of website management in the B2B context. The website represents a strong source for new requests of proposals but the question remains if all these requests come from relevant prospects. A high proportion of these have no perspective. It is important to have a quality cooperation working between the sales and marketing department. Sales force is in touch with clients and can provide the information about a perspective prospect. Marketing representatives have to allow sales to focus the majority of its time on sale and less on getting potential partners.

This cooperation should lead to a reliable characteristic of a “quality prospect”, accepted and known by both marketing and sales. This characteristic should be mostly based on a description with measurable and objective criteria (the activity of the prospect, his size, his location, financial elements). This way the sales force can immediately identify the prospect with the highest “score” and centralize its sales efforts and competence on them. It is not the number of leads, contacted prospects, that matters but their quality.

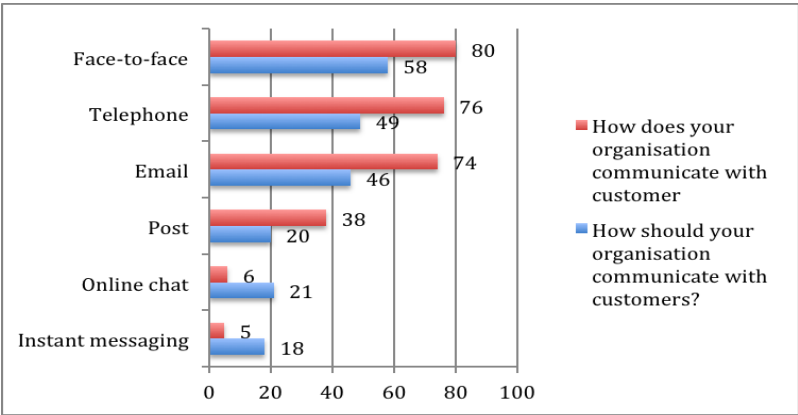
7 Generation Y and internet

It was Generation Y who introduced the utilization of internet into almost all work activities. Professionals from this generation like to work on the Web and move a big part of their communication to email basis. It is the first generation to absorb innovations in the field of informational systems so easily. They are keen on speeding up all the processes they manage – this includes the less creative part of the work of salespeople as managing orders and tracking ongoing transactions. That is why they are most likely to welcome a certain level of automation.

Generation Y is thus the first generation to prefer the usage of internet and its possibilities over other alternatives.

Graph 1 displays the reality of organizations - the main communication channels used in contrast with the vision, preferences of Generation Y.

Graph 1 Communication with customers according to Generation Y in %



Source: Accenture. 2008. Millennials at the Gates. Results from Accenture’s High Performance IT research. (research). USA: Accentureresearch, 2008. 10 pages.

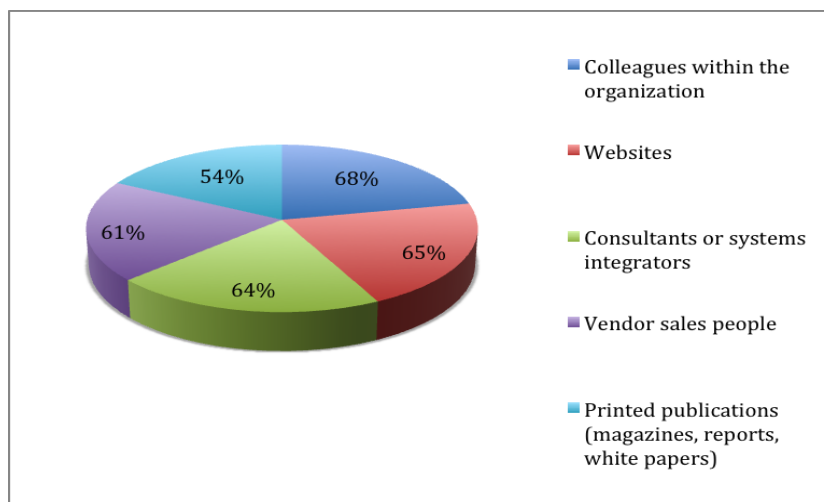
As graph 2 shows it Generation Y sales force is likely to prefer communication with prospects over the internet for its speed.

The above mentioned doesn’t mean that purchasers will from now on prefer online buying. They will still require personal contact with the supplier as their needs

can have specificities and the know-how and experience of a sales force can be of the biggest value in many cases.

A research realized by Forrester showed that the top sources of information for buyers are ranked as shows the following chart.

Graph 2 Top sources of information for B2B buyers



Source: FORRESTER. 2011. The Lead-Nurturing Payoff For The Tech Industry. In *Forrester*. [online]. 2011 [cit. 2013-28-09]. Dotupné na internete: <<http://www.forrester.com/The+LeadNurturing+Payoff+For+The+Tech+Industry/fulltext/-/E-RES60824>>.

From the above mentioned, we can conclude that the e-commerce site is not to neglect in the eyes of the management of a company and sales force in the context of a visible generation switch towards GenY.

Conclusion

In conclusion to this article and the many aspects mentioned there is a clear need for balance between sales force and e-commerce. One cannot function nowadays at full efficiency without the other. The management of companies should find a working framework for a congruous development of both.

Sales force, preferring traditional transactions, has still a penchant for an automation of certain processes that do not directly require their creativity and experience. This tendency is explained by the characteristics of a new GenerationY, which is keen on internet and technology usage. Moving processes that can be automated to systems and adequate B2B websites can only prosper to the performance of sales force. The general tendencies among customers in B2B is that primary information about potential business partners is sought on the internet through websites.

Sales managers will capitalize on both sales force and e-commerce if they manage to create a functional relationship where sales force will not hesitate to have an effective use of e-commerce without considering it a competitor in terms of commissions.

A high level of cooperation should work between marketing and sales force to enhance the efficiency of a B2B website. The number of prospects from this channel is not that important as the quality of these.

Sales force is thus not dead, being replaced by e-commerce, but finds a new role in the era of internet, a role more creative that, given the right management and conditions, should boost in positive results.

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Four Asian Tigers – Yesterday and Nowadays¹

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Abstract

The Asian Tigers or Asian Dragons is a term used in reference to the highly developed and prosperous economies of Singapore, Hongkong, South Korea and Taiwan. These countries are well-known areas where exceptionally high growth rates and rapid industrialization between the early 1960s and 1990s occurred. The aim of this article is to analyse the reasons of their successful growing strategy and to mention their nowadays position in the world trade. The article also examines the setbacks and difficulties on their ascent.

Key words

tiger economy, asian miracle, Confucianism, Asian Crisis, export strategy, industrialization

JEL Classification: F23, O53

Introduction

Hong Kong, Singapore, South Korea and Taiwan are countries which belong (according to global competitiveness report) to most competitive economies in the world. In the world of international business we know them under the common name – Four Asian Tigers. Many economists call them „economic miracle“ because of their enormous adaptability and „resurrection“ from developing countries to highly developed countries. The source of this „miracle“ can be found in their history, especially in economic policy.

1 The birth of Asian miracle

The term tiger economy emerged in the 1960s during which some of the Asian countries experienced spectacular growth. Their gross domestic product growth rate was around 6% or higher and their pro-export strategy raised them from the average developing countries to the developed phenomenon. It is the only one group of developing countries who achieved to catch up the second wave of technological development. To explain their massive success we must look at their history path.

¹ VEGA č. 1/0550/14 | 13 "Skúmanie vplyvov pokrízového vývoja na strategické smerovanie EÚ s dôrazom na energetickú politiku"

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The beginning of their pro-export strategy can be dated to **1960s and the first half of 1970s** where tigers firstly chose strategy of import substitution by developing their own domestic industry, which was often guarded by different protectionistic measures. The aim of this strategy was to gain financial resources which they should use for inevitable purchases in the world market. At the same time, they tried to satisfy their own demand by own production. The first steps of export potential were the same as in another developing countries, so the core of all ambitions was in industries which used low-cost labour. The scope of export offence was the developing of light, especially textile industry. Firstly, they exported mainly mass-production textile products of lowest price categories, later, they turned into confection products export. (Gaval'ová, 2007).

The **second half of 1970s** was the time of short expansion of heavy and chemical industry. This strategy was supported mainly because:

- the huge growth of light industry products export from another asian countries such as China had an impact on competitiveness
- the growth of protectionism in developed countries due to textile industry

During this time, some productions from the developed countries were removed to Asian tigers because they were not paying in the country of origin (for example, they claimed higher costs for environment safety). To the beginning of 1980s the comparative advantage of Asian tigers was mainly in the low cost. In the 1980s the situation began to be slightly different. The countries tried to develop their technological basement and it brought the added value production. (Gaval'ová, 2007)

From the 1980s the core of their business occured in electronic and electrical engineering. The first impulses came from the american companies which produced consumer electronics. These companies tried to replaced the part of their production process which was severe to precise but non-qualified labour to the countries of South-east Asia. Later, because of low-cost production cost and technological discipline also the final products were replaced to this area. The most strategic achievements occured in automotive industry. Pro-export policy, thanks to its comparative advantage of low-cost labour, brought the stable place in the world market for Asian Tigers. From the non-qualified labour specified to simple manual work there was in sequence educated middle and high qualified labour force which was precise, discipline and fully adaptable. The conclusion of this process was exclusion of Asian Tigers from the general system of preferences from the side of USA and later EU. (IMF, 1996)

The 1990s demarcated the same trend as it was at the end of 1980s. The progressive growth of gross domestic product still remained at around 7% - 8%. The change began at the second half of 1990s. These countries were attacked by Asian crisis in 1998 which started in Thailand and spread up to other areas. That year brought decline of economic growth in asian countries in general, so because of huge connectivity it reflected also in Four Asian Tigers economies. The reasons of difficulties of Four Tigers were mainly in:

- decline the importance of cost competitiveness in behalf of non-cost competitiveness
- the growing protectionism from the developed countries

On the other hand, the Four Tigers were first who rejuvenated from this crisis and during the next year backout undo the growth before. (Economist, 1998)

The tremendous economic growth of new-industrialized countries (Four Tigers) was the conclusion of the simultaneously operating factors:

- **economic policy of the governments** – the most significant factor. The government support mainly domestic companies. Through the tax and loan preferences also supported industries where technological progress was used. Moreover, the government contributed to high level of savings, investments and various structural reforms.
- **pro-export policy** – outgoing from the industrialization concentrated to export. The countries saw in export the source of fortune and the growing potential in terms of gross domestic product. To support this policy, many economic tools were implemented.
- **low-cost labour force** – at the beginning of the process of industrialization of Four Tigers, the labour force was not very qualified but precise. Then, the trend was different. The labour force began qualified, hard working, very adaptable and flexible.
- **foreign direct investments** – especially from the USA and Japan. The companies from USA were the main submitter of asian products.
- **technological progress** – technologies brought from USA and other developed countries. Later, after the huge economic growth, the Four Tigers itself were technological progressive.
- **successful fight with corruption** – reasonable and strict government policy which punished all badges of corruption.
- **high investments to education** – all four economies counted on qualified labour force. (The news, 2013)

2 The Asian Tigers in troubles

Between June 1997 and January 1998 a financial crisis occurred through the „tiger economies“ of SE Asia. The Asian meltdown began on February, 1997. Following the devaluation of the Thai bath, wave after wave of speculation hit other Asian currencies. Indonesia, South Korea and Thailand were the countries most affected by the crisis. Hongkong, Singapore, Taiwan were also hurt by the slump but were less affected than previous mentioned countries. The situation was resolved finally by IMF. The International Monetary Fund stepped in to initiate a 110 billion dollars program to stabilize the currencies of South Korea, Thailand and Indonesia. In exchange for the funding, the IMF required the countries to adhere to strict conditions such as: higher taxes, reduced public spending, privatization of state-owned businesses and higher interest rates to cool the over-heated economies.

The second period of troubles began in 2008 with the beginning of world financial crisis. In the fourth quarter of 2008, GDP of the Asian Tigers fell by an average annualised rate of around 15% in Hongkong, Singapore, South Korea and Taiwan. Their exports slumped more than 50% at an annualised rate. Fortunately, all these economies and their successful responses (see results in table 1) reflect the lessons learned during the Asian financial crisis. One crucial lesson from both that crisis is that financial institutions must be carefully regulated and transparent. Lesson number two is that the production of their economies must be more based on needs of its own citizens in the longer term.

3 Are The Asian Tigers Still Asia's Economic Miracle?

The very simple answer is yes. All Asian Tigers are still rapidly growing as the table 1 shows.

Tab. 1 The annual growth rate of GDP in %

	2007	2008	2009	2010	2011	2012	2013
Hong Kong	6.465	2.128	-2.459	6.793	4.851	1.501	2.977
Taiwan	5.983	0.730	-1.810	10.761	4.065	1.323	2.191
South Korea	5.106	2.298	0.319	6.320	3.682	2.044	2.844
Singapore	9.020	1.748	-0.787	14.781	5.160	1.319	3.543

Source: NAB. 2013. *Asian Tigers Economic Update*. On internet: <http://business.nab.com.au/asian-tigers-economic-update-april-2013-3241/>

As one can see in table 1, the most competitive country (in terms of growth rate of GDP) in 2013 from the Asian Tigers is Singapore. Its annual growth rate of GDP is 3,54%. But it is still prediction, so it can change to the end of year 2013. Singapore was also a leader in GDP per capita in 2012 (51 162 USD). In the second place in gross domestic product per capita was Hong Kong, then South Korea and the last one was Taiwan (20 328 USD). The biggest GDP in general is produced by South Korea. On the other hand the lowest production of GDP is in Hong Kong.

The very significant statistic which shows the competitiveness of these economies nowadays and between each other is global competitiveness index. This index is made by World Economic Forum and contains 148 countries from which every country is evaluated apart. The whole index is divided into three sub-indexes which contain several number of pillars. Together, the whole index contains 12 pillars (Institutions, Infrastructure, Macroeconomic environment, Health and primary education, Higher education and training, Goods market efficiency, Labor market efficiency, Financial market development, Technological readiness, Market size, Business sophistication and Innovation). As we can see from table 2, all four Tigers are at good position in this index. It means that all four countries are highly competitive, even some of them are more competitive than hegemonic countries such as USA, France, Russia, China or Japan. According to this table one can say, that all four tigers definitely still drive Asia's growth and belong to the top on the world market. The most successful country from this point of view is Singapore. Singapore has the biggest advantage in health and primary education which is the basic for labour force (to be healthy and at least primary educated). But it has also another strengths – Infrastructure, Technological readiness, Macroeconomic environment and Institutions. It means that Singapore is fully ready for technological progress and for world market demand. Nowadays Singapore is considered to have the most developed and complicated telecommunication infrastructure. The second most powerful country within Tigers is Hong Kong. This country is the 7th most competitive country in the world (according GCI). Hong Kong is well known global finance centre and its strengths are Infrastructure, Financial market development and Health and primary education. On the third place within Tigers is Taiwan, which is known for its exchange reserves and intense expansion of foreign direct investments out of country. The last place belongs to South Korea which is on the 25th

place in the ranking. Nowadays, South Korea is a leader in finance and high-tech products and innovations. (Global competitiveness Report, 2013)

Tab. 2 Four Asian Tigers in Global Competitiveness Report, 2013

Country	Rank	Score
Switzerland	1	5,67
Singapore	2	5,61
Finland	3	5,54
Germany	4	5,51
United States	5	5,48
Hong Kong	7	5,47
Netherlands	8	5,42
Japan	9	5,40
Norway	11	5,33
Taiwan	12	5,29
Qatar	13	5,24
Korea, Rep.	25	5,01

Source: WEF. 2013. *Global Competitiveness Report 2013-2014*. On internet: <http://reports.weforum.org/the-global-competitiveness-report-2013-2014/>

Conclusion

The economic issues of Four Asian Tigers changed from the economy based on low non-qualified labour force and textile industry to the economy of qualified, precise labour and electronic and added value production. The rise of this economies began in 1960s and continued with some trouble situations (1998 and 2008-9) to the 21st century. Today, one can say that these economies belong to the top competitive countries in the world, so they can influence the economic world order. Their annual growth rate of GDP is very comparative and even higher than other economic hegemony (USA, Japan). According to all these factors, one can predict that not only BRIC (Brazil, Russia, India, China) would be the leaders of the future world, but also Four Asian Tigers would have their own place in this world order. Growth across the Tigers of around 3-4% is predicted for 2013 and 2014.

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Exploration of the Importance of Lovemarks Concept among Slovak and Czech Customers – Results of Survey¹

Mária Šášiková²

Abstract

The aim of this paper is to clarify the essence of the lovemarks marketing concept and highlight the perception of the concept among Slovak and Czech consumers. The paper proves the timeliness of the concept in a modern marketing practice. The theoretical part of the paper deals with analysis of the lovemarks issue. Practical part of the paper focuses on the evaluation of research, which has been carried out in a form of a questionnaire. The sample consisted of respondents from Slovakia and Czech Republic, with no age limit and gender requirements. The aim of the survey was to determine the awareness and perception of the concept among Slovak and Czech consumers.

Key words

brands, lovemarks concept, Saatchi & Saatchi, consumer, emotional factors, Slovak Republic, Czech Republic

JEL Classification: M31

Introduction

Marketers were speaking about the importance of emotions in a field of brand creation for a while (Roberts, Lindström). Nowadays, consumers are overloaded by huge amount of advertising and marketing messages, which reduces the contrived effect – brand recognition and subsequent purchase of the product. In past, brands were used effectively as one of relative functioning strategies of market acquisition. At present, however, the brand concept seems uninteresting and overused. The market is becoming saturated and brand loyalty is becoming the exception rather than the rule. Therefore, the concept of brand is fading and replaced by lovemarks concept, which has been introduced for the first time by Kevin Roberts, CEO of Saatchi & Saatchi, couple of years ago.

The idea that the brand concept was overcome, is provocative. On the other hand, the idea of lovemarks sounds very simply and clearly, like long time existing theory. The agency Saatchi & Saatchi actually did not invent anything new by applying the concept, but the fact, that the concept was named, described and given framework, was extremely important. After the framework has been given to lovemarks, the concept is completely obvious. This concept is well known abroad for 15 years, but in

¹ The paper is part of the research project: VEGA No. 1/1185/12: Consumer trends changes conditioned by the financial-economic (social) crisis impacts, their reflection in modifications of the business entities' marketing programmes in an effort to retain their competitiveness in the international markets (application on the EU conditions with the accent on Slovakia). (Head: doc. Ing. Otília Zorkóciová, PhD. Workplace: Department of International Trade – Faculty of Commerce).

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Slovakia, first information about the concept was published recently, significant attention was given to lovemarks after 2010.

The basis for arguments about the need and necessity of building a new brand concept is parallel to the first half of 20th century. In this period, products have become too uniformed regarding technical and functional similarity. Companies found a way to distinguish the brand and brand building – the identity and brand value became a factor of differentiation. Unfortunately, at the end of 90s brands experienced the same destiny as products did 50 – 60 years ago. They have become too indifferent and needed to move forward in their complexity towards brands. The time has arrived, when the brand and the whole concept of their building and maintaining shifted towards love between a consumer and lovemark. The transformation of the brand to lovemark could be determined as a long term goal for every valuable brand.

1 Definition of a lovemarks concept

Saatchi & Saatchi define a lovemark as “a product, service or entity that inspires Loyalty Beyond Reason”. It does this by forging an emotional connection with consumers through the use of Mystery, Sensuality and Intimacy. It might be true that consumers can find a music player as good as the iPod at a lower price, or a laundry detergent more affordable than Tide, but the reason that individuals across the world are drawn to these brands is that they have a deep emotional connection with them. These brands don’t belong to any company, they belong to the consumers who love them (Lovemarkscampus, 2013).

Lovemarks reach the heart of the consumer as well as their mind, creating an intimate emotional connection that consumer can’t live without. When a brand is taken away from a market, consumers will find a replacement. When taking a lovemark away, people will protest its absence. Lovemarks are a relationship, not a mere transaction. At the core of every lovemark is respect. (Saatchi & Saatchi, 2013/6). Lovemarks are owned by people who love them.

A Lovemark can be anything including a celebrity, a building, a song, a service or product. When you think of Lovemarks, think about the Beatles, Absolut Vodka, IKEA and Harry Potter... These examples are icons that inspire Loyalty Beyond Reason because consumers are emotionally connected to them (Lovemarkscampus, 2013).

Lovemarks are thought to be beyond price. In fact, there are many inexpensive brands that have won consumers’ loyalty. Bic ballpoint pens, Cheerios and Milky Way are all inexpensive products that hold a special place in the hearts of many consumers (Lovemarkscampus, 2013).

The best way to understand what sets a Lovemark apart is with the Love/Respect Axis (see graph 1). The bottom left – low respect and low love quadrant is the positioning of classic commodities – e.g. public utilities, low value transactions. These are essential to consumers lives, but with zero brand heart. Bottom right quadrant expresses low respect and high love values. This is the area of fads, trends and infatuations – last month’s must-haves and next month’s has-beens (e.g. hairstyles and pop stars). The high respect and low love quadrant in the top left of the axis is where most major brands are now. Brands with functional benefits, solid performance, and always

fixed on "e-r" words – newer, brighter, stronger, bolder, cheaper. These one are needed but not desired. High respect and high love – the top right of the top right hand quadrant is lovemark territory. The optimum relationship draws on both high love and high respect. This is the situation, where deep emotional connections are made (Saatchi & Saatchi, 2013/7).

Graph 1 Attributes of a lovemark



Source: Saatchi & Saatchi. 2013. *The love/respect axis*. [online]. 2013 [accessed 2013-10-10]. Available on internet: <<http://www.lovemarks.com/?pageID=20040>>

Lovemarks have additional attributes: *mystery* - draws together stories, metaphors, dreams and symbols, *sensuality* – keeps the five senses on constant alert for new textures, intriguing scents and tastes, wonderful music, *intimacy* – means empathy, commitment and passion. Without intimacy people cannot feel they own a brand, and without that conviction a brand can never become a Lovemark (Saatchi & Saatchi, 2013/6).

The differences between brands and lovemarks could be seen in figure 1.

Fig. 1 Differences between brands and lovemarks

BRAND	LOVEMARK
Information	Relationship
Recognized by consumers	Loved by people
Generic	Personal
Presents a narrative	Creates a love story

BRAND	LOVEMARK
The promise of quality	The touch of sensuality
Symbolic	Iconic
Defined	Infused
Statement	Story
Defined Attributes	Wrapped in Mystery
Values	Spirit
Professional	Passionately Creative
Advertising Agency	Ideas company

Source: BIHANI, K. – WILLIAMS, K. – GREEN, T. 2008. Lovemarks. The future beyond brands. [online]. 2008, [cit. 2012-10-26]. Available on internet: <http://www.slideshare.net/IA_Zappos/lovemarks-presentation>

2 Methodology of the research

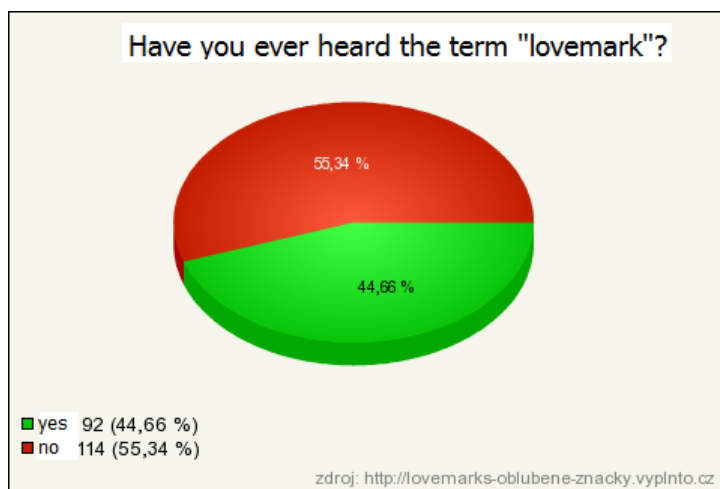
The theoretical part of the paper deals with the analysis of the lovemark concept. For working out the theoretical part of submitted paper, information was obtained by gathering secondary data. Information has been gathered mainly from journals and scholarly articles as literature dedicated to this topic does not yet exist in Slovak Republic. Information has been gathered mainly from journals and scholarly articles as there are only two monographs concerning this topic, both published by Saatchi & Saatchi, one of them very recently (2013).

The practical part of the paper consists of evaluation of the survey, which was carried out on a selected group of respondents. The sample was composed of respondents from Slovakia and Czech Republic, without age, gender or other socio-demographic characteristics. Data were collected through questionnaire survey, which was carried out between 23rd and 30th April 2013. The awareness and perception of the lovemark concept among the consumers from Slovakia and Czech Republic was investigated within the survey. Consequently, the results of the survey were prepared into the form usable for interpretation by using the Microsoft Word and Microsoft Excel.

3 Results of the survey

The very first question of the survey was worded simply for respondents: *Have you ever heard the term "lovemark"?* Respondents dealt with the mandatory and closed question and need to choose one answer (yes, no). The novelty of the concept in conditions of Slovakia and Czech Republic can be concluded, as 55,34 % of respondents haven't previously heard the term "lovemark" (see graph 2).

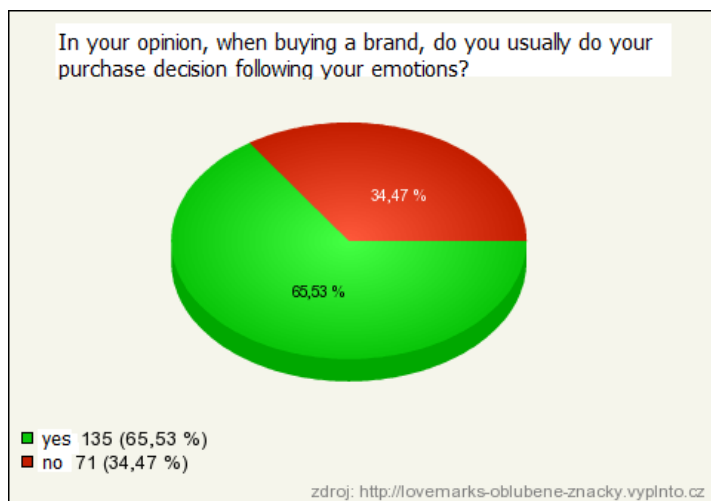
Graph 2 Knowledge of term "Lovemark" among Slovak and Czech consumers



Source: Vyplňto.cz. 2013. Lovemarks – oblíbené značky (internal information from research). [online]. 2013. [cit. 2013-10-06]. Available on internet: <<http://lovemarks-oblubene.znacky.vyplnto.cz>>.

If the answer of the respondent was positive, the respondent was asked, where he/she got into the touch with the concept. Almost the half of the respondents got in touch with the term on the internet (46,07 %). The internet is followed by print (21,35 % of respondents), family/friends (16,85 %), television (7,87 %) and school (5,62 %), since some of respondents fell into the category of young people under 25.

Graph 3 Purchase decision-making

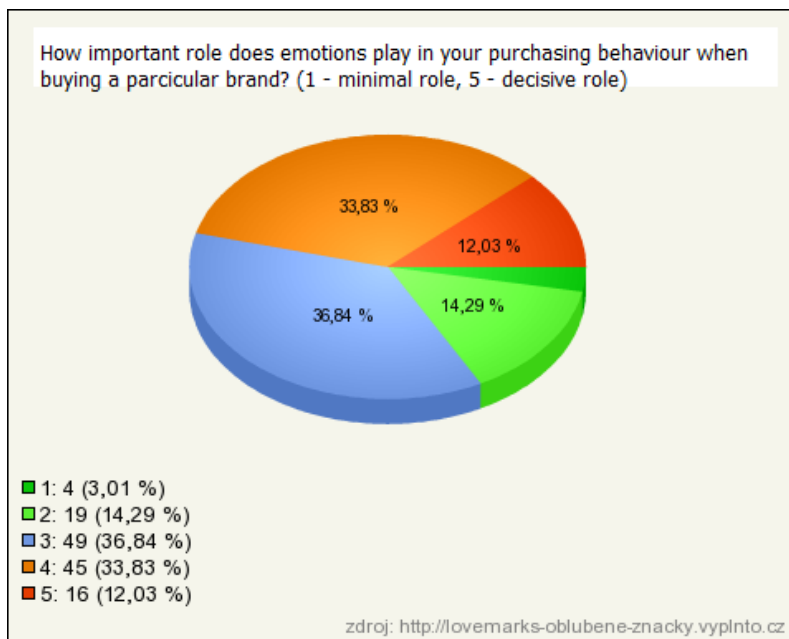


Source: Vyplňto.cz. 2013. Lovemarks – oblíbené značky (internal information from research). [online]. 2013. [cit. 2013-10-06]. Available on internet: <<http://lovemarks-oblubene.znacky.vyplnto.cz>>.

One of the following survey questions sought to determine, whether consumers (when purchasing brands) do make a decisions based on emotions. Again, this was mandatory closed question. The survey results show, that 65,63 % of respondents do purchasing decisions based on emotions (see graph 3). Despite of this fact, one third of respondents (34,43 %) said, that emotions do not play any role when buying a particular brand.

The following question displayed only those respondents, who answered previous question positively. The aim of the question was to quantify, how important role does emotion play when consumer is purchasing goods/services of a particular brand. The respondents have to choose one number from the numeric scale (1 – means minimal role, 5 – means decisive role). The survey results indicate that emotions play a relatively important role regarding the consumer decision making on purchasing good/services of a particular brand. The decisive role of emotions is ascribed by 12,03 % of respondents. For 33,84 % of respondents the role of emotions in a process of choosing a product is mainly important. Medium importance of emotions within the selection of particular brand has been described by 36,84 % of respondents. Minimal role of emotion in this process was acknowledged by only about 3 % of respondents.

Graph 4 The role of emotions in purchasing process of goods/services

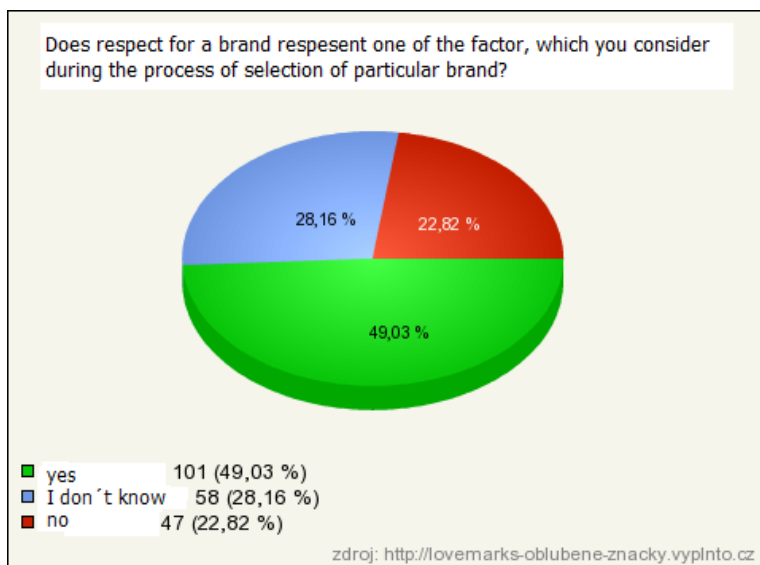


Source: Vyplnto.cz. 2013. Lovemarks – oblíbené značky (internal information from research). [online]. 2013. [cit. 2013-10-06]. Available on internet: <<http://lovemarks-oblubene.znacky.vyplnto.cz>>.

One of the key questions of the survey focused on common lovemarks characteristic – respect. It was a mandatory closed question, respondents have to choose between three possible answers (yes, no, I don't know). For almost of half of the respondents (49,03 %), respect to a particular brand is a one of the decision-

making factors. 22,82 % of respondents do not perceive respect as a critical factor when making a purchase decision about the product. This situation can be seen in graph 5.

Graph 5 The importance of respect for a brand according to Slovak and Czech consumers

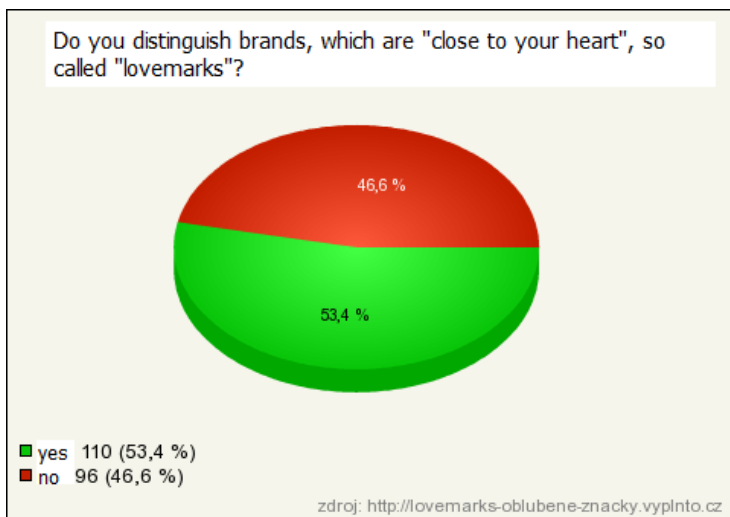


Source: Vyplnto.cz. 2013. Lovemarks – obľúbené značky (internal information from research). [online]. 2013. [cit. 2013-10-06]. Available on internet: <<http://lovemarks-oblubene.znacky.vyplnto.cz>>.

Before the beginning of the fill in the questionnaire, the short characteristic of lovemark was available for respondents, to clarify, which issues does the survey cover. Next question of the survey refers precisely to this definition and the aim is to determine, whether consumers do distinguish lovemarks from conventional products. For completeness, we quote the definition, which had respondents available before the start of the questionnaire: "Lovemarks represent brands, which are closer to consumer with the potential to make intimate relationship to the consumer easier than conventional products or brands. They do meet the needs of consumer expectations and the consumer feel a huge respect and acknowledgement for them. For example: Based on a great popularity within the consumers, the brand Apple, which has won the hearts of consumers, could be identified as a lovemark, thanks to its quality and iconic design."

The survey shown, that 53,4 % of the respondents can distinguish lovemark (see graph 6).

Graph 6 Distinguishing of lovemarks among Slovak and Czech consumers



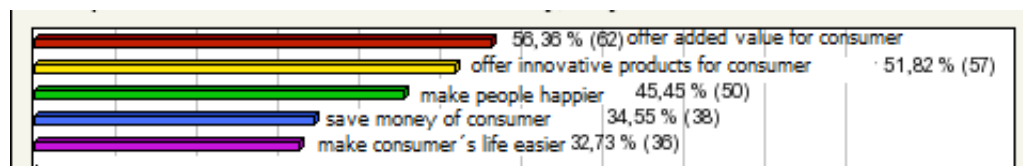
Source: Vyplnto.cz. 2013. Lovemarks – oblíbené značky (internal information from research). [online]. 2013. [cit. 2013-10-06]. Available on internet: <<http://lovemarks-oblubene.znacky.vyplnto.cz>>.

If respondent answered the previous question positively, in the following question he/she was asked to specify the concrete examples of his/her lovemarks. Most respondents selected the Apple brand and its product – iPhone. Followed by Samsung, BMW, Mercedes, Zara, H&M, Nike, Adidas, Nivea. It can be said in general, that the respondents chose frequently various brands of electronics, cars, clothes stores, brands of sweets, cigarettes and alcoholic and non-alcoholic beverages in this question. Consumers didn't mention cities, places or famous people as a lovemark in this question. The only respondent stated Prague, as his/her lovemark (in the world ranking of lovemarks by Saatchi & Saatchi the city of Prague ranks 27th in category of Places and another respondent did mention a famous football team – Real Madrid (which ranks 9th in category of Sport by Saatchi & Saatchi) (Saatchi & Saatchi, 2013/5)

Next question of the survey sought the brands with the potential to become lovemarks – respondents were asked, whether they have any Slovak or Czech brand which could be named as their personal lovemark. 60 % of all respondents said, that no Slovak or Czech brand do exist, that is beloved by them. 40 % of respondents do have Slovak or Czech brand which is a lovemark for them. Most of the respondents (5,45 %) chose Kofola as a lovemark. Sedita, Slovak produces of confectionaries, placed second (3,64 %), followed by Pilsner Urquell, famous Czech beer producer (2,23 %). Respondents mention Škoda Auto (2,23 %), Zvolenský jogurt (2,23 %), Prague (1,82 %) and Rajec (1,82 %) – mineral water producer and distributor, as well. Within this question, respondents have mentioned as their lovemarks brands Orion, Topvar, various mineral water producers – Mitická, Budiš, Klášťorná, famous Slovak non-alcoholic beverage Vinea, brands of beer – Kozel and Staropramen, Slovak brands of food – Slovakia chips, Figaro and Rajo and fashion brads Blažek, Kara Trutnov, Grosso and a.o. Interesting fact is, that respondents chose some small local producers and producers of hand-made stuff.

One of the final survey questions examined what should be brands focused on in Slovakia in order to become a lovemark. Respondents could choose one or more (maximum three) pre-defined answers or could write their own answer. The top line in the graph 6 refers to answers "offer added value for consumer". 56,36 % of respondents selected this option. Equally important for Czech and Slovak consumers is ability of brand to offer innovative products for consumer (51,82 % of respondents). This ability is characteristic for Apple which has Slovak and Czech consumers identified as an absolute lovemark. Lovemark has to make people happier – 45,45 % of respondents would appreciate this attribute on Slovak or Czech products.

Graph 7 In terms of Slovakia, what should be brands focused on, to become a lovemark?



Source: Vyplňto.cz. 2013. Lovemarks – oblíbené značky (internal information from research). [online]. 2013. [cit. 2013-10-06]. Available on internet: <<http://lovemarks-oblubene.znacky.vyplnto.cz>>.

Conclusion

The aim of the survey was to determine lovemarks perception among Slovak and Czech customers. A form of questionnaire inquiry was used for this purpose. The survey demonstrates, that the concept is relatively unknown in conditions of Slovak and Czech market. Nevertheless, consumers do distinguish lovemarks (54,3 % of respondents), so called "srdcovky" in Slovak language. Based on the evaluation of the survey results, we can assume, the lovemarks concept has the potential to generate consumer satisfaction and positive emotions towards the brand, as well as bring positive effect to the companies, which embrace this concept, in a form of a satisfied and loyal consumer, who identifies with the brand and creates an emotional relationship towards it. Even though Slovak and Czech consumers are quite unfamiliar with the concept and do not perceive it, survey results showed, that it plays a significant role during the process of selection and purchase of particular brand. Based on survey results, it could be stated that consumers in Slovakia and Czech Republic have positive perception of the concept and their purchase decision is mainly influenced by emotions.

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Advantages of Applying Modern Marketing Methods¹

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Abstract

The first part of the paper deals with main advantages connected to application of modern methods in marketing management processes. The second part identifies main obstacles to innovation and modern marketing methods application. It is based on three different researches. The first one was carried out by the Statistical Office of the Slovak republic in the years 2008 to 2010 and reflects motives and barriers to innovation in companies operating on the Slovak market. The second one was carried out by a US research firm Marketing Sherpa in 2012 and it dealt with barriers hampering innovations on the US market. And the third source is a research carried out by IESE Business School (University of Navarra) professors who looked into processes at 20 multinational firms.

Key words

modern methods, modern marketing management, advantages, motivation

JEL Classification: M31

Introduction

Marketing innovations are crucial for all companies which are trying to operate on today's markets efficiently and profitably. Their relevance is equal to that of technological and organizational innovations. However many companies operating on the Slovak market either do not deal with them at all, or only pay lip service to the application of modern marketing methods.

The Statistical Office of the Slovak Republic carried out a survey on the number of companies innovating on the Slovak market and objectives and barriers to innovation in the years 2008 to 2010. Only 7,6% of all companies (industrial and service companies on the Slovak market) surveyed not only started to implement non-technological innovations (which include marketing and organizational innovations), but also saw them through to the end. This paper will focus on marketing innovations, advantages of their applications and the most common problems and setbacks connected to them.

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1 Advantages of Modern Marketing Methods

Companies would never see much sense in implementing any of the modern marketing methods or complex approaches if they did not contribute to their development, efficiency or profitability. The most important advantages that motivate marketing managers and chief executive officers to apply various modern methods and approaches include (Webber, 2011):

- Cost reduction – even though the application of the newest marketing methods into companies' processes often goes with higher initial investments, their effects in the future result in a complete marketing cost reduction, unfortunately the investments in question usually discourage managers and their subordinates (mainly in small and medium companies) to implement these methods in their company.
- Increase in business efficiency – apart from the fact that modern methods in general make the work of marketing departments much easier, they also help to facilitate and refine results of their work, they eliminate weaknesses of human labour and difficulties measuring some of marketing activities and processes.
- Elimination of unnecessary processes – in case a company applies modern methods in their marketing management, it will be able to avoid doing one activity or task twice, mainly due to having all already obtained and processed data and tasks stored in one place, and every employee will be able to get them from this place without problems or hindrances.
- Speeding up the process of marketing management – elimination of unnecessary processes as well as automation and modernization of individual processes will logically speed them up therein accelerating the whole process of marketing management.
- Improvement of control system – most modern marketing methods include the possibility of immediate control of a specific performance or process, thereby enabling companies to learn from their mistakes more quickly and furthermore give them a chance to remove them right away.
- Gaining image of modern and innovative business – if consumers (especially young generation) and business partners see that a company innovates its marketing procedures, is able to make use of all new means of and to make shopping and customers' access to all necessary information easier, they will consider the company to be the one that always keeps up with the times, and so can easily reach a certain (quite significant) segment of consumers.

2 Problems and Obstacles of Application of Modern Methods and Approaches in Marketing Management

One of the goals of this paper is to identify barriers of successful implementation of modern methods and approaches in the practice of marketing management. Based on a secondary research we identified main obstacles that cause problems during the process of innovations of marketing procedures. This section summarizes barriers that were results of two different surveys. One was carried out by an American research

company Marketing Sherpa in 2012, the other was carried out by the Statistical Office of the Slovak Republic for the years 2008-2010.

This part also deals with a specific group of barriers that reveal problems in the fields of knowing, understanding and implementing marketing innovations and all necessary marketing methods connected to them.

Based on the research of a research company Marketing Sherpa from 2012 and the research carried out by the Statistical Office of the Slovak Republic for the years 2008-2010, the following list brings 10 obstacles that draw companies back while implementing modern marketing methods and innovating processes and products:

1. Lack of personal, financial and time resources,
2. Lack of abilities to think strategically,
3. Limited ability to create the right content,
4. Lack of data necessary for efficient decision-making,
5. Lack of employee education on best marketing practices,
6. Lack of support from IT,
7. The market is controlled by well-established companies,
8. Uncertainty of sufficient demand,
9. Lack of knowledge about the newest technologies,
10. Lack of knowledge about the market.

2.1 Obstacles of Modern Marketing Methods Application Connected to Knowing and Understanding Markets

One of the most important categories of modern marketing methods are those which assist companies' managements to know and understand their markets. However nowadays it is not only about knowing current consumer behavior and needs, but more importantly about getting all the useful knowledge focused on the future. That is why companies can apply various methods of analysis and prognosis for this purpose. Some of these methods are (Hall – Citrenbaum, 2010):

- Conjoint analysis – analyses consumer preferences
- EFQM excellence model – is used to control quality, it is a practical tool of self-evaluation, a manual for improvement and a framework for a managerial system of organization.
- Cluster analysis – its purpose is to find natural clusters of units which are objects of an analysis and to classify them into a certain number of clusters based on available information about these units.
- Scenario analysis – is a process of analyzing possible future events by considering alternative possible outcomes.
- Conjunctural analysis – involves identifying and examining the intersection (the conjunctures) of various patterns of action.
- Delphi method and its conference version based on application of modern information technologies – it is a structured, systematic and interactive methods of forecasting which relies on a panel of experts who answer questionnaires in two or more rounds.

The following section describes obstacles which stop or hinder application of modern marketing methods, or make it impossible to make use of their full potential. They can be divided into three categories (Pont – Oliveira, 2013): 1) knowing the market; 2) understanding the market; 3) using marketing information.

1. Obstacles connected to knowing the market

a) Overreliance on a single sense – most companies' departments believe that it is the sales and marketing department that should take care of company's markets. Consequently they do not provide all the necessary information for precise analyses and prognoses.

b) Companies believe that they know everything relevant about their markets, and it is not possible to learn anything else no matter what kind of modern methods will be used. Methods and procedures they apply in their business are sufficient and it would not be convenient to change any of them.

2. Obstacles connected to understanding the market

a) Operational myopia – small and medium companies often rely solely on earning profits from daily operations, because they are sufficient for them, and they leave the troubles with understanding markets and influencing future to bigger businesses. By doing so they lose the chance to have a deeper and more efficient contact with their customers.

b) Information possessiveness – employees who are not motivated often keep information which they gained only for themselves. Then there is no information and knowledge sharing in the company and without sharing it is not possible to really understand the market and consumer behavior and needs.

c) Lack of coordination – there are too many people involved in individual processes and activities, and therefore there can be general confusion and delays in the approval process (mainly in case there are too many managers and executives are involved)

3. Obstacles connected to using marketing information gained from analyses and prognoses

a) Paying lip service – companies claim to apply several modern marketing methods and to use all available information to the fullest extent, however in fact there is no evidence of their specific use, and application of modern methods and use of all relevant data remain only a part of a written form of companies' marketing strategy.

b) Assumption that someone else in the company is working with information, even though it is not so. Even though employees of a company exchange all of the relevant information with one another, no one is appointed to the job of processing them by means of a useful marketing method. It is therefore important not only to lead a discussion, but also to appoint individual employees to collect all of the information coming into the business and consequently to process them. The second necessary step is to distribute all of this information where it is most needed.

Tab. 1 Obstacles and Solutions of Modern Methods Connected to Market

	Obstacles	Solutions
Knowing the market	Overreliance on a single sense	<ul style="list-style-type: none"> • Encourage everybody in the company not only to search for and store all of relevant information, but also to distribute them wherever they are necessary. • Employees need to understand that every time they are in touch with customers; it is crucial to focus on every little change in their behavior and needs.
	Companies believe that they know everything relevant about their markets.	
Understanding the market	Operational myopia	<ul style="list-style-type: none"> • Always put all of available information together. • Embrace cross-divisional collaboration. • Use informal as well as formal communication channels.
	Information possessiveness	<ul style="list-style-type: none"> • Foster horizontal relationship. • Interpret information and understand what it implies.
	Lack of coordination	
Using information	Paying lip service	<ul style="list-style-type: none"> • Use only information useful for your decision-making. • Develop wisdom as to which market information / trends need to be followed and which need to be challenged
	Assumption that someone else in the company is working with information.	

Source: IESE Insight Review Issue 14 Third Quarter

Conclusion

As can be seen in the paper there are quite a lot of different obstacles hampering companies in the application of modern marketing methods and innovations. It offers an insight into three different researches dealing with various kinds of obstacles and setbacks that companies come across while trying to apply new methods and other innovations into the process of their marketing management.

Knowing and understanding the market and using market information is one of the most crucial parts of marketing management. Accordingly obstacles to applying modern methods can be divided into two groups: 1) general obstacles of innovation and modern marketing method application; 2) obstacles connected to the market.

Only when companies are able to overcome most of them, will their effort be successful. The first step to do so is to examine them and learn from all of previous experience with their application.

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Building Corporate Design in Slovak Automotive Industry - Example of Kia Motors Corporation¹

Lenka Šimorová²

Abstract

The contribution of the automotive industry is not only in the form of final production and sales of finished vehicles, but especially in the form of the development of industries that are directly or indirectly linked to the production of automobiles. Since the automotive industry is an important component of the industry and the overall economy, the economic crisis that began in the U.S., greatly influenced and still influences and the industry, its production and the subsequent sale of its products - cars. Competition of car manufacturers is in the local and global terms very high, and therefore, every business seeks to differentiate from other producers in various ways such as strategy, communication, design and other characteristics, which can be called one term CI. The aim of this paper is to define the theoretical foundations and implications of the current economic crisis on the global business environment with a focus on strategies applied by firms especially one of the elements of Corporate Identity (CI) - Corporate Design (CD) in the Kia Motors Corporation (KMC).

Key words

economic crisis, Corporate Design, Kia Motors Corporation

JEL Classification: L21, M39

Introduction

The business environment is characterized by constant change and long-term process of globalization. Firms operate not only in their home markets, but more and more widely throughout the world, thereby entering into interaction not only with getting new competitors, but especially customers who are rational, conscious and acquire information quickly and easily. The current business environment is further affected by the economic crisis that has since 2007 gradually affected the whole world, sparked the need to ensure audit of strategies not only by government but also by business and ultimately affect the operation of all businesses and customers. The current economic crisis, which has been described as a crisis of values has spilled over from the financial to the real economy, the consequences of this crisis felt as strong and weak economies in different time frames. During the period, the impact of the economic crisis in these countries occurred circumstances as rehabilitation of the banking sector, raising taxes, the subsequent rise in unemployment and inflation. Have also been

¹ The article is referred as a part of research project VEGA no. 1/1185/12: "Changes in consumer trends influenced by impact of financial-economic (social) crisis, their reflection in modifications of businesses marketing programs in aim to maintain their competitiveness on international markets (with application on EU conditions and emphasis on the Slovak republic)" – supervisor assoc.prof. Ing. Oľília Zorkóciová, Ph.D.

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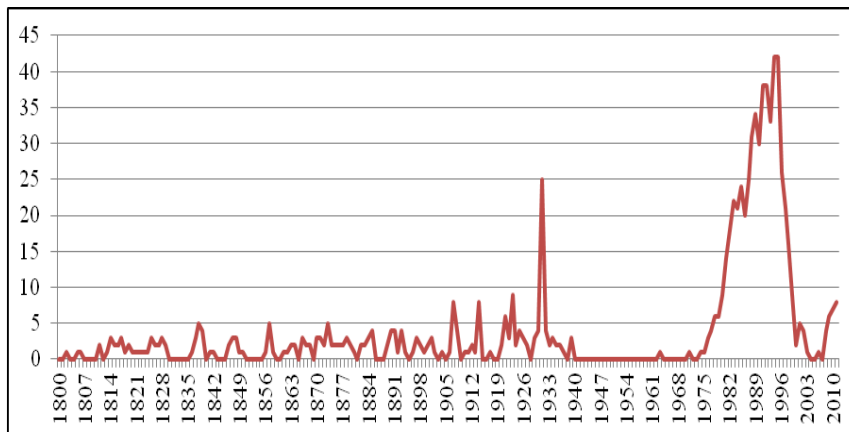
shown to also affect businesses both small and large sizes as decreased demand for products because of deteriorating conditions of individual and corporate clients. Demand reduction is primarily reflected in the consumption of goods such as cars, production of which is in the European Union (EU) one of the major contributors to the gross domestic product (GDP).

The aim of this paper is to define the theoretical foundations and implications of the current economic crisis on the global business environment with a focus on strategies applied by firms especially one of the elements of Corporate Identity (CI) - Corporate Design (CD).

1 Development of current business environment

Crisis can be understood as a stage of the process, when it is no longer possible to continue the same means as stage which shows the unsustainability of the current system without major modifications. The crisis is therefore to be understood that changes need to be done in a functioning system (Švihlíková, I, 2010, p.13). The first stage of the crisis is referred to as a crisis of confidence when businesses begin to perceive negative changes state. The term monetary crisis tends to second stage. This is reflected for example as the speculative attack on the currency, which must - usually after futile efforts of the central bank (CB) - leave the fixed mode and deeply devalued. CB loss this intervention their country's foreign exchange reserves and short-term capital escapes. The financial crisis is the next stage after the currency crisis. Financial institutions and assets quickly lose value. In conjunction with the monetary crisis situation often occurs when subjects are not able - after currency devaluation - pay its foreign liabilities. From the 90th years of the 20th century in the context of the financial crisis, says the so-called herd behaviour (follow the mechanical behaviour of the environment). The economic crisis is the ultimate stage, when the previous phase of the crisis poured into the real economy. The economic crisis has profound social implications and is accompanied by rising unemployment, low capacity utilization, etc. (Švihlíková, I, 2010, p.15). It is recording of fundamental decoupling of the financial sector to the real economy so called "financialization" of the economy. Neoclassical economic theory, which was the most applied economic policy of the last period, supported a maximum liberalization of trade policy and promotion of self-regulation of markets, proved to be defective. Some merit to these consequences has particular moral hazard and underestimation of risk management. The graph 1 shows how are developed individual banking crisis in the period of liberal and conservative theories that later went up to the financial crisis. Quietest period was the time after World War II, when applied Bretton Woods monetary system, which is maintained in the currencies of the narrow fluctuation band, did not allow the creation of large deficits, trade balances and provide a mechanism for the settlement of these deficits and also contributed to the fact that the country did not excessively borrow (Janůšek, V., 2012, p. 15).

Graph 1 Appearance of crisis throughout 1800 - 2011



Source: Janůšek, V, 2012, s.16

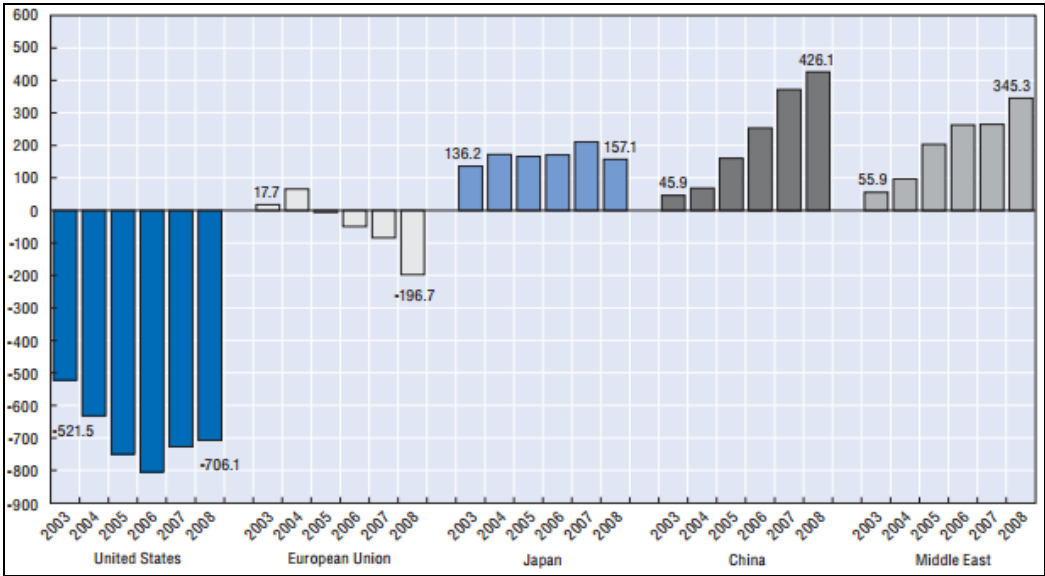
The largest increase in banking crises, as a matter of financial volatility, was recorded in the period 1970-2000, when the particular developing countries due to rapid liberalization of the balance of payments, following the example of developed economies, given to a standstill until the recession. Many countries have currencies pegged to the U.S. dollar and a restrictive monetary policy of the USA, which was intended to support the domestic economy, caused a massive outflow of capital formation recessions in the countries (Mexico, Thailand and others) and follow a simple expansion of U.S. companies have gone bankrupt and country to buy cheap indebted companies. Period before the current economic crisis was characterized by great economic growth rate, with the exception of the financial crisis in Asia in the 90th years, but this had the local character. Over time, in 2001, economic growth slowed and came to the first phase of the current crisis, which is also called as the housing crisis and mortgages in the U.S.. Real estate loans have been approved by the American families who did not have permanent or high income. Another factor of the current crisis in the U.S. was recorded in finance. The mortgage lending to non-bank joined and other non-bank entities. Mentality of American families "live on credit" and have the goods immediately without having to wait for them to constantly deepened when the people who own houses for mortgage still more to borrow more and more goods. During this period the junk securities (mortgage leaves) were collected into a single package, which received from rating agencies highest rating. Foreign banks have shown interest in these assets and, except for commercial banks and central banks bought these well rated financial innovations. However, when the bubble of real estate prices these mortgages leaves burst, triggered by the well-known mechanism. Property prices suddenly dropped and homeowners do not have sufficient funds to repay the mortgage. Investors have found that AAA rated derivatives, had no real value.

"Speculators do not cause damage if they remain soap bubbles on the surface of a regular flow of business. But the situation becomes serious, once the business becomes a soap bubble in the maelstrom speculation. Once the capital development of a country becomes a by-product of the activities of some casinos, you cannot expect good results."

JMKeynes

Full outbreak of the crisis experienced in 2007, when two non-banks from the U.S. began providing cheap loans bankruptcy, triggering panic in the U.S. mortgage market. The largest decline in the current account balance for the period 2003-2008 was in the state of the U.S. and the EU, in 2006 in the U.S. and 2008 in the EU. On the other hand, areas such as China and the Middle East from 2003 to 2008 showed an increase (see graph 2).

Graph 2 Development of the current account deficit in bill. \$



Source: OECD. Economic globalisation indicators.2010

Commercial banks in the U.S., Japan and EU have realized that their investments were traveling in "toxic assets" and began a coordinated approach. For the first time talk of a recession in the U.S. and its unexpected length. Large banks also had problems in the rest of Europe as the Swiss bank UBS and Credit Suisse. The British government nationalized bank Northern Rock. Full outbreak of the global crisis came in 2008, when the U.S. government nationalized big mortgage companies and collapsed financial firm Lehman Brothers and at the last minute was saved AIG. During this period, entering various bailouts from the U.S.government, as well as Iceland, Hungary, Ukraine, the last three named countries have been forced to ask the International Monetary Fund (IMF) for help. The national economy has maintained means within the time deemed impossible by neoliberal doctrine and started owning banks toxic assets rescue and subsidize. The regulatory measures gradually increased at the expense of liberalization.

In 2011, the G20 leaders acknowledged that this is a global crisis that touched not only financial but also the real economy. As the first representative of the real economy crisis experienced automotive industry (AI) (namely General Motors from the USA, Opel from Germany). Economist J. Stiglitz speculated that "economic develop-

ment will follow the shape of the letter L - long- term recovery without recovery" (Švihlíková, I. , 2010 , p.20). The world economy in these times of great way benefited from the process of globalization and liberalization of the movement of goods, services, capital, the effects of which will gradually shed to all countries of the world. However, these spillover effects worked well even in times of crisis and perhaps even greater and faster rate. Spillover effects have differential impacts on the landscape. While the country with a balanced balance of payments current account, low inflation, balanced exchange rates was indeed affected by the crisis but not as much as countries that have failed to comply with the designated characteristics. E.g. Hungary, as well developing and emerging economies, which did not have the liquid capital market crisis has affected indirectly through a decrease in exports, decline in commodity prices and remittances (Obadi, 2009, p. 24). The business environment in 2011 was characterized by stopping the economic slowdown, as the U.S. economy as the world's biggest economy is again given the short period of a phase of recovery. On the other hand, due to connectivity problems in the Eurozone economies present a major threat and phase recovery in the U.S. economy was very fragile. At the same time source of this revival was relatively high economic growth in emerging countries, which have been and are in the last years significant drivers of the world economy. Causes negative feelings in 2011 were due to several facts that are geographically dispersed (Obadi, 2012, p.33):

1. Eurozone - the existing debt crisis, which has had a much longer duration than the U.S. debt crisis, with government bond yields increased but decreased confidence in the euro area economy and the future of Economic and Monetary Union, is also uncertain.
2. Asia - Natural disasters such as the tsunami in Japan and Thailand have resulted not only in these countries but also in cooperating countries to reduce export performance and thereby reduce real GDP. This phenomenon was caused by the declining global demand and restriction measures by governments.
3. Middle East and North Africa - social unrest, which in these countries due to various reasons caused the economic activities.
4. Other countries - the decline in consumption in developed countries caused the reduction of production not only in the developed countries but also in all other countries that export , manufacture and otherwise connected to the developed countries ie . in Central and Eastern Europe and in emerging Asia and Latin America .

Compared to other crises with the crisis of the 30th this crisis is different in three specific ways. Firstly, it is great speed synchronization and spillover effects, the consequences of which hit at high speed the whole world. Secondly, in this crisis has been most pronounced slowdown in economic growth, to halt decline in industrial production, loss of mobility of global capital and an increase in the unemployment rate. The third connection is said to deal with the crisis. While previous crises individual states addressed through protectionism, currently the country elected the way of coordination procedures, which develops again the idea of globalization, if not, the process is stopped (Obadi, 2009, p.25). In the current economic crisis, companies have to take into account the failure of corporate governance, which is heavily signed to the crisis.

These failures were caused in observing the rules for the processes taking place in the company (finance, control, coordination, subordination, Risk Assessment) (Knapik, P., 2012, s.313) and the inability and unwillingness to assume ownership decisions especially at senior management level.

The developments in business environment affected development of the business strategies not only on the operative level but also on the highest company level. On one of the strategic level stands also the Corporate Identity strategy which is forms by several elements.

2 Impacts of the economic crisis on the Corporate Identity element – Corporate Design

Professional community dealing with issues of CI phenomenon is not uniform in thumbnails on the definition of its content. This created a number of views (definitions) of this phenomenon. That disunity of opinion is also linked to its essence, as a social science categories characterized by interdisciplinary and multidimensionality characteristics, able to transform character and change in space and time. The amount of CI concepts, although the view has different terminology, but the essence - its content, relatives, based on the essential elements of CI - mix whose content load change with the modification of the socio - economic environment. Based on the above, we would CI be characterized as an interdisciplinary a multi-dimensional phenomenon subject to changes in time and space, through which the company communicates with its internal and external environment and thereby seeks to create optimal image - the image of himself. It should include a comprehensive view of the company, its history, nature, philosophy, vision, people - employees, as well as the ethical and moral values that the company adheres to. CI is what the company can clearly identify and distinguish from other competitors in the market. Thus defined, CI is determined by several elements so. CI mix, allowing being specific and thus easily recognizable. CI is a tangible manifestation of firm's personality. It is the sum of all objects consistent and behaviours through which the company presents in the outer and internal environment and which are reflected in the corporate culture and corporate image (Zorkóciová, O., 2005, 2007, p.9) . CI is a strategy - a coordinated and integrated action, which is governed by the corporate strategy from top to bottom. The basis for a clear CI is to set the vision, mission and strategic objectives. While in CI the strategy should meet the criteria of multidimensionality, synergies and multispectral targeting. It follows that the basic attributes of CI involves a clearly defined corporate strategy, confidence and trust, a functioning internal communication, clarity, consistency and uniformity (Zorkóciová, O., 2005, 2007, p. 10; Bouchikhi, Kimberly, 2007, p. 5). It is important that all audiences perceive the company as well, presumably is a comprehensive and direct integration of CI in marketing, product, pricing, communication, distribution and other business strategies.

As the three basic elements of CI were determined: CD, Corporate Communication (CCom) and Corporate behaviour (CB). Gradually the complex CI added another dimension: Corporate culture (CC), and in recent years also Corporate network (CNet). Other authors consider the various dimensions of the company: vision, mission, corporate objectives, strategy, traditions and history, as well as leadership style. Other au-

thors speak of dimensions as the 5 factors: CD, CC, CB, CCOM and Corporate Product or 8 ingredients: Communication, Sponsorship, Ethics, Design, Logo, training staff, relationship with employees or anchors: core business, knowledge base, nationality, operational philosophy, legendary founder, the organizational structure. However, if we look at all the elements and by individual authors can identify common characteristics.

Based on the above knowledge of understanding the elements we identify with classical school, accompanying by dimensions that are in current international business environment on the rise. From the basic elements for the purposes of this article will be below characterized the CD element on the example of KIA Motors Corporation (KMC), one of the representatives of the AI in Slovakia. KMC plant in Slovakia is the only plant of this Korean manufacturer in Europe.

2.1 Identification of the Corporate Design element on the KMC example

CD represents everything that constitutes tangible manifestations of company. The basic elements of CD are: logo, corporate colours, typography, corporate architecture, product design and other (Zorkóciová, O., 2007, s.99) that help us stand out from their competitors, build loyalty and recognisability in the eyes of its customers, contribute to strengthening corporate culture and identifiability of employees and help build a single CI in the eyes of all stakeholders.

CI of KMC is formed as a monolith. It means that all cars of this manufacturer are placed on the international market under one similar brand Kia, which are as far as possible adapted to the specific requirements of customers in different markets. KMC, as one of the companies, not from Europe, which is reflected in its overall strategies and building CI. The introduction of a new CI introduced KMC in 2004. Introduced a three-dimensional letters and logo (see fig. 1), which is designed to reflect the youthful and energetic customers' life, while colour has become richer, deeper red (colour code: M100Y100K30). (Kia News, nd). Kia logo is designed to reflect the youthful and energetic impression. The rich, deep red colour indicates passion, sun and a strong commitment to advance the living and entertaining way. Flexible ellipse symbolizes the world and represents KMC as one of the major players (AP Kia. Corporate Identity, nd). The CD KMC in 2010 introduced the Global space implementation manual, which includes specific requirements for all CD components. Manual contains conceptual and technical data stores and distributors, clearly defines the size, colour and font when publishing logos, exterior and interior elements.

Fig. 1 Kia logo



Source: Kia Global space implementation manual, nd [online]n.d.[2013.03.10]. Available at: < http://kia-bdd.3dn.ru/_ld/0/7_Global_SI_Imple.pdf>

KMC Typeface is also clearly defined in the manual and is set as Neo Sans Pro Regular Price names are set exact dimensions. This font is also used for all pleadings, which are also marked with the logo. KMC head office is in Seoul (fig. 2), South Korea in one area with Hyundai. Head KMC is clearly marked with the logo and company name. Architecture of the building is identical to the architecture of the Hyundai building (the largest shareholder in KMC).

Fig. 2 KMC headquarter



Source: Google earth

Kia Slovakia

Kia is active in Slovakia since 2004, and its strategy was to build a manufacturing plant (fig. 3) as a greenfield investment in the city of Žilina, which ensures demand for Kia cars on the European market. Slovak plant Kia is clearly marked with the logo and lettering Kia Motors.

Fig. 3 KMC plant in Slovakia



Source: Google earth

Logo for the Kia Slovak plant found only in the group-wide design of the logo without adaptation to the conditions of the Slovak Republic as in the case of VW and PSA. Visually, all factories of KMC are the same.

Sales network in the KMC group in Slovakia consists of 32 authorized Kia dealers (example see on fig. 4). Under the guidelines of the CD manual, KMC force all authorized dealers Kia to satisfy the criteria of architecture and design. The design concept stores are set exterior and interior requirements under the so-called concept "Red cube", which sets out the importance of corporate red colour and open space, which symbolizes dynamic and entertaining sense of customer. The concept consists of two variants a total red cube, which is red exterior outlets from all sides and half red cube which is exterior outlets either gray or white, and on the facade of shops must appear red belt with logo and name of Kia Motors. In the case of only 19 (60 %) stores in Slovakia observes the global CD manual, of which 13 stores observes the concept of total red cube and 6 buildings half red cubes, 9 stores located in a detached building, which is multifunctional and store it in Kia Is an area less than 1 floor. 4 Kia buildings are divided between two producers in 2 cases the manufacturer Skoda and 2 cases with manufacturer Mercedes - Benz .

Fig. 4 KMC authorized dealers in Slovakia



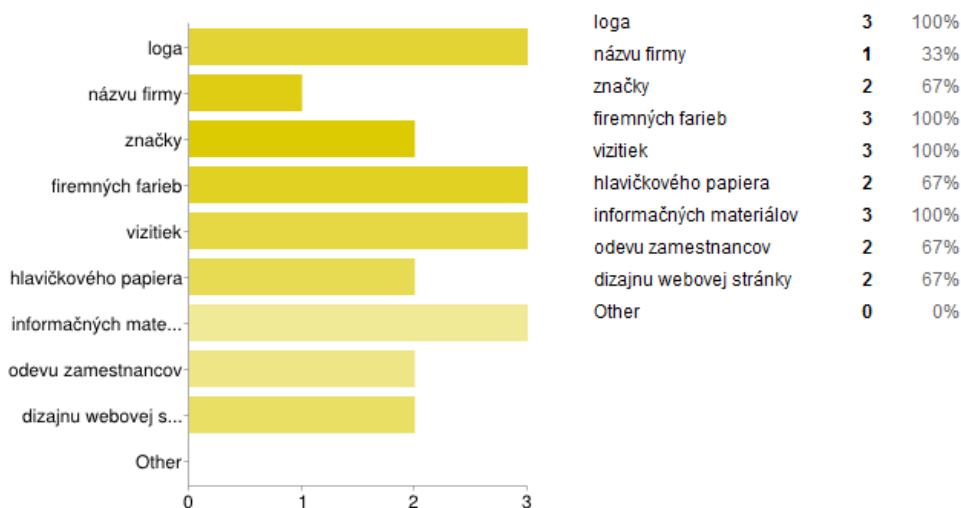
Source: Google earth

KMC introduced during the crisis Implementing new CD manual and specifically in 2010. On this basis we observed that this change was brought about by the economic crisis. CD manuals, which is freely available and provides the look of all identifiers in the CD: the look of the logo, name, corporate colours, placement of these identifiers on paper and in electronic form, exterior and interior shops and employment equity. KMC presented its current logo with CD and manual in 2010, the logo and the colours are more dynamic and more attractive to the customer. In 2010, KMC also introduced a new concept of building a CD by "red cube" architecture buildings and stepping up enforcement of deep red colour.

The CD these automobile companies build or lease through the sales network, namely architecture of individual stores. As shown in observing the lowest consistency proved to stores KMC 60%. The questionnaire survey was sent to 99 authorized dealers VW, Peugeot and Kia. Return the survey was 8.1%, representing 8 replies.

The question "whether there are any rules prescribed in the areas of design," respondents replied that in areas such as logo, brand, corporate colours, business cards, letterhead and information materials, there are changes in the KMC example.

Graph 3 Whether there are any rules prescribed in the areas of design KMC



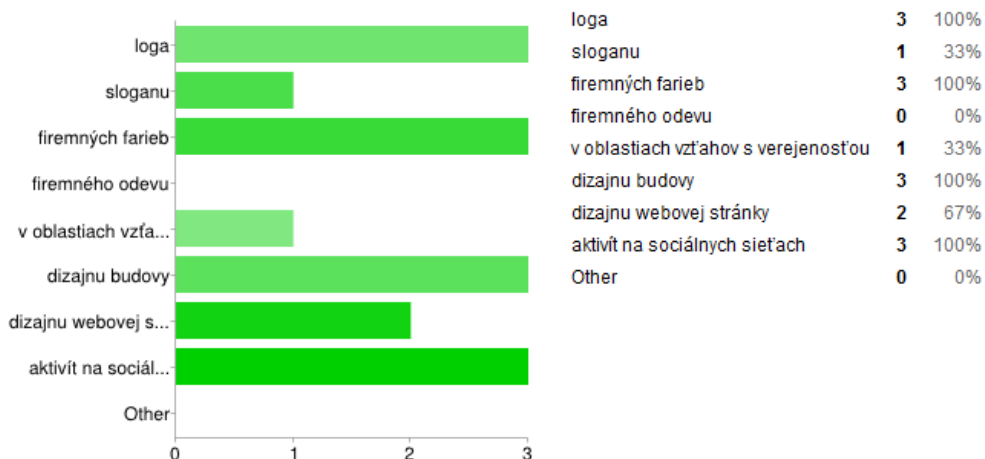
Legend: loga – logo, názvu firmy – firm name, značky – brand, firemných farieb – firm colours, vizitiek – business card, hlavičkového papiera – letterhead paper, informačných letákov – infoletters, odevu zamestnancov – dress code, dizajnu webovej stránky –webpage design.

Source: own proceedings according the realized questionnaire.

As shown in graph 3 we can see that in all areas of CD there are rules and requirements that need to be followed. The strictest rules can be seen in logo, firm colours, business cards, infoletters.

The question "During the current crisis (2007-2012) was introduced a new design manual, or were introduced changes in the design of building service website ..." 7 subjects answered positively.

Graph 4 During the current crisis (2007-2012) was introduced to a new design manual, or were introduced changes in the design KMC



Legend: loga – logo, firemných farieb – firm colours, firemného odevu – dress code, v oblasti vzťahov s verejnosťou – Public relations, dizajnu budovy – design of the building, dizajnu webovej stránky – webpage design, aktivít na sociálnych sieťach – social network activities.

Source: own proceedings according the realized questionnaire.

In the graph 4 can be seen that the biggest change in the crisis period, KMC carried out in almost all the CD elements, except the dresscode. Biggest changes KMC introduced in logo, firm colours, design of the building and social network activities.

Conclusion

In the current period of crisis is a tool for companies to achieve the objectives appropriate strategy. Awareness of the importance and role of the concept of CI in the corporate strategies is a key to the success and competitiveness of firms operating in an international business environment marked by significant change and turmoil. The European Union (EU) faces a difficult task out of the crisis and return to the national economy sustainable growth path. Strategies for overcoming the crisis requires effective management of public finances and implement growth-enhancing structural reforms and targeted investments to ensure growth and job creation.

The global business environment, which is characterized by overcapacity products, disseminating massive advertising media and the increasing fragmentation of customers and traditional channels of communication methods was necessary to review and modify. The major role in this process takes information technologies. Changing environment and also change the options appealing to the senses of customers. While in the 19th century, radio was introduced as the first mass communications medium, the role of the CD was somehow limited to the form audiosignal. The 21 century, customers can not only individual components CD passively watch on TV but even through the site directly involved in its development, without leaving your home.

In the era of crisis can be seen the changes in almost all CD elements, so the manufacturer or business entity needs to be aware of customer requirements and so adopt the strategies in changing business environment.

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Environmental Sustainability as a Source of Competitive Advantage: Implications for Marketing Strategy¹

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Abstract

Growing concern about the sustainability, and especially about environmental sustainability, has a profound effect on the way how business is conducted. Climate change is forcing companies to adopt new ways of business thinking focused on environmental issues and to explore the costs and benefits of "greening" their strategies. This paper examines the significance of environmental sustainability to business strategies and analyses the relation between environmental behaviour and competitive advantage of company. The main attention of this paper is drawn especially to the sustainable strategies of corporation as a possible source of competitive advantage and their importance in the 21st century.

Key words

Sustainability, environmental issues, business and marketing strategy, competitive advantage

JEL Classification: Q56, M14

Introduction

The industrial revolution has had profound effects on the way how business is conducted. New production possibilities and unsaturated markets have led to a mass production and consumption. Rapid growth of international trade and international business activities has resulted in many successes. Society of the 21st century has witnessed momentous changes in the quality of people's life in terms of rising literacy, increasing human life expectancy, better education possibilities or global food production increase. But these same processes and changes have also given rise to trends that the environment of the Earth cannot long bear. In absolute numbers there are more people hungry in the world, the numbers without an access to drinking water or sufficient standards of living. The economic development is achieved at the expense of ecological degradation and human dignity. There has been growing realisation of these problems since late 1960s. Since this period the global trade has grown both in absolute and relative terms due to rapid technological changes and other significant key drivers such as changes in consumption. On the other hand, this development has resulted into the depletion of natural resources, acid rain, global warming, water pollu-

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tion and further ecological problems. It has become commonly understood that possible solutions are only on a global scale.

Environmental problems have significant impact for society as a whole. As a reaction towards the damage of natural environment, ecological issues have attracted a lot of attention in the global politics. The increasing concerns for global environmental problems and the need for dignity, integrity, and vulnerability are today central to international environmental policy. Environmental sustainability has become increasingly important also to consumers, especially since 1980, and in relation to current financial and economic crisis (crisis of confidence) has become a part of trustworthiness. This paper examines the significance of environmental sustainability to business strategies and analyses the relation between environmental behaviour and competitive advantage of company. Moreover, corporations are forced to improve their business performance while complying with environmental regulations. The main attention of this paper is drawn especially to the sustainable strategies of corporation as a possible source of competitive advantage and their importance in the 21st century.

1 Sustainability

Increasing concerns for environmental problems has led to many global summits that were decisive for international environmental policy. In 1987, the World Commission on Environment and Development defined the term sustainable development as the necessity *"to meet the present needs without compromising the ability of future generations to meet their own needs"* (UN, 1987). This definition is still framing the perception of sustainability today. This topic has become very attractive for business supported by the recent development in the world economy. Deep recession and severe financial crisis have made it more important than ever to recognise the qualitative as well as quantitative aspects of growth. The crisis has highlighted the lack of confidence in the business and economic activity. This changed situation has encouraged the new development in business thinking. Sustainability is attracting attention not only of international policy, but it is becoming also an integral part of business strategy. Popular view of sustainability among business is through the Triple Bottom Line (TBL), a perspective based on three important dimensions: *environmental quality, social equity, and economic prosperity* (Chabowski et al, 2010). The triple bottom line theory distinguishes three dimensions of companies' responsibility. One is the traditional measure of corporate profit – economic, the second is a form how socially responsible a company has been throughout its operation – social, and the third is a measure how environmentally responsible it has been. This multiply dimensions of sustainability are generally recognised, and there are of profound significance to the future of business. Leading companies around the world are becoming aware of the significance of sustainability to a profitable business (SHETH et al., 2011). Sustainability has been brought into a mainstream of business practice and is considered to be a possible intangible resource for competitive advantage.

According to the McKinsey Global Survey (2010) based on responses from almost 2000 executives, companies are not taking a proactive approach to managing sustainability. Most respondents claim that their company has incorporated sustainability to build a stronger reputation. The problem is also with the definition of sustainability.

Most companies defined it as an issue related to the environment (e.g. waste management, green product development). This corresponds with results of other surveys suggesting that at present, companies primarily concern about issues in the area of environmental sustainability.

A number of studies have examined the implication of TBL dimensions on companies' activities, in particular the environmental dimension. The increased prevalence of environmental concerns in the marketplace has stimulated an interest in ecological issues, and these have been integral to successful business strategy.

1.1 Environmental sustainability

Environmental problems have characterised most of the industrialised countries through their path to an extensive economic development. "The environment does not exist as a sphere separate from human actions, ambitions, and needs and attempts to defend it in isolation from human concerns have given the very word "environment" a connotation of naivety in some political circles" (UN, 1987). Until recently, economic and business activities functioned according to the idea that our sources are unlimited and the way how we produce and consume is stable and will not undergo any changes. Even nowadays, when society is experiencing tremendous instabilities in terms of vulnerable economical and even societal conditions, it is extremely difficult to change consumption patterns. In this context "the sustainability problem is one of finding a balance between personal and societal "needs" and nature's capacity to support human life and activity, as well as ecosystems" (Choi, Ng, 2011, p. 270).

Consumption is a complex issue with both, positive and negative consequences for consumer, society, and for business. Current consumption patterns raise severe environmental concerns. To support this statement, many businesses and also academics see "green" product as an option, as a possible solution of sustainability, but it is also part of the problem while it fosters consumption. Modern endless consumption is inconsistent with ecological limits and many consumers are becoming more environmental sensitive. Environmental choices are promoted by easier gathering of information, especially due to modern communication technologies. There are many examples of environmental disasters that have enhanced an ecological awareness among consumers. New consumer's environmental perception of business activities creates a driving factor for corporations and companies. Companies have to realise that ecologically responsible action is necessary, if they want to survive in the long run. Up to now just very few companies have realised that environmental concerns might be of vital importance for their future survival.

2 Business perspective: Sustainability as an essential part of business and marketing strategy

Sustainability has been wide accepted as a significant approach to a business. The critical issue is how to address a shift in opinion on this issue and how to incorporate sustainability approaches into business strategies. In dealing with sustainability issues, companies tend to have a different nature of business response. Most compa-

nies prefer approaches viewed from the stakeholder perspective. Thus, sustainability is closely linked with the stakeholder theory, which postulates that business must take into consideration all its impacts on a variety of individuals, groups and communities. The major problem arising from satisfying needs of the different stakeholder groups is that they are often contradictory and incompatible with companies' strategy. Despite this fact, sustainability actions should necessarily reflect a stakeholder view, while the whole set of stakeholder should be considered as equal. The specific stakeholder concerns might be addressed in integration with core business operations and strategy. Companies should search for a balance between stakeholder view and their strategies. In order to create appropriate sustainable corporate strategy, they have to realise what is really of significant importance for their strategy. Notwithstanding, prevailing approaches to sustainability are fragmented and disconnected from business strategy. Coherency and a long-term view are critical factor for the success in the market.

Sustainability is generally accepted as a key success in the long term business strategy. Performance of responsible (sustainable) corporation is higher than in case of their less sustainable counterparts. If firm incorporates elements of sustainability into its marketing strategy, it could achieve a long-term competitive advantage that is hard to imitate. Porter and Kramer (2006) have proposed a new way how to look at the business and society and suggest that corporate social responsibility creates a competitive advantage for businesses. Successful strategy is about making choices and companies must know what is crucial for their corporate strategy. The same is valid for sustainability. The choice of the right sustainability dimension depends on the companies' capabilities, competitive position or on the type of industry. The attention of consumers is focused on different levels of sustainability. Many companies tend to implement "green" approaches to their tactical decisions without any consideration for their corporate strategy. Integrating sustainability into business means to analyse and decide which dimension of sustainability is crucial for success and may lead to retaining competitive advantage. Environmental issues might be not as important for some businesses as other dimensions of sustainability. The critical response of business to current economic/environmental development depends on its ability to evaluate how the new conditions may affect business and what is the role of sustainability under these circumstances. Matching the internal strengths of company (relative to competitors) with strategic opportunities and challenges in environment in a way that creates value and satisfy stakeholders needs is a precondition to achieve competitive advantage. From this point of view sustainability may enhance value creation and recombination of companies' resources in novel ways. Thus, sustainability might become a part of tacit knowledge that is difficult to imitate. Therefore, sustainability offers a unique opportunity to gain a competitive advantage.

2.1 Environmental sustainability in business and marketing strategy

The recent social and economic development has resulted in increasing importance of environmental sustainable strategies. These are becoming more influential in enhancing reputational and competitive advantage. According to the World Economic Forum and the Boston Consulting Group (Economist, Green Growth, 2011) there is a growing number of eco-consciousness companies that consider environmental sustainability as a source of their competitive advantage. These companies are using various

techniques to become more responsible to environment (e.g. usage of greenery to reduce costs, motivate workers and forge relationship). A part of these methods is very innovative due to the turn of limitations into opportunities.

Environmental performance

The traditional perception of environmental performance is that companies' resources are spent on enhancing environmental responsibility beyond the minimum compliance. The motives behind this behaviour lie in building the company's reputational advantage. The business activity that breaks the environmental rules may lead to negative associations where poor environmental performing company may have lost its competitive advantage. Moreover, weak compliance with the law may cause higher costs that are required to restore reputational image. Companies with good and innovative management tend to look for a novel ideas and emerging sources of competitive advantage such as environmental marketing to better satisfy stakeholders needs (Miles, Covin, 2000). The realisation of the potential that may arise from superior environmental performance might be seen as a tool for intensifying the competitive power. There are different levels of company's commitment to environmental sustainability. Some companies can view investments into ecological strategies as an unpleasant extra cost of doing business. The opposite view is to consider these costs as a possible source of gaining stronger competitive position in the market.

Greening of corporate strategies: The case of Samsung

The survival in the 21st century may be about incorporating responsibility into business strategies. The purpose is "doing well by doing good". The broader interests of society while satisfying the needs of stakeholders may create a unique value for all interested groups. Nowadays it is common to scrutinise practices of companies. The emergence of climate change has increased the interest of public in ethical and environmental aspects of business. Implications of this development have led to a new managerial thinking where sustainability is a crucial part of leadership strategies. Responsible use of resources can also mean cutting waste and reducing cost. There are many possible benefits that derive from incorporation of environmental sustainability into business strategy. There are already some examples of companies that are truly committed to environment. Samsung has shifted away from easily substitutable products toward more life-care products. The company believes that the green strategies will be central to the 21st century (The Economist, Samsung, 2011). The company focuses on improving world by using various strategies of green management. The aim is to preserve the global environment. Samsung is involved in activities such as reducing greenhouse gas emissions, water resource consumption, and the amount of waste generated, as well as increasing resource recycling (Samsung Sustainability Report, 2013). Samsung's response to climate change is in enlarging its sustainable goals. Its ambitious plan is challenging and success would raise Samsung to new heights, but failure could lead to losing its competitive position. However, embedding sustainable practises into its core strategy is promising and challenging. Even though, Samsung is an example of a company that clearly demonstrate it attempts to find a sustainable solutions in the way how it conducts its business.

The list of corporations that have implemented sustainable aspects to the centre of their strategy is not very long. Notwithstanding, many companies have a good understanding of the key sustainability issues, but their business models are not consistent and sustainability is not addressed strategically.

Environmental marketing strategy as a possible source of competitive advantage

There are two main approaches toward implementing environmental behaviour into strategy (Miles, Cohen, 2000): (1) *the compliance model* in which company simply comply all applicable regulations; and (2) *the strategic model* that is based on environmental responsiveness. Strategic approach could through innovation in response to environmental pressures lead to competitiveness and a sustainable competitive advantage. The environmental issues may be implemented into marketing strategy on different levels ranging from the marketing processes to marketing programme. The optimal approach to integrate environmental concerns into marketing strategy tends to adapt traditional marketing that includes environmental issues in the development of product, creating a communication strategy, establishing distribution systems, and setting price. The focus on environmental change might be a great opportunity for innovation that can create competitive advantage and strengthen competitive position. Moreover, environmental sustainability is a possible source of reputation that may lead to creation of a high performing marketing company. Some academics suggest (Miles, Covin, 2000) that environmental marketing and entrepreneurship may be integrated into a unique **enviropreneurial marketing strategy**. This approach towards marketing strategy may be crucial for survival of companies in this century. Enviropreneurial marketing strategy means to adopt strategic approach to implementing environmental sustainability. To view environmental expenditures as only cost and not as investment in improving competitive position, might be dangerous. Certainly, it creates promising basis to a cost-based advantage, but meeting only the minimum environmental standards is not a long-term orientation of business and marketing strategy. On the contrary, environmental expenditures viewed as investments in complying regulation, and also as investments in enhancing the company's ability to create value for stakeholders, provide more potential benefits. Strategic approach toward environmental responsibility offers more opportunities in terms of building competitive advantage. Company may benefit from a *cost-based competitive advantage* due to cost saving from continuous improvements in processes including more complete utilisation of inputs to improvements in product policy including the product development, innovations, and maximizing the life cycle of product. Moreover, strategic approach enables to achieve *focus/differentiated-based* competitive advantage. Proper implementation of environmental sustainability into marketing strategy may have profound effects on segmentation, target marketing, corporate image and enhanced business performance. Environmental marketing strategies target environmentally sensitive consumers who are often willing to pay higher price for environmentally friendly products. Additionally, a good environmental behaviour of company leads to possible positional advantage while it creates/discover positive market performance and address needs of niche market.

Potential threats

Environmental sustainability is becoming a mainstream but there are some hidden aspects of sustainable business. First of all, there is growing evidence that information about sustainability of company's strategy has a positive impact on the evaluation of the company and can affect purchase decisions. However, at the same time consumers are not willing to change their consumption patterns. Consumption still means for them buying more and more products. The era of mass consumption is prevailing even nowadays. Despite the fact that consumers claim their understanding of the benefits of sustainable consumption, sustainability is a niche market with conscientious consumers and committed companies (Upchurch, 2013). Even though, the low level of environmental sustainability leads to stronger negative perception among consumers who are more sensitive to statements of a company's sustainability shortcoming (Choi, Ng, 2011). Consumers are more informed and interested in business activities. Never before it has been so easy to gather information about poor ethical decision making or fail to follow any sustainable rule or regulation. Larger companies sometimes decide that breaking rules and paying fines can result in lower costs than the implementation of these legislative limitations. However, unfair business practices are undermining trust of consumers and they tend to mistrust the sustainability claims of companies. Thus, sustainability is a matter of credibility, trustworthiness, reliability, and responsibility. Companies may affect the perception about environmental and sustainable claims, if they adopt a coherent and consistent approach to their business and marketing strategy.

Conclusion

The alarming state of our natural environment is transforming the global landscape and forcing companies to rethink their business and marketing strategies. The recent global development in the global economy has resulted in unprecedented changes in terms of environmental and societal conditions. Current financial crisis has moved into the crisis of confidence. Members of society mistrust the sustainable or responsible claims of companies and they closely scrutinise business practice. The lack of confidence in the market is undermining companies' efforts to improve their sustainable business performance. Many companies have a good understanding of the key sustainability issues of their business and marketing strategy. Some of them have even found new innovative ways how to incorporate sustainability into their core business strategy. Despite the commitment of these companies, consumers are still careful about the trustworthiness of companies' strategies. Sustainable strategy may create a unique competitive advantage for business. It is influential in enhancing reputation and in strengthening competitive position in the market. Thus, it is a matter of trustworthiness, and responsibility. Companies should be honest when implementing sustainable approaches into business and marketing strategy. Also the adaptation of traditional marketing for environmental issues should be properly prepared and adequate implemented into marketing programme. The lack of consumer's enduring interest in sustainable consumption poses a serious challenge for marketing managers. They should focus on mainstreaming sustainability through their business, while being open about the progress, successes and failures. Environmental sustainability is for leaders. Solutions for business are simple. Successful strategy is about making choices and the

leader is setting the rules for the others. Companies need to run sustainable business before they can expect consumers to believe that they are sustainable.

In conclusion, there is a strong support that being environmental responsible may create a reputational advantage and enhance competitive advantage. There are different responses of companies toward environmental issues. The crucial is to find balance between core business activities and sustainability activities. Companies that adopt environmental approach in their business and marketing strategies may become leaders in the market. However, all companies should increase their interest in the marketing implications of their corporate environmental policy in order to survive rapid changes in the world economy. Further study is needed to analyse real impacts of sustainable marketing strategies on building focused/differentiated-based competitive advantage and its effects on financial performance of business. Additional study is also needed to explore the real consumer's perception of environmental sustainability and its effects on purchase intentions.

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The Aspects of Use of Geographic Information System GIS as an Innovative Form of Marketing

Marian Toman¹

Abstract

The aim of the paper is to characterize aspects of geographic information system as a source of strategic innovation to strengthen the competitiveness of enterprises. The paper focuses on describing the various aspects of GIS for using as an innovative form of marketing.

Key words

geographic information system, geomarketing, marketing analysis

JEL Classification: M31

Introduction

In today's highly competitive environment a marketing analysis is inevitable requirement of success in business. Therefore, at present time of increasing globalization of markets we need to work more effectively with acquired information which helps us to analyse these markets. Geographic information system (GIS) is new valuable geomarketing tool which enables us to process acquired data with the possibility of graphic depiction of this data into cartographic maps. Modern geoinformation systems are able to match the places in the map to all data, and afterwards to assess the coherences significant to business. (ČICHOVSKÝ 2003). GIS can independently and elaborately analyse various kinds of economically different areas, and as a consequence we are able to combine the correct marketing mix for determined location (KITA J. 2005). This is inevitable prerequisite for successful implementation of retailing unit or its supplying. In the last years GIS, as a geomarketing application, is growing rapidly and it is applied mainly in retailers (supermarkets, car sellers, video rental stores etc.) By intense development of the information technologies in all spheres of our lives we can encounter gathering of the data important for the analysis not only in big stores or supermarket chains but also in small grocery stores where while paying, a shop assistant can ask you for your post code. This can help with better and more directed placement of the advertisement. Thanks to the GIS application we can precisely assess the consumer's behaviour in the determined location and thus select the strategy determining the business plan.

GIS, as a part of geomarketing is the ideal tool for identifying of developing markets along with increasing profits. The paper has been created within the research project VEGA 1/0039/11 "Geographic Information System as a source of strategic innovation enterprise in terms of strengthening its competitiveness."

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1 GIS as a geomarketing tool

Geomarketing itself can be perceived as a new branch in the marketing field. It is a branch that in the marketing field uses geographic information system GIS as a tool for successful implementation or planning.

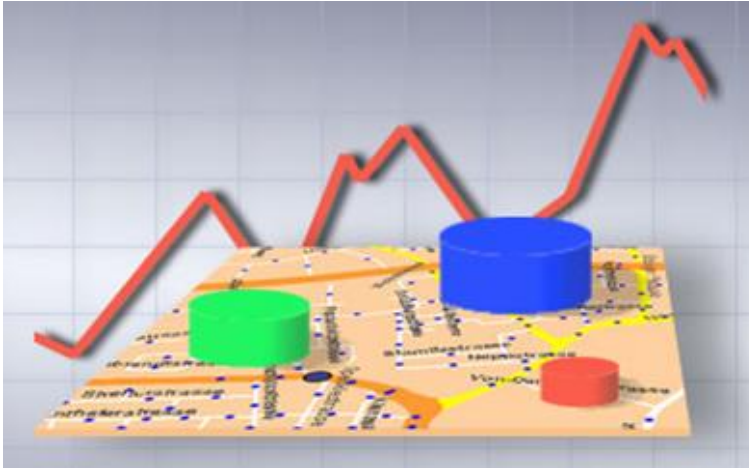
1.1 Geomarketing

Nowadays geomarketing is a very effective marketing tool which connects acquired findings from the Geography with great amount of statistics data and high-quality information systems. Geomarketing operates with personalized data to which it assigns certain values and attributes. It is a very effective and accurate tool in decision making process. These subjects have to find new business opportunities and to localize new places of sale or to renew the places of sale in analysed geographic area. The principle of geomarketing is gathering of data and its analysis within mutual coherences which has been found out through examination of this area. Due to this fact we can identify the consumer's behaviour of the population in determined location. Before we even start to deal with the idea of usage of marketing tools we initially have to determine suitable type of area where we will do our research. For this purpose we cooperate with local managers who need to know certain situation in determined location e.g.: road infrastructure along with accessibility of the location, the development of location in connection with building of shopping centres in the periphery of the cities. These shopping centres are no longer only the marginal shopping area but they have become the places of entertainment, relaxation and meeting of people. The second step that is inevitable for correct marketing assessment of determined location is obtaining of statistic data of this location (demographic data, social- economic data). Very important aspect of this research is also the market of competitiveness in the determined location and its analysis. For using this data in assessment of determined location it is necessary that this data is the most accurate and the most detailed in order to create the most effective combination when using the geomarketing tools. Equally important is also another step and that is the informing of customers e.g. by leaflet promoting either specifically focused or areal in determined location. There are of course more possibilities how to inform customers. This way we are able to acquire feedback from the consumers. However, lately it is very difficult to generalize the consumers because the consumers are able to withstand marketing and advertisement impulse and they become resistant to it. Increasing mobility of population along with improving economic situation suppresses the traditional gravitational consumers' behaviour in many cases. All this can make the process of analysing of determined area complicated. This complexity of process of consumers' behaviour assessment related to the space has helped to develop geomarketing.

Development of these information technologies caused that these technologies have become cheaper and more accessible to the public. Rapid development of GIS technologies of which the use was limited in retail marketing for mapping the results of marketing research few years ago has started. Nowadays the mapping carried out for the retail market by means of GIS is still very important. However the connection with analytic operations running in GIS processing is becoming more important. For exam-

ple determination of the shop placement, identification of business locations, analysis of competition, etc. (Fig.1)

Fig. 1 Graphic processing of data analysis by GIS.



Source: Available from: <http://www.marketresearchlatinamerica.com/2008/12/01/geomarketing/> [online 10 August 2013].

1.2 GIS

If we want to speak about GIS as an advanced technology it is important to realize that also this technology has gone through its own development and direct impact on development of this technology has rapid upswing of hardware and software possibilities. These possibilities enable us to process great amount of data necessary for correct assessment of area researched by us. For a very long time people have been perceiving different kinds of events by their perceptions, and they have recorded them on different kinds of media. At the beginning people carved these events in stone and later they charted it laboriously by hands into cartographic maps. However this meant that with every change people wanted to record new maps had to be drawn. By the above mentioned development of computer technology we have also reached the development in the question of Geographic information systems. Geographic information system GIS is a computer system that consists of hardware, software, data and users. It enables us to acquire, edit, store, organize, model and analyse of spatially focused data as well as its numeric and graphic presentation. GIS is defined as a complex of technical and program devices for storing, processing and using geographic information in two levels - graphic and data. These levels are mutually connected and topologically organized. GIS is used in many fields e.g.: utility lines, environment, state administration, care for citizens, telecommunications, finance, administration of sources, city planning, archaeology, army and of course marketing. The word "geo" originating in Greek can be also explained through direct connection of every data component to some geographic location. The word "graphic" means that for presenting this data component we use graphic visualization. These possibilities of connecting

of data flows to graphic location enable us in the use in marketing to answer questions by GIS:

- What is the purchase power in determined region?
- How accessible is our shop in determined location?
- What is the placement area of our shop and how far do people have to travel to get to us.
- How and what kinds of advertising tools do we use in promotion of our shop.
- How to correctly assess the strengths and weaknesses, opportunities and risks based on offer and demand.

To these and other questions we are looking for answers by means of GIS where analytical programs visually assesses acquired data in order to answer these questions. According to the way of direct using and developing we look at GIS from 3 different aspects:

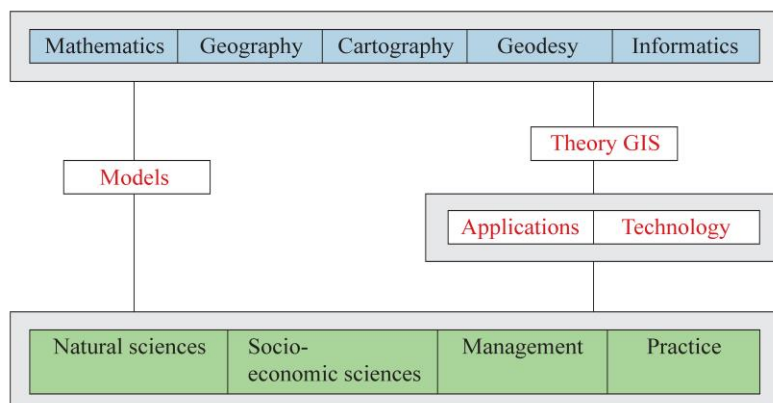
- Cartographic view used for production, processing and displaying the maps.
- Database view used for gathering and organizing data and it understands GIS mainly as a tool for data administration where the connecting bond is its geographic location.
- Analytical view at GIS emphasizes the possibility of spatial analyses and syntheses. Possibilities of GIS are mainly used by this aspect.

According to this GIS develops in three basic directions:

- GIS as a technology
- GIS as an application tool
- GIS as a scientific branch

From previous text it is obvious that GIS uses findings from more scientific branches (i.e. it is an interdisciplinary field). All of its directions are mutually integrated in order to acquire new information. In the process GIS creating all directions were used equally. The following scheme expresses coherence of the three aspects of understanding of GIS and starting scientific branches as well as the use of the results acquired by GIS (Fig.2).

Fig. 2 Relationship of three aspects of GIS and underlying disciplines.



Source: <http://www.dkubinsky.sk/blog/gis/uvoddostudia2> [online 14 August 2013].

2 Aspects of GIS

Geographic information systems see the issue of recording of the real world picture from many angles of view and graphic displays in a form of map become its very well arranged presenting tool. It is important to realize that GIS is not a system for creating maps but it is analytical tool used for analysis of acquired information. In GIS the data is completely separated from its presentation. This means that it is possible to acquire data step by step, complete it and assess it in different ways. This also means that from the same data we can acquire various graphic outcomes according to our exact requirements. GIS places higher demands on data structure that has to respect mutual connections between objects. Meeting these demands is prerequisite for logical organization of data and for effective connection of spatial data which geometrically represent the real world with no spatial data stored in information databases. These databases describe the attributes of particular objects of the reality. This enables us to examine particular items and the classes of these items as well as their relationships. Afterwards we can present the results in a most suitable way in the form map completed with charts, graphs and text legends. From the marketing point of view we see GIS from two different aspects: database and analytical.

2.1 Data Acquiring – database aspect

From the marketing point of view the database consists of already existing or potential customers arranged according to selected criteria. One of the forms of data acquiring is own acquiring of information such as creating the customer's cards. Every customer that comes into the shop has an opportunity of registration in shopkeeper for a chance of some kind of reward. Almost every hypermarket or supermarket offers a registration in the form of cards. Customer is given a certain number of points for shopping. For these points customer can buy special products or he is given a direct discount at the till if he is registered customer and allows scanning his card. In return he provides shopkeeper with priceless information necessary for analysis in geomarketing. Except the address or post code the shopkeeper also finds out customer's age, telephone number, email address, purchase volume, the number of purchase for certain period of time, sort of purchase. All this helps the shopkeeper not only to keep in touch with customer via emails, sending the catalogues and more personalized advertisement but also to keep detailed history of shopkeeper-customer communication and reactions when addressing or greeting the customer.

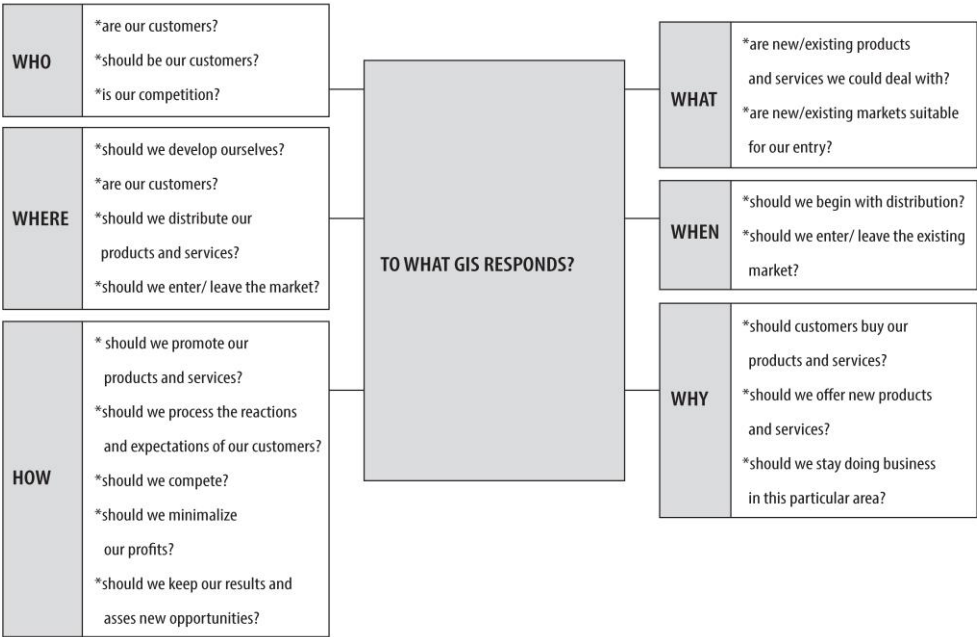
This form of created relationship with customer helps shopkeeper to create the exact profile of customer and his typology. Although databases can be also created by other ways for example different kinds of public inquiries, experiments etc. However such ways of database creating are quite lengthy and require time. Another form of information necessary for research in geomarketing and which influences the running of the business is external information that somehow influences the consumers' behaviour. This kind of information is demographic data (composition of population, age), social-economic data (employment rate in region, average salary, household equipment), local information (shop equipment, specification of the area, shopping behaviour of households, competition). This kind of information is basically easily accessible and we can acquire it from different institutional databases such as

Statistical Office of the Slovak Republic, regional information systems established for cities and villages, marketing information systems, managers’ information systems, databases created on the Internet, etc. The more accurate and more detailed we are able to do our research and create our databases the more accurate results we finally acquire by means of analytical tools of geomarketing. In reality, to create the databases is not an easy matter at all and it is up to 90% of the work on the final result.

2.2 Data analyses – analytical aspect

We have to look at GIS from the point of view of marketing analysis. Marketing analysis includes a wide spectrum of topics which have to be taken into consideration when decision about the future development is made. We should deal with this range of questions during marketing decision (Fig.3):

Fig. 3 The range of questions for needs of marketing decision.



Source: BEAUMONT, J., In: Integrating rank correlation techniques with GIS for marketing analysis, Available from: <http://www.geocomputation.org/2000/GC053/Gc053.htm> [online 10 August 2013].

This indicates wide range of aspects, which managing marketing workers have to take into consideration when doing a research. In combination with other information acquired mainly in companies and from companies’ databases we are able to take spatial aspects of marketing into consideration. The space is the factor that needs to be taken into consideration mainly because of the spreading of the markets as well as from the point of view of business unit localization; because the space factor presents itself at the level of demand, offer and also at the consumers’ behaviour level. In

geomarketing the issue of space concerns mainly 4 principal areas (KITA P., 42): localization of the shops, geomarchandising, consumers' behaviour, and focus on the best customers in the area. During spatial analysis GIS mutually integrates acquired information, processes it and then presents the results in a form of map so it is the most understandable and well arranged information. Data necessary for analysis is primary component of GIS. GIS processes this data and create new one. This data is recorded in the form of databases. It is important that immediately at the beginning of data acquiring the databases are created. These databases are able to link data which are being acquired and so enable to use applications of geomarketing for processing this data. During the analysis we work with 2 types of data: spatial data and descriptive (no spatial) data. The spatial data is characterized by geographic position and descriptive one describes the attributes of the object. GIS preserves data in the form of layers which can be mutually connected by Geography. When processing data 2 models are used in GIS:

- Raster data model that divides relevant area into squares of given size. Each square has its own characteristic value.
- Vector model containing the information organized according to geographic coordinates.

There are analytical tools and analytical operations for locating the area that meets particular conditions in GIS programs.

a) analytical means:

- *Reclassification*- We often create new layers from already existing ones during analyses in GIS. In new layers particular objects have different marking than in original ones. This method is most often used in cases where we look for an area that has given particular attributes in advanced.

- *Map algebra* is a tool for creating the analyses using mathematical calculations or mathematical relations.

- *Distance operators* in which from the name arises that these operators are tools for distance assessing for example creating radiuses which has particular distance from examined area.

- *Context operators* create new layers based on the information about already existing map and context.

b) analytical operations:

- *Queries about database*- by means of this tool we can work with the data according to specified requirements; we can bind it or organize it.

- *Derived mapping* – in this case we combine determined components from our database and so we create new derived layers.

- *Modelling process or simulate modelling* – it is the part of creating of GIS analyses. By this process we create new databases.

All analytical tools which are available are used for understanding the mechanism of purchase flows under the influence of consumers' behaviour which makes decision

process easier. We can say that GIS as a geomarketing tool is valuable contribution for companies that not always can appreciate its importance in practical use. Many companies have databases of customers but they cannot fully use their potential.

Conclusion

Marketing researches are influenced by more and more factors necessary for their processing. We acquire great amount of information which directly influence each other. It is a dynamic process in which methods and solutions are permanently under the changes. GIS as an effective geomarketing tool is understood as an informative tool from this point of view. This informative tool is usable in entire cycle of economic life. At first this technology helps us to choose the location, to determine business strategy and to estimate our expectation and risks. Later on it helps us with better management of rate, format and tempo of working and implied increase. As a marketing tool it provides us with detailed view on potential performance in different conditions in market. We have to think of GIS not only as at present quickly developing technology but mainly as a technology of the future. For company in future it will be necessary to work with its databases of customers' in the most effective; and exactly the GIS as a geomarketing application will be the most suitable tool for managers of these companies.

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The Significance of E-Commerce as a Distribution Channel in the Area of B2C

Peter Zámečník¹

Abstract

During the previous years, e-commerce has found and established successfully its place as a distribution channel in the area of B2C. This fact is supported by the significant, double-digit growth on a worldwide level, which indicates further potential that can be fully used by adjustments to the marketing mix, by the selection of an optimized distribution strategy and by the application of modern logistic approaches and technology. The successful combination of these factors and their implementation in the area of B2C e-commerce is the key in regards to a competitive advantage, in order to meet the increasing requirements on flexibility, efficiency and consumer experience.

Key words

e-commerce, e-marketing, online marketing, e-logistics

JEL Classification: M30

Introduction

Over the past years, e-commerce in the area of B2C has become an important distribution channel, which is reflected also in the increasing interest of the consumers, who have learnt to appreciate the convenience and benefits of this channel. Companies should therefore make use of this fact and also adapt to this development, in order to provide a better shopping experience in the context of a rapidly changing environment.

The advancement of this field during the recent years has clearly shown that it offers substantial potential, whether in regards to further global growth, or in the applying of new marketing and logistic approaches, which are designed to meet the requirements and conditions of e-commerce. This distribution channel offers also a variety of opportunities for small and middle enterprises, provided they master the creation of an optimal marketing mix designed for the specifics of e-commerce. It can be therefore said, that e-commerce has contributed towards the creation of such distribution channels, which may decrease or eventually remove at least some of the barriers to enter the B2C market for companies and therefore contribute to further economic growth. Moreover, it represents an opportunity for brick and mortar shops to increase the radius of their activities on national or international level, provided that their intentions are supported by efficient logistic operations. Large companies and producers on another hand are solving the question, how to use e-commerce as efficient as possible, especially when they want to enter new markets, or to introduce new products. They need to answer the question, whether to rely on their own e-commerce systems

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for their distribution and save costs by cutting off further intermediaries, or whether to team up with new, or existing local e-commerce subjects, which may increase the cost of distribution, but may prove to be more efficient due to their implicit knowledge of the local market.

Another source of further growth potential is the emergence and rapid development of handheld devices such as smartphones, which make it literally possible to purchase goods and services at any given time. Thus, m-commerce is going to be an important part of e-commerce, with an increasing mutual interaction and interdependence of these platforms. The increasing trust of consumers in this distribution channel, which is reflected also by the interest in goods and services which have been considered a domain of brick and mortar shops just a few years ago, as well as the global technological development of the internet infrastructure, hand in hand with software and hardware developments, speak in favor of e-commerce or m-commerce.

The aim of the paper is to highlight the increasing significance of e-commerce as a distribution channel in the area of B2C on global, European and national level and to address marketing, distribution and logistics topics in relation to e-commerce.

1 E-Commerce in general

E-Commerce has undergone a long, but successful development during the past decades. What started just as internet space to provide basic company or product information, has evolved into a successful sales platform which is focused to aim the customer at any point of his or her needs by offering the corresponding goods or services, which can be ordered in real time. According to Kotler and Keller, e-commerce uses a Web site to transact or facilitate the sale of products and services online. Online retail sales have exploded in recent years, and it is easy to see why. Online retailers can predictably provide convenient, informative, and personalized experiences for vastly different types of consumers and businesses. By saving the cost of retail floor space, staff, and inventory, online retailers can profitably sell low-volume products to niche markets. Online retailers compete in three aspects of transactions: (1) customer interaction with the Web site, (2) delivery, and (3) ability to address problems when they occur [Kotler, Keller 2012].

The increasing spread of information and communication technology and their adoption by a major part of the consumers over the past decade has contributed significantly towards the establishment of e-commerce as a distribution channel. The potential of this distribution channel has been recognized also by the OECD, which acknowledges e-commerce as one of the major factors to help the consumers to recover from the global economic crisis.

1.1 Global growth of e-commerce

The increasing importance of e-commerce as a distribution channel in the area of B2C is reflected by its double-digit growth on a global level. According to the independent market research company Emarketer, the estimated sales growth of e-commerce in the area of B2C reached in the year 2012 on worldwide level **21,1 %**, surpassing

the **1 \$ trillion threshold**. The estimation predicts also, that the Asian-Pacific region becomes a leader in B2C in the upcoming years, placing the North-American region on the second place. The explanation of this rapid growth, as well as the upcoming shift in the top-2 places may take various reasons into consideration. First of all, it may represent the general shift of economic activities from other regions of the world to Asian countries such as China. This development creates a higher living standard in these countries and therefore an increased demand for various goods and services, whether it are luxury products, or standard products suitable for the distribution via e-commerce. Another reason is the sheer number of the population in this region even though, it must be taken into account, that the internet penetration in some Asian countries has further development ahead, because estimations of the International Telecommunication Union state, that only 28,8 % of individuals used the internet in the year 2012 in the Asian and Pacific region.

In a more distant future, the global double-digit growth will be of course smaller, due to a certain degree of saturation of the markets, but growth in the long-term can be still expected because of the ever increasing spread of information technology and also in regards to a broader base of customers who adopt e-commerce as a distribution channel.

1.2 The European perspective of e-commerce

E-commerce in the area of B2C has been an important distribution channel in Europe. The situation in the European Union can be considered as specific, because each country, or eventually a block of countries has its specifics, such as a different economic situation resulting in a different purchasing power, as well as demographic and cultural differences resulting in certain purchasing habits which may lead to a nation-specific attitude towards e-commerce. However, these potential differences do not pose any hurdles, thanks to the EU Single Market, provided that subjects realizing cross-border B2C transactions are aware of local specifics related to e-commerce. The European Commission has addressed e-commerce in the Directive 2000/31/EC of the European Parliament and of the Council of 8 June 2000 on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market ("Directive on electronic commerce"), which represents a legal framework for the EU member countries. It provides rules and guidelines for e-commerce subjects and more importantly, it grants transparency and security to the European consumer.

The Ecommerce Europe association states, that the estimated growth of e-commerce in the area of B2C in Europe (including Russia) was in the year 2012 proximately 19 % (€311,6 billion); and **18 %** (276,5 billion) for the EU 28 respectively. This double-digit result in the European Union confirms the growth tendencies of the previous years: 17,9 % in the year 2011; and 19,1 % in the year 2010. The United Kingdom (€96,193 million), Germany (€50,000 million) and France (€45,000 million) were the strongest countries in terms of turnover. It can be noted however, that the region of Western Europe has had slightly decreasing tendencies in terms of growth with 15,8 % in the year 2012; 17,5 % in the year 2011 and 19,4 % in the year 2010. Turkey (75 %), Greece (61 %) and Ukraine (41 %) were the countries with the highest growth in 2012.

The above stated growth provides a picture about the potential of this distribution channel on this continent, which is supported by the internet penetration in the EU. According to the information provided by Eurostat, 73 % of individuals in the EU were using the internet and 76 % of households had internet access in the year 2012. About **59 %** of the internet users in the EU purchased goods or services for their private use via the internet in the year 2012. The leader of purchases via e-commerce was the United Kingdom, where 82 % of the internet users used e-commerce; followed by 79 % in Denmark and Sweden; and 77 % in Germany, whereas Romania with 11 %; Bulgaria with 17 %; and Italy with 29 % mark the other end of this spectrum. An important indicator is represented also by the cross boarder e-commerce purchases within the EU. Within the EU average, 90 % of the e-shoppers realized purchases from domestic sellers, whereas a quarter of the buyers bought at least once in the year 2012 from a seller from a different EU country. More than 80% of the internet buyers in Luxembourg, Malta and Cyprus did e-commerce purchases from sellers, located in other EU member countries. On the other hand less than 10% of the buyers in Poland and above 10 % of the e-commerce customers in Germany, the Czech Republic and the United Kingdom bought goods or services from other countries of the European Union.

Despite the growing interest of the customers, companies in Europe do not fully use the offered potential. According to Eurostat, e-commerce had in the year 2011 on the average only a 15 % share on the total turnover of the enterprises within the European Union. It is important determine the reasons for these results, if they are caused by the economic crisis, by the necessity of professional IT-staff which requires a significant amount of resources, or by other market factors, which influence e-commerce as a distribution channel. It is for the sake of customers and the economy as a whole, to increase the percentage of the companies that participate in e-commerce in Europe. This is important to prevent a too high concentration on the market, to allow small and middle enterprises to use their chances and to secure employment and economic growth.

1.3 E-commerce in the Slovak Republic

E-commerce as a B2C distribution channel in Slovakia reflects the European tendencies, although it has certain specifics.

According to Eurostat, in the year 2012 almost 80 % of the individuals in Slovakia used the internet, 75 % of the households had an internet connection and more than 50 % ordered goods and services via the internet at least once per year. According to the Statistical Office of the Slovak Republic, the majority of goods and services ordered via the internet in Slovakia in the year 2012 were clothes (55 %), then household goods (34,7 %), followed by books, e-books, magazines (27,7 %) and tickets (23,3 %). In the year 2011, 14,2 % of the enterprises used e-commerce to sell goods and services; 13,8 % in the year 2010 and 6,8 % in the year 2009.

The Slovak Association of Electronic Commerce states in its annual report for the year 2012, that sales have increased by **7,5 %**, the number of orders has increased by 17,3 % and that the overall sales of goods and services via the internet in Slovakia reached approximately 250 million Euro. The majority of Slovak customers preferred

as their payment method cash on delivery (61 %), then payment in cash (23 %), and payment via e-banking (13 %). This development may show specific tendencies of the Slovak consumers regarding e-commerce. They may distrust e-shops; so they tend to rely on cash on delivery.

1.4 M-Commerce

M-commerce has become an important part of e-commerce and also a prospective marketing platform. M-Commerce means the realizing of marketing activities mainly via a mobile phone [Kita, 2010]. Its popularity can be attributed on one hand to digital distribution, such as the use of mobile applications and on the other hand to the increasing penetration of smartphones and tablets, which are changing the surfing habits of consumers, because they offer the possibility to make purchases literally at anytime and anyplace thanks to innovative mobile payment methods. Global mobile traffic estimates for the year 2012 say according to the company Mobify, that 47 % of the site traffic in Australia is accessed via mobile devices; 40% in Brazil; 31% in the USA; 16 % in China; 11 % in Germany and 7 % in Russia. In regards to purchases, m-commerce has reached in Europe a turnover of €17 billion, so it made 5,5 % of e-commerce sales according to E-commerce Europe. As for the use of the internet on mobile phones in the EU, 24 % of all individuals used a handheld device to connect to the internet according to Eurostat.

2 Marketing as a success factor of e-commerce

Marketing represents without doubt a key factor which determines the success of any business venture. Market requirements and conditions are a subject of constant change and this has to be reflected also in the marketing mix of e-commerce. According to the authors Chaffrey and Smith, the e-marketing mix is changing as products become services, services become customer-driven, and customers create communities that extend the brand into new online experiences [Chaffrey, Smith, 2013].

2.1 Products in e-marketing

A company which wishes to enter, or eventually already operates in B2C e-commerce, should adjust to its conditions in order to benefit from this channel and be successful. The first question which arises in the evaluation process is, whether the offered **product or service** is suitable for the distribution via e-commerce. According to Dann, offline products are usually goods and services and ideas. Online, products get to be a little more complex in that you can sell goods (to be shipped to the physical world), virtual goods (to be stored on the hard drive), really virtual goods (material in a video game server), ideas (contents of a blog post), experiences (YouTube video clips, music), behaviors (super-poking in Facebook, conversations in MSN Messenger), services (online banking) and access to other people (community memberships) [Dann, 2011]. The question regarding the suitability of products was emerging espe-

cially at the beginning of e-commerce. In case of physical goods, a physical and sensorial experience was considered in the past as a prerequisite of the majority shopping experiences and it caused some degree of uncertainty at the start of e-commerce. The convenience of e-commerce has however overcome its disadvantages. On the other hand, this does not mean that the need of "physical experience" is not present, on the contrary. The consumers' interest in shopping with "physical experience" as well the fact, that some of the consumers' needs can be, or even must be satisfied by an immediate consumption contribute towards the presumption, that e-commerce will not fully replace brick and mortar shops, due to the character of the offered goods and services and their ability to satisfy immediate needs.

2.2 Place as an important part of the e-marketing mix

In e-commerce, the **place** element of the marketing mix refers to the channel through which firms bring products or services to the customer. These channels include a communications channel (e.g. e-mail), a distribution channel to intermediaries (e.g. to customers via wholesalers) or direct selling to customers (disintermediate middlemen in the supply chain) [Combe, 2006].

The distribution in e-marketing has to differ between digital distribution where the product (software, application or other digital content) is sent directly via the internet and the distribution of physical goods, which are purchased online and sent via physical distribution.

Many companies, who sell physical goods via brick and mortar shops, have also adopted a hybrid approach, i. e. they are using both channels, online and offline, simultaneously. E-commerce and wholesale/retail distribution channels should therefore not be seen as competitive and separate channels, but as complementary means of distribution. The marketing research should determine the best ratio between e-commerce and offline distribution channels and create as much synergies as possible.

2.3 Prices in the environment of increased price transparency

The potential of savings and the efficient use of resources via e-commerce highlight the importance of the **price**. The internet allows via its search engines, filters and price comparison webpages a high level of price transparency, thus a reasonable price policy in e-commerce may attract price-sensitive customers. According to Chaffrey and Smith, with the increased price transparency made possible through price comparison sites, it can be difficult to compete online as a trusted brand differentiating on premium service quality alone. Some online shoppers do not remain loyal to a favorite brand if a competitor is running a special offer [Chaffrey, Smith, 2013].

If there is a too intensive price-based competition in a specific field of e-commerce, it may drive out smaller businesses, which are not able to compete against the economies of scale of big sellers. Not all sellers or producers seek however a price based competition, especially when they offer exclusive or luxury products.

2.4 Promotion – the interactive tool of e-marketing

The decisive element of the e-marketing mix is **marketing communication**, which can summarize the above mentioned factors and promote them as consumer benefits.

E-marketing represents the marketing side of e-commerce – the effort of a company to inform about products and services, to promote and sell them via the internet [Kotler, Wong, Saunders, Armstrong , 2007].

E-marketing (sometimes called also online marketing) is usually the first choice, especially for sellers, who sell their goods solely online. This can be explained in the interactive character of e-marketing, which allows the user a specific reaction to an advertisement which may result in a conversion, whether it is a purchase, a registration for a membership or any other desired action. Another advantage is the possibility to measure the efficiency of all campaigns, so an improved return on investment regarding online marketing campaigns can be expected. Companies are therefore able to determine the costs per order, the cost per member (if member registration is required or anticipated), or other costs per action and compare it for example to the average value of the shopping cart. The conversions provide also a feedback according to the quality of the landing page, or the webpage as well as about the demand for the offered goods or services. A comparison of the average conversion rate with current industry standards, which may be provided by a specialized e-marketing subject, may be also a very good indicator about the overall competitiveness.

A greater degree of control over marketing campaigns is another advantage. E-marketing actions may be enhanced, altered, adjusted or limited, eventually fully stopped, if they are not effective, especially if they are run via standardized advertising networks, such as the Google Display Network, or search engines such as Google Search. It is important not only to control, but to learn from the information gained via e-marketing campaigns and to study the consumer behavior in order to understand it. The protection of data privacy must be however respected.

Affiliate programs are also an increasingly important source of high quality traffic in e-marketing. The partner (affiliate) promotes products or services of other companies (merchant) on his or a specific website. For every transaction or a sale, which has been generated through his advertising activities, he receives a commission [Lammenett, 2012].

Retention of current customers has the same significance as the efforts to gain new customers. One of the most valuable tools are newsletters, which should include also an offer, which "activates" dormant, or inactive customers. Attention should be however paid to the periodicity of newsletters. If the periodicity of newsletters is too frequent, customers may sign out from the newsletter and chances to communicate with them are being therefore limited. It is also important to follow legal requirements, such as the necessity to place a visible sign out button, and also to follow regularly current spam policies.

Social media represent an important change in the way internet is used and they have had an impact on e-marketing too. The author Lammenett states, that social media marketing is a form of the online marketing, which wants to achieve brand-

ing and sales aims through an engagement in one, or various so-called social media offers, [Lammenet, 2012].

Companies should however carefully plan their social media presence, which should offer more than a strictly commercial character. A skilled marketer should therefore be able, to link commercial content to non-commercial messages. In the long term, it is a platform to promote company goals, visions, ideas, so that customers associate the company or its products on conscious or subconscious level with a certain image or lifestyle. The interactive character of social networks such as Facebook opens also space for the customers or the general public to express themselves, or their opinions. This opens space for both – positive or negative feedback and an appropriate reaction to such expression may give companies opportunities to increase or decrease their image, so caution and a well thought approach respecting the best practices should be applied.

The creative aspect of e-marketing with a global reach is represented also by **viral marketing**. Kirby and Marsden state, that viral marketing describes any strategy that encourages individuals to pass on a marketing message to other, creating the potential for exponential growth in the message's exposure and influence. Like viruses, such strategies take advantage of rapid multiplication to explode the message to thousands, to millions [Kirby, Marsden, 2006].

Offline marketing campaigns are also important for e-commerce, even though they cannot be directly measured. They serve well also for the purpose of branding and are effective in the long term perspective. A skilled e-marketing manager is able to determine the optimal ratio between online and offline marketing campaigns.

3 Distribution and logistics as a key element of e-commerce

Distribution represents a significant aspect in B2C e-commerce. Distribution is directly or indirectly in contact with the market, therefore it should be flexible to adapt to new conditions and put all efforts in the efficient use of given market opportunities for the benefit of the distributor or the producer.

3.1 Direct vs. indirect distribution

The decisions according to distribution in e-commerce are linked to a number of specific factors. The first decision to be made is whether to address the market directly, or via a distribution intermediary. One of the advantages of e-commerce is the possibility to skip one or more distribution intermediaries and to access the market directly. According to Dent, in case of **direct distribution** the supplier owns and manages all the resources in the value chain through to the customer (or a particular set of customers). Companies employing this model have multiplied since the internet enabled online direct distribution [Dent, 2011].

Some companies may decide therefore to enter the e-commerce directly, for instance those, who are new to the market and do not have any current distribution contracts or financial resources to open and maintain them, while others, mainly those

who have their own physical branches, or existing relations with other distribution intermediaries, have to carefully consider existing distribution contracts and proceed according to them. Therefore, many subjects who would like to enter e-commerce directly are bound for instance to existing relations with their "offline" distributors, because they do not wish to create a competition between the various distribution channels. Efficient existing "offline" distribution channels do not necessarily mean a disadvantage for e-commerce endeavors. Moreover, they may create space to strengthen the current cooperation, by using the existing logistics or adjusting it to meet e-commerce requirements and they allow also to share the marketing costs and to use the local knowledge of the distributor.

On the other hand, large companies with a wide, standalone assortment or producers of unique goods and services (such as handmade products, or highly qualified services), or small and middle enterprises which prefer to have a nationwide or international presence on the market, may choose their own e-commerce distribution channels. This allows them to exercise a greater control over their marketing and distribution activities and an increased profit margin which may be invested into the further development of various business areas. Such step should be however taken, only when e-commerce is the exclusive distribution channel and the real and potential gains surpass the benefits of indirect, eventually "offline" distribution. Prior to such a decision, a market research has to be conducted, determining whether the sole distribution via the own e-commerce channel is able to access and satisfy the needs of the selected market segment more efficiently than an indirect distribution.

A **combination of direct and indirect distribution** in B2C e-commerce may be under certain conditions, such as a clear pricing and marketing agreements, also possible. The factor, which enables to distinguish the various channels, may be for example the assortment, where each channel offers a different assortment (eventually also a different price level) of a certain producer or distributor, under prior agreed conditions. Other simultaneous distribution channels may be also an outlet for special goods, or it may represent a valuable opportunity to perform further market tests.

3.2 Logistics

E-commerce offers also a chance to overcome geographic barriers via efficient logistics, so that customers in distant regions can benefit from a wider assortment. Logistics can be considered as one of the main factors of successful e-commerce, because they enable the flow of the goods and services from the seller to the customer and they can support, or contradict other elements of the marketing mix, because they literally "deliver" the consumer experience and they have a direct impact on the perceived quality performance of an e-commerce seller.

Logistic functions need to count with certain **specifics and challenges brought up by e-commerce**. The authors Vahrenkamp and Kotzab state, that a central challenge for the distribution logistics is the emergence of additional packets. It is defined by a clear tendency towards fast packets, divided into small sections. This "atomization" of the parcel scale represents high requirements on the flexibility and the speed of transport. Also, the number of returned goods is increasing significantly. The time slots for the supplies, especially for direct deliveries are becoming more important. The

big challenge is in the adjustment or in the new creation of distribution systems in light of the requirements arisen by e-commerce [Vahrenkamp, Kotzab, 2012].

Technical advancements to meet the new challenges created by e-commerce are therefore the key to successful logistic operations. According to the author Gudehus, the use of modern information technology in the logistics, the so-called **e-logistics**, offers opportunities such as: A reduction of the transaction costs for the placing of orders and the information exchange via EDI or the internet; the exchange of complete master file data about articles and orders between the suppliers and the recipient; the simplification and acceleration of the order history between the industry and commerce via electronic ordering, order confirmation and invoice issuing; automatic replenishment from the suppliers on basis of agreed delivery competences, delivery times and delivery quantities (Efficient consumer response ECR and Continuous Replenishment CRP); the creation of systems for tracking and tracing, for example via RFID; the creation of efficient quality management on the basis of the systematic recording of quality defects [Gudehus, 2010].

The make or buy question is perhaps the most obvious in **logistics** and it is crucial especially for small and middle enterprises. It includes questions regarding transportation, warehousing, the creation of assortment, packaging and also regarding system and data processes between the company, its supplier as well as the end-user.

For the **outsourcing of logistics** are important and prevailing such factors as: the decrease of overall logistic costs, the decrease of investments, the reduction of fix costs groups in a company, the use of benefits regarding labor costs, the concentration of company resources on core activities [Daño, Kita, 2009].

Some companies perform solely intermediary activities in e-commerce, i.e. they focus exclusively on the marketing of the offered goods and the customer service, but they are not specialized in logistics, which is outsourced. Companies with existing physical branches can benefit also from e-commerce, when they offer the possibility to pick up the ordered goods directly at the shop, or if they engage in cooperation with parcel services to increase their delivery radius.

The creation of an assortment in accordance to a customer order proves to be an elemental factor, together with the need of faster delivery times, which opens the question according to the available stock. Companies must decide whether to buy a sufficient number of goods in advance, so they can be shipped as soon as possible, or whether to prefer a better liquidity and order the goods only after an order request of the customer. In case of an incomplete delivery, or a shipment with a wrong assortment, or in the case of backorders which force the customer to wait longer for his or her goods, the customer may reject or return his or her ordered goods and an e-commerce company may suffer a loss due to already occurred logistic costs.

Transportation, i. e. the physical movement of the shipment from the warehouse to the end-user requires a high degree of flexibility and reliability to ensure, that no goods are harmed during the transportation process. The companies may rely either on their own transport capacities, or outsource the services, usually via parcel services. **Parcel services** benefit greatly from the e-commerce boom, because they are usually the preferred means of transportation. They offer a wide range of services that enable to track the shipment, or to obtain securely the money paid by the customer. They may provide also short-term warehousing services, for example if a cus-

tomer alters his or her date of pickup, so they significantly contribute towards the quality of logistics perceived by the customer. The **European Commission** has also acknowledged the importance of parcel services as the basis for the development of efficient, competitive and prospective e-commerce. It has therefore issued a **Green paper on an integrated parcel delivery market for the growth of e-commerce in the EU**. This document describes the positive effects of a better delivery chain, which contributes towards cohesion – making e-commerce accessible to all citizens and businesses; which secures employment; boosts innovation; protects the environment; and improves the competitiveness of the European industry.

E-commerce companies in the B2C area have to consider also **reverse logistics**, for example returned or rejected goods, which may represent a mentionable share of the products sold in total, depending on the product group, such as clothes. Many customers do not have the chance to review the physical products and their impressions of the products online may not be compatible with their real life expectations. A certain group of customers, especially in the case of cash on delivery payment method or in case of very generous credit card conditions, tend to “overstretch” their personal budget, i.e. they order online impulsively a larger number of goods, but then fail to pay the due amount, because their insufficient funds. Logistic costs have however occurred and the e-commerce company has made a loss.

3.3 Supply chain management

The wide range of logistic functions used in B2C e-commerce favors the development of **supply chain management**.

It is defined by The Council of supply chain management professionals as the planning and management of all activities involved in sourcing and procurement, conversion and all logistics management activities. Importantly, it also includes coordination and collaboration with channel partners, which can be suppliers, intermediaries, third-party service providers and customers [Wisner, 2011].

Supply chain management can be considered as one of the key elements of success in e-commerce, because the integration of all inter- and intra-company processes into one seamless output that provides transparency (traceability), reliability, safety and efficiency (to save both, time and costs) may be the decisive factor in a highly competitive environment. With an increasing technological complexity and interdependency, companies must however master the **Big Data** issue in order to provide a service which offers a real added value to the customer.

Big data defines a situation in which data sets have grown to such enormous sizes that conventional information technologies can no longer effectively handle either the size of the data set or the scale and growth of the data set. In other words, the data set has grown so large that it is difficult to manage and even harder to garner value out of it [Ohlhorst, 2012].

It can be said, that in e-commerce, the initial input to the supply chain begins at the moment of the customer's order and the final output of an efficient supply chain management is the customer's satisfaction which should lead to another purchase.

Conclusion

E-commerce has become an important branch of the global economy, which has contributed towards the further development of marketing, logistics and information technology, resulting in more benefits for the consumers. The significance of e-commerce as a distribution channel in the area of B2C is reflected by its dynamic development. The increase of B2C sales in the year 2012 was 21,1% on global level, supported by the stable double digit growth of 18% in the European Union and also by the 7,5% rise in Slovakia. The role of e-commerce has been acknowledged also by international organizations. The European Commission has addressed e-commerce in the Electronic Commerce Directive 2000/31/EC and the OECD recognizes e-commerce as one of the factors to help the consumers to overcome the economic crisis. Another example for an initiative regarding the further improvement of this area is represented by the Green paper on an integrated parcel delivery market for the growth of e-commerce in the EU, issued by the European Commission.

The above mentioned growth speaks in favor of this distribution channel; however, companies which operate in B2C e-commerce should respect certain specifics in regards to the marketing mix. It should be at first determined, whether the products are suitable to be offered online. The compatibility between the distribution and the product should be used to maximize the effect of this distribution channel. The marketing communication should primarily focus on e-marketing, especially if a subject operates solely online, because it may benefit from the immediate reaction to its advertising, which may result in desired conversions. The benefits of e-marketing are in the ability to almost fully control the campaigns and to study in detail the behavior of the target customer segment. Due to the broad range of available information, prices have to be more transparent and a lower price level may be expected as a result of an immediate price comparison.

Distribution, especially logistics play a key role in B2C e-commerce. As for the distribution, many companies with brick and mortar shops have the opportunity to increase their market presence via e-commerce; however, they have to adjust their logistic and technological capacity in order to meet the requirements of a higher demand. E-commerce enables companies, producers, or brands to skip one or even more distribution intermediaries, so they can save costs and exercise more control over the marketing mix. This approach should however consider eventual existing distribution relations, whether they are online, or offline, in order to create synergy effects, because a partnership with other distributors may allow improving the efficiency in logistics, to share the marketing costs and to use the market-specific knowledge of the distributors. The prerequisites of successful e-commerce operations are logistics, which have to cope with the increasing demand on speed, preciseness and flexibility in order to justify a customer's decision to order online. Companies need to decide, what range of logistic services is going to be the subject of outsourcing, in order to save costs and improve the efficiency. Reverse logistics have to be considered too, as returned or rejected goods are usually higher than in physical shops, depending on the respective product group. The need for efficient logistics boosts the development of supplier chain management, which is going to be in the future one of the decisive competitive factors in e-commerce. Another future area of interest in regards to e-commerce is m-commerce, which is expected to increase over the upcoming years.

Overall, the use of e-commerce as a distribution channel should be considered as a basic and inevitable prerequisite for any future business activities in the area of B2C and it can be seen also as a viable option for existing "offline" distribution channels.

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