University of Economics in Prague

Faculty of Business Administration

Master’s Thesis

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Faculty of Business Administration

Master’s Programme: International Management

Developing a business strategy to achieve sustainable competitive advantage for Trafin Oil, a.s.

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Declaration of Authenticity

I hereby declare that all the materials presented herein are my own work, or fully and specifically acknowledged wherever adapted from other sources.

Prague, 28 August 2012 ……………...…………..

Bc. Michał Noga

Acknowledgements

I would like to express my deep gratitude to the supervisor of this thesis Ing. Ladislav Tyll, MBA, Ph.D for his guidance and carefree approach that helped me shape my thesis into its final form. Further, I would like to heartfully thank Ing. Jan Hába and all staff members from Trafin Oil, a.s. for being extremely helpful and supportive whenever was necessary. Finally, I would, like to express my sincerest appreciation to my parents for their bottomless support throughout my studies.

Title of the Master's Thesis

Developing a business strategy to achieve sustainable competitive advantage for Trafin Oil, a.s.

Abstract

The objective of this thesis is to propose a business strategy that would result in sustainable competitive advantage for Trafin Oil, a.s. - a Czech company operating on the waste oil market. In order to accomplish the stated objective, extensive research has been performed into the existing body of literature on the subject. Frameworks for analysis of the competitive situation are presented and applied thoroughly in the practical part. Moreover, to better comprehend Trafin Oil, a.s. strategic position a customer survey was conducted and extensive interviewing took place. Based on the applied frameworks and the insights gathered throughout the research, the thesis delivers a strategy which rests on developing a unique strategic position and involves different sets of activities to deliver its value proposition. The strategy ought to guarantee higher collection stability and generate substantially higher profits.

Key Words

strategy, competition, competitive advantage, differentiation

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List of Acronyms

BU - business unit

CHP - combined heat and power

CHPs - combined heat and power units

CRM - customer relationship management

ČSÚ - český statistický úřad

EBIT - earnings before interests and taxes

ERU - *energetický regulační úřad*

FAME - fatty acid methyl esters

FI - firm infrastructure

HR - human resources

HQ - headquarters

IL - inbound logistics

IS - information systems

IT - information technology

M&S - marketing nd sales

OE - operational effectiveness

OL - outbound logistics

OPER - operations

P&L - profit and loss statement

PR. - procurement

RO - recycled oil

ROA - return on assets

ROE - return on equity

ROI - return on investments

STRATEX - strategic expenditures

TD - technology development

VC - value chain

WO - waste oil

WVO - waste vegetable oil

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Introduction

Achieving sustainable competitive advantage in face of competition has been a major challenge for businesses for decades. Competition, it is argued, is one of society's most powerful forces for improving the status quo (Porter, 2008). It is pervasive, ubiquitous and has intensified in nearly all domains over the last several decades. In order to survive, organizations are pushed to compete and must deliver value. Additionally, they must do so efficiently.

The principal goal of my thesis is to develop a strategy for a selected company that would effectively help create value in a sustainable way. To do so, I choose to work with frameworks suggested by Michael Porter, who is a giant in the field of competition and strategy.

According to Michael Porter, every company needs a strategy to deliver superior value to its customers. Superior value is achieved by strategic positioning within the industry and is linked to competitive advantage. Competitive advantage can arise from many sources and can be traced to specific activities and the ways activities relate to each other. Consequently, the impact of individual activities has a visible linkage to the profit and loss statement (Porter, 1998).

Evidently, there is many other attempts to explain competitive advantage; strengths and weaknesses, key success factors, dynamic capabilities, or distinctive competencies - all rightly recognize that a firm is multidimensional, yet offer very little way to explore the sources of competitive advantage systematically and rigorously, much less link them profitability. For me, such attempts fail to reach deeper and recognize the principle of strategy which is, as I understand it, something that a company does, rather than have. Additionally, Henry Mintzberg (2003, p. 81) captures my point by stating that "*... a strategy is a set of objectives, policies, and plans that, taken together, define the scope of the enterprise and its approach to survival and success.*" This definition clearly focuses on the decision-making process by which you establish strategy; it does not focus on strategy's contents. There have been further opinions that point out to the multiheadedness of strategy. Hax and Majluf (1995) stated nine different dimensions of strategy and pointed out to the broadness and multidimensionality of strategy which can slowly exhaust its meaning.[1]

I choose to work with Porter because his understanding of strategy and competitive advantage is very fundamental. Porter's frameworks built on simple relationships that are almost like physics; for higher profits, you need higher price or lower costs; there are five forces that drive competition; firm is a collection of linked activities. In my opinion, these frameworks have power to provide basic logic that helps tap on the elusive matter of competition and strategy.

[1] The nine dimensions of strategy can be found in the appendix

Role of Analysis in Strategy Development

Despite the common criticism of analytically-rational approaches to strategy development (Mintzberg, 2003), this diploma thesis emphasizes the analytical process used for strategy development. Undoubtedly, creativity, spontaneity, and intuition are essential components of successful strategies, yet without systematic analysis strategy development is sensitive to random situational influences, such as individual convictions, current market situation and many others. Additionally, since strategy often originates from the minds of chief executives and senior managers (Grant, 2010), selected analytical tools prove to be much-needed aid for an external analyst, such as myself. However, it should be mentioned that presented concepts should always be treated complementarily to experience and intuition. This thesis is written with the intention to promote my personal belief, which is that analytical understanding of crucial business issues does not impair innovation or flexibility; on the contrary, it fuels and encourages it in the right direction.

1 Objective of the Thesis and Brief Walkthrough

1.1 Objective of the Thesis

The objective of the thesis is the assessment of the competitive situation of Trafin Oil, a.s. and development of sustainable business strategy. The process in the thesis is heavily based on Porter's theory, and stresses the analytical approach to strategy development. The greatest value of the thesis is the definition of strategy that should result in sustainable superior economic performance. Additionally, the utilization of selected frameworks proves to be an excellent tool for in-depth consideration of company's competitive position. The superior performance is the result of unique strategic positioning that protects the company from the impact of the five forces and sustainably manages to create value for its customers through performing different sets of activities.

It must be mentioned that the thesis does not focus on strategy execution, nor does it try to propose how to capture strategy in fifty words or less. The focus remains on the content of the strategy - on the description of the desirable position that should yield superior and sustainable results in the face of competition. However, I believe that execution and communication are inextricably linked to strategy. Therefore I shall offer advice as how to go around them once the strategy is developed in chapter *5*.

1.2 Idea in Brief

The essential entry point to establishing strategy is to understand industry and the competitive dynamics within that industry. As Porter puts it, the main job of any strategist is to understand and cope with competition (Porter, 2008, p. 3). The reason for that is simple. If there was no competition, there would be no need for strategy. It should be made clear that competition for profits goes much further than direct rivalry between competitors and includes additional four forces. The five forces framework is presented in the section *2.2.2* and explains the variances in the average profitability of industries and the implications for strategy from a wider perspective. It introduces the concepts of the bargaining power of buyers, the bargaining power of suppliers, the threat of new entrants, the threat of substitutes, and the intensity of rivalry among established competitors. It aids to understand the long-term profitability of an industry and helps influence the situation within that industry into a company's favour.

Company's relative (superior) profitability towards its rivals, however, is achieved by establishing lower costs or higher prices compared to its rivals.

"If you have a real competitive advantage, it means that compared with rivals, you operate at a lower cost, command a premium price, or both."(Porter, 1998)

Lower costs or higher prices originate from operational effectiveness or strategic positioning of the firm (Porter, 2008).

There is no doubt that all companies need to improve on their operational effectiveness, yet, Porter (2008) argues, such competition is extremely hard to win. Porter refers to it as a zero-sum competition, or competition to be the best. Relative profitability differences arise from unique strategic positioning. Competition to be unique ultimately yields more sustainable results than competition to be the best. The uniqueness of strategies originates from different value propositions and differently tailored value chains. Strategy becomes sustainable when trade-offs occur, i.e. a company chooses to bring certain unique aspects of value to its customers and sacrifices others. Such trade-offs need to be self-reinforcing across the value chain (and also value proposition) and must constitute a “fit”. Focus must also be placed on the continuity of strategy and the long-term perspective (Porter, 1996).

The logic above provides core analytical groundwork for developing sustainable competitive strategy and by itself is enough to do so. However, throughout the thesis I also reference other authors for their developments of Porter’s ideas or for alternative views on strategy.

I. THEORETICAL PART

2 Introduction to Theoretical Part

The first part of my thesis sets the core analytical framework selected for developing strategy. It heavily builds on Porter and therefore focuses on the industry structure and competitive positioning. It shows Porter's understanding of competition and strategy and helps explain his everlasting pursuit of why some companies are more profitable than others.

The theoretical part is divided into two subparts. The first subpart establishes correct understanding of the principal concepts in the field of strategy. This might seem needless, but I wholeheartedly believe it is a necessity since "strategy" is a term that is misused extremely often. The second subpart, lays down the essential tools for analysis of the competitive situation of a company. These tools are crucial for correct development of strategy as described by Porter.

2.1 Essential Concepts in Strategy

The main purpose of this section is to lay down the basics for understanding competition, competitive advantage and strategy. It is crucial that a correct mind-set is established. By doing so, I aim to remove any misconceptions that might arise in the further sections and therefore, deepen the understanding of the utilized methods.

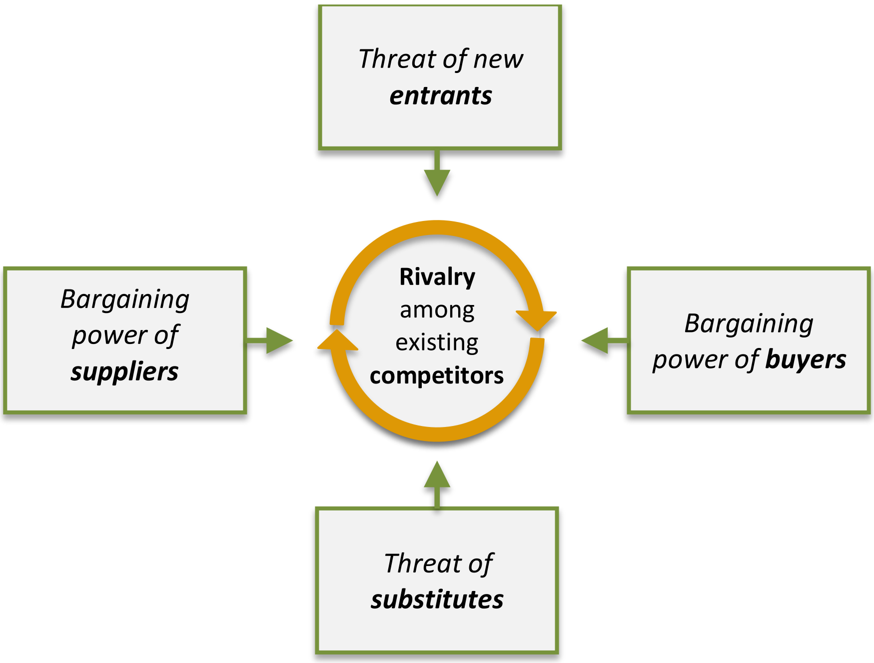
Throughout my research, I have found that there is a lot of ambiguity surrounding strategy. Such ambiguity stems mainly from the fact that many practitioners indulge in excessive misuse of the word „strategy" and concepts related to it. Jack Welch, the legendary CEO of GE proclaimed that GE's strategy was to be *number one* or *number two* in their business. For many start-ups, the strategy is „to grow", or differently, a CEO of software-development company stated that „Our strategy is our people".

Porter's definition of strategy is very specific, i.e. it distinguishes a bad strategy from a good one (Magretta, 2011). Not one of the above strategy formulations states how the company plans to outperform its competition. The formulations are merely statements of goals, aspirations or key actions and have little strategic value.

2.1.1 Competition

The goal of strategy is to lay down the path to superior performance when a company faces competition. Senior managers often compare competition to acts of warfare among rivals. Only the fittest survive, only the aggressive predators can dominate. However, such thinking is too narrow and consequently yields destruction. Competition for profits reaches much further to include: customers, suppliers, potential entrants and substitute products. These forces shape industry's structure and define the nature of competitive environment (Porter, 2008).

Figure 1: Forces Driving Industry Competition



Source: Porter, 1998

Focusing solely on being the best (i.e. competing to be the best) is deeply flawed and will lead to a flawed strategy that can result in mediocre performance. In business, there is space for multiple winners. There is no need to annihilate rivals. Competition should focus on meeting the needs of customers and since there are many needs that require serving, there are also many paths to success (Magretta, 2011).

In majority of industries there is no such thing as being the best. Being the best is a relative term, since customers are not the same. For every customer *best* means something different (e.g. is there a best burger?).

Furthermore, if established competitors wish to pursue the notion of being the best, they will inadvertently find themselves in a zero-sum race. Benchmarking will secure that the best practices are emulated. Profits will evaporate and the only way to win will be to make someone else loose. Over time, the differences between the key market players disappear[2] and companies start to look much more alike. Additionally, customers can suffer from higher prices or products with too many unnecessary features, suppliers will have to push their margins as producers get forced to cut costs.

I understand strategic competition as an attempt to choose path that is different than the path of rivals. Instead of competing to become the best, firms must compete to become unique. By doing so, firms do not require rivals to fail. On the contrary, there can be many winners. Business flourishes. This is referred to as a positive-sum race. Such uniqueness lies at the heart of competitive advantage (Magretta, 2011).

[2] The erosion of differences between rivals is referred to by Porter as „*competitive convergence*“ (Porter, 1996)

Table 1: Two Approaches to Competition

BE THE BEST	BE UNIQUE
Be number 1	*Earn higher returns*
Focus on market share	*Focus on profits*
Serve "best" customer with "best" product	*Meet diverse needs of target customers*
Compete by imitation	*Compete by innovation*
ZERO SUM A race that no one can win	**POSITIVE SUM** Multiple winners, many events

Source: Magretta, 2011,p 14.

2.1.2 Competitive Advantage and Concept of Sustainability

Competitive advantage is another term which is being misinterpreted on a daily basis. The general misconception is that competitive advantage is almost anything that gives a company an edge. It is a weapon against company's rivals. Unfortunately, this is also an incorrect way of understanding competitive advantage.

For Porter, competitive advantage is about creating superior value. It is not necessarily about outrunning rivals. Moreover, Porter is very specific as how to achieve superior value. Competitive advantage allows a firm to operate at lower cost, or command a higher price, or both (Porter, 1998). In a nutshell, these are the only ways in which a company can outperform another one. Logically, competitive advantage must be clearly traceable within company's P&L statement; otherwise it is nothing but a plain talk. These differences in costs and prices arise from a number of activities firms choose to perform as they compete. For strategy, it is crucial to work with these activities, since they directly impact costs and prices. They constitute a *value chain* (described in following sections) and are considered the basic unit of competitive advantage.

"Competitive advantage is a difference in relative price or relative costs that arises because of differences in the activities being performed" (Porter, 2008)

Competitive advantage is often mistaken for *operational effectiveness*. Operational effectiveness stands for performing activities faster, with less demand on inputs or with fewer defects than rivals. Japanese companies (especially car makers) in the 1970s perfectly demonstrated the enormous advantages companies can scoop up if they improve on operational effectiveness[3] (Porter, 1996). From competitive perspective however, this brings

[3] Stress on practices such as: total quality management or continuous improvement (kaizen)

very little relative advantage in longer term. Yes, the emulation of best practices brings absolute improvements in operational effectiveness (more value for less costs), but it does not bring relative improvement for anybody. The more benchmarking takes place, the more competitive convergence there is.

So, increasing operational effectiveness does not automatically create substantial competitive advantage as best practices disperse quickly. Such competition creates conditions where, metaphorically speaking, everybody has to run faster just to stay in place.

A company can achieve higher profits over its rivals in one of two ways:

- **Cost leadership** (supplying an identical product at a lower cost)
- **Differentiation** (supplying a differentiated product for a premium price) (Grant, 2010)

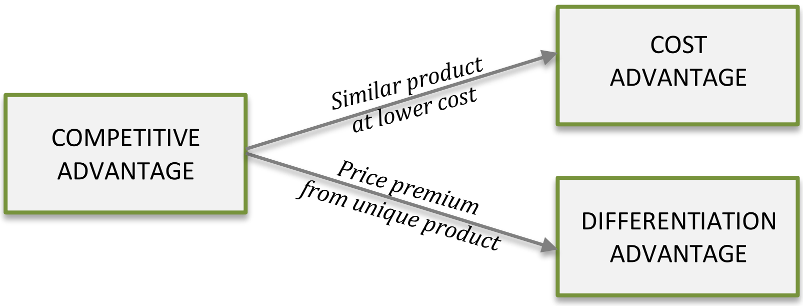
The former represents a cost advantage; the latter, a differentiation advantage. Should a firm pursue cost advantage, the goal is to become the cost leader in its industry (or segment).

„*Low-cost producers typically sell a standard, or no frills, product and place considerable emphasis on reaping scale or absolute cost advantages from all sources*" (Porter, 1998, p. 13*)*. Should a firm choose to sustain the position of a cost leader, it must retain the position of the above-average performer and will command prices at or near industry average. If an industry contains more than just one cost-leader aspiring candidates, the competition among them will most likely be fierce as every customer is viewed as crucial. Aspiring cost-leader must signal his ambition; otherwise the results may be disastrous (Porter, 1998, p. 13).

The basis for differentiation is the multitude of specific needs (or dimensions) that a certain group of customers value deeply. A firm selects one or more dimensions that the buyers perceive as valuable and positions itself in a unique way to answer these needs. The ability to command a higher price is at the core of successful differentiation.

In my thesis I choose to work with the concept of differentiation for two reasons. First, in the selected industry it is very difficult to perform in-depth cost analysis of competition and the role of a cost-leader is essentially taken by the biggest company. Second, differentiation will fit perfectly for the chosen company and the market situation it finds itself in. I will devote more space to differentiation when describing value chain in the further sections.

Figure 2: Sources of Competitive Advantage



Source: Author; based on Grant, 2010, p. 223

As soon as competitive advantage is established, it becomes subject to erosion by competition. The extent to which competitive advantage is compromised depends on the ability of rival firms to challenge it either by innovation (industry evolution) or imitation (Grant, 2010). For competitive advantage to be maintained over time, barriers to imitation must be present. However no barrier is ever insurmountable. Any company must continuously improve its strategic position. Such continuity will ensure sustainability of competitive advantage and will yield superior profitability in longer time horizons. I will discuss the tools for fending off rivals and achieving sustainability later on in the further chapters.

2.1.3 Strategy

The essence of strategy is choosing what not to do.

Michael Porter

In the last two decades managers face ever tougher competition. Response time to market changes diminished and the only way to keep up was to benchmark continuously to emulate best practices and protect core competencies (Prahald and Hamel, 1990). In such context Porter's idea of strategic positioning might seem outdated as almost any market position is copied easily (competitive advantage is at best short-term).

However, this is not entirely truth. Yes, there are barriers to competition that are being destroyed and, yes, companies did invest heavily in becoming leaner and more adaptable. But so-called hypercompetition is a result of companies heading down the path of mutually destructive competition. Porter argues (2008) that the root cause of the problem is the inability to recognize the difference between operational effectiveness and strategy. The ever-lasting pursuit of productivity and quality gave birth to a number of management tools and techniques, which generally brought about dramatic operational improvements, but failed to turn them into sustainable profits. "*And bit by bit, almost imperceptibly, management tools* *have taken the place of strategy. as managers push to improve on all fronts they move farther away from viable competitive positions*” (Porter, 1996).

Operational effectiveness should by no means be underestimated, as it is crucial for high profitability. However, it works very differently from strategy. I could not agree more that differences in operational effectiveness are a substantial source of variances in profitability among rivals as they impact the relative cost positions and differentiation. But, as was mentioned earlier, best practices diffuse easily and competitive convergence takes place (Porter, 2008). *“Driven by performance pressures but lacking strategic vision, company after company has had no better idea than to buy up its rivals."* (Porter, 1996).

“Operational effectiveness is not a strategy.” (Porter, 1996)

The cornerstone of strategy is about being different. Strategy is a deliberate selection of different sets of activities that deliver a unique blend of value to the customer. The core of strategy is in the activities. The definition of strategy according to Porter is:

“Strategy is the creation of a unique and valuable position, involving different sets of activities.” (Porter, 1996)

Early in his career Porter (1985) introduces the concept of generic strategies. These are:

- **Focus** (breadth and narrowness of buyers and their needs company chooses to serve)
- **Differentiation** (ability to command a premium price)
- **Cost leadership** (competition by offering lower relative price)

Table 2: Three Generic Strategies

THREE GENERIC STRATEGIES		*COMPETITIVE ADVANTAGE*	
		Low Cost	*Differentiation*
COMPETITIVE SCOPE	*Broad Target*	*1. **Cost Leadership***	*2. **Differentiation***
	Narrow Target	*3A. **Cost Focus***	*3B. **Differentiation Focus***

Source: Author; based on Porter, 1998, p. 12

Each of the above represents the elementary level of consistency a solid strategy must possess. In his later work Porter goes on to explain that a company can effectively integrate multiple themes in unique ways. Since customer’s needs are rarely one-dimensional, strategy will not be one-dimensional either. A company can tailor its value chain to fit multidimensionality without “getting stuck in the middle”[4] (Magretta, 2010).

The purpose of this section was to establish common understanding of strategy (as viewed by Porter) by explaining its key concepts. In the following chapters I aim to present the specific frameworks used for strategy analysis that later stand basis for assessment of the current strategic situation of Trafin Oil, a.s, and help develop competitive strategy. The next section focuses on the industry analysis.

2.2 Structural Analysis of Industry and Competition

This section explores the external environment of the firm. In-depth comprehension of the competitive environment is a critical factor of strategy on both corporate and business level. Since corporate strategy is more concerned with question of which industry the corporation ought to engage in, I shall write about business strategy - which focuses on establishing competitive advantage.

For the purpose of this thesis, I choose to adopt the economist’s definition of industry. The industry can therefore be defined in terms of the market where firms indulge in competition to sell a product (Grant, 2010). Such approach discards the typical concepts of industry boundaries, but will be absolutely sufficient given the nature of the selected firm and business it operates in.

2.2.1 Determinants of Industry Profit: Demand and Competition

The initial point in industry analysis takes form of a simple question. What is the determinant of the level of profit in the industry? The absolute necessity is the creation of value for the customer. Value exists when the customer pays for the product more than the expenditures of the company. If the competition among the producers of a given good is strong, more value is transformed into consumer surplus and less into producer’s surplus. The profits are, according to Grant (2010), determined by three factors:

- value the product brings to customers
- intensity of competition
- bargaining power of producers relative to their suppliers and buyers

Selected industry analysis, i.e. Porter’s five forces, beautifully captures all three factors into one analytical framework.

[4] Getting stuck in the middle - a concept describing a situation when a firms tries to be all things to all customers at once, and gets outrun by cost-leaders and differentiators (Porter, 1996)

2.2.2 Porter's Five Forces

The purpose of the five forces analysis is not to statically determine industry attractiveness, as many falsely believe (Teece, 2011), but to understand the competitive structure of the industry and carve out position that yields higher profits and is less susceptible to potential attacks and changes in the industry structure.

Further criticism addresses the outdatedness of Porter's framework and the inability to use it in contemporary business. Mr Larry Downes (1998) states that markets today are vastly influenced by technological progress, globalization and deregulation. Porter agrees with these arguments but tries to fix the common misconception that his framework is static. It takes an immediate snapshot of the industry but helps anticipate and take advantage of any structural changes. Also, in many industries hypercompetition is self-inflicted (as explained in the section "Strategy" above). Additionally:

- (De)regulation is only relevant to competition if it impacts one of the five forces (it impacts profitability)
- Technology progress (digitalization) works similarly; e.g. internet makes it easier for buyers to search for better prices, increasing their power and decreasing industry profitability

Despite the arguments, I choose to use five forces model since it perfectly matches the competitive situation of Trafin Oil, a.s. and will prove to be more than enough to develop differentiation strategy.

Sustainability of profitability in longer-term requires ability to strategically respond to competition. Majority of managers keep tabs on current activities of their direct rivals, but do not choose to look much further. Michael Porter in his timeless article from 1979 sheds new light on the matter by introducing four additional competitive forces that shape the profitability. All forces are:

- Buyer power
- Supplier power
- Threat of entry
- Threat of substitutes
- Industry rivalry

The analysis of the five forces paints the complete picture of what is influencing profitability in the industry. With such picture, managers can identify the game changers early and utilize them for their advantage. Furthermore, they can identify the caps on profitability or even reshape the forces in their favour. Let's take a look at every force in more detail since precise understanding of the profitability dynamics within the industry is crucial.

Each of the forces has a direct and predictable relation to industry profitability. The general rule says that the more strength the force has, the more impact it has on prices and-or costs, and consequently the less appealing it is for the market players (Magretta, 2010).

Table 3: How Each of the Five Forces Work

	THE FORCE		IMPACT		WHY				
	threat of entry	↑		↓		*Prices*	↓	*Costs*	↑
	supplier power	↑		↓		*Costs*	↑		
IF	***buyer power***	↑	PROFITABILITY	↓	BECAUSE	*Prices*	↓	*Costs*	↑
	substitutes	↑		↓		*Prices*	↓	*Costs*	↑
	rivalry	↑		↓		*Prices*	↓	*Costs*	↑

Source: Author; based on Magretta, 2010, p. 16

The forces provide the basis for determination of company's strengths and weaknesses and what is more, may lead managers towards fruitful strategic positions which may be based upon: positioning to better cope with competitive environment, anticipation and exploitation of shifts in the forces and shaping the forces to create more favourable industry structure. Remember, that excellent strategies put into use more than one of these possibilities (Porter, 2008)

Buyers

Powerful buyers have power to capture more value for themselves by forcing down prices, playing established rivals against one another or by demanding higher quality of the product. Excessive price sensitivity can result in forceful price reductions.

The negotiating power stems from:

- limited number of small buyers, that purchase large quantities of the product (offshore drilling, bulk chemicals)
- the product sold in the industry is undifferentiated (or standardized); simply said, vendors can look for better prices somewhere else
- low switching costs
- there is a risk that buyers will try to produce the product themselves; backward integration (depending on the level of profitability of the vendors)
- the product constitutes large fraction of the buyers costs – this will result in hard negotiations
- poor buyers lacking financial means

- products or services produced by buyers are affected only to a small extent by the product of the industry
- producers product has limited impact on buyer's other costs (Porter, 2008)

Suppliers

Power of suppliers can be determined by establishing how much value they capture for themselves by charging high prices, cutting quality of their products, or by shifting the industry costs upward. The problem emerges if industry participants are unable to justify the increasing costs by shifting them to the prices of their final products.

The supplier power to negotiate is reversely similar to that of buyers and mainly originates from:

- their concentration in the industry
- the supplier group does not depend too much on the sales generated by the industry
- switching costs for the producers are high
- the product of the suppliers is highly differentiated (pharmaceutical industry)
- there is no substitute for the product offered by the suppliers (pilot unions)
- the profitability of the industry may lure suppliers to integrate forward (Porter, 2008)

Substitutes

A substitute is a product that does the same function as industry's product in a different way. Porter mentions teleconferencing being a substitute product for travel, or an older example, mail is a substitute for express mail. Substitutes may sometimes be very hard to spot since they appear remote from the concerned industry. The profitability suffers when the threat of substitute product is eminent. Producers might fight against substitute products by offering high-performance products, more efficient marketing practices or differently.

The danger of a substitute product is high if:

- price-performance ratio offers a good trade-off to industry's product; e.g. Skype vs. long-distance telephone services
- the costs of switching to substitutes are low (shifts to generic drugs)

With substitutes it is not merely about buyer's costs. One example may be coffee and energy drinks – caffeine based drinks that offer a kick. Energy drinks are much more expensive, yet buyer's (consumers) are still willing to pay for them. This, I would argue is more evident in consumer's goods sectors where the intangibility of the product (brand, associated value etc.) is more important (Porter, 2008).

New Entrants

New entrants bring new capacity and vigour to gain market share. They influence the profitability by indirect restriction on prices. Higher price and margins attract newcomers and force incumbents to spend more on satisfaction of their customers; this creates a hurdle aspiring newcomers must overcome in order to compete within the industry (Porter, 2008).

The threat of entry depends on the surmountability of the entry barriers. If the threat[5] is high it holds down the profitability and vice versa. The entry barriers work in favour of incumbents and according to Porter (1998) can be linked to the seven following sources:

1. Supply-side economies of scale
2. Demand side benefits of scale
3. Customer switching costs
4. Capital requirements
5. Incumbency advantages independent of size
6. Unequal access to distribution channels
7. Restrictive government policy

The above should always be measured and assessed against the ambition of the potential entrant (start-ups, integrators from other industries etc.). Furthermore, the ambitious entrant should also take into account the possibility of retaliation from the side of incumbents.

The fear of retaliation increases if:

- there has been previous incidents of aggressive retaliation
- considerable resource base for counter-attack (cash, excess capacity, borrowing possibilities etc.)
- slow industry growth pushes newcomers to fight directly with incumbents (Grant, 2010)

Rivalry

High rivalry among incumbents limits the profitability of the industry. It can take form of a number of familiar techniques, such as price discounting, new products development, marketing campaigns, and product improvements. The impact of the rivalry depends on the intensity and basis of the competition.

The level of rivalry is high if:

[5] It should be stressed that it is the ubiqutous **threat** of potential new entrants, not if the entry occurs

- the number of competitors is high and they are approximately equal in size
- slow growth will initiate a fight for market share
- exit barriers are too high; specialized assets or management's devotion can be examples; such barriers force incumbents to stay despite negative returns burdening industry with excess capacities
- reason for running company goes beyond profits (high commitment, prestige, ego rivalry etc.)
- incorrect readings of the market signals; different goals or diverse ways of competing (Porter, 2008)

Rivalry becomes truly destructive when it revolves around price. Competing on price is easy to see and match and will result in value being transferred directly to customers. Price competition usually occurs when:

- the products on the market are nearly identical
- fixed costs are high and marginal costs are low
- there is a need for large capacity expansions to sustain efficiency; such expansions wreck the supply-demand balance and can lead to periods of overcapacity and consequent price cutting
- the product is perishable; cutting prices to sell soon-to-be rotten fruits, fill up free capacity or sell older pieces of equipment

Rivalry on dimensions such as: features, brand image, delivery times is much more effective, since it is less likely to eat up industry's profitability. Additionally, such competition increases the product's value against substitution and raises barriers for aspiring new-comers. However, one should remember that if all competitors choose to compete on one dimension, they will find themselves stuck in a zero-sum race. When rivals choose to serve different customers with different needs, the profitability of the industry may even increase, and the rivalry becomes positive-sum.

Common pitfalls

The most common pitfall in assessing industry's profitability is mistaking the most evident attributes for components of industry structure. It would be a failure to rely solely on the following to determine prospects of industry's profitability: industry growth rate, governmental environment, technology and innovation, complementarity. That is not to say they should not be examined; only that they are not necessarily good or bad for the profitability.

To repeat, the five forces framework not only gives us a snapshot of the industry competitive environment at a certain point in time, but also helps us predict the changes in the industry structure over time. Such developments can be abrupt and have powerful impact on the profitability. Their swift realization can be an opportunity to spot and claim new promising strategic positions. This notion shall be analysed in the analytical part of the diploma thesis.

2.2.3 Competitor Analysis

Grant (2010) argues that the dominant feature of a company's competitive environment is the behaviour of the nearest rivals. The general framework for analysing competition has been introduced by Porter in his book *Competitive Strategy*. The framework consists of four parts.

Figure 3: Framework for Competitor Analysis

Source: Author, based on Grant, 2010, p. 106

Every company keeps tabs on competition. Such process of collection of information about competition can be categorized as competitive intelligence. Apart from continuous collection of competitive intelligence, the above framework gives us a systematic approach that tells us what to search for when analysing competition, and how to use it. The goal is to understand firm's rival by looking at:

- **Competitor's contemporary strategy** - helps us understand competitor's behaviour in the future
- **Competitor's objectives** - help us comprehend how competitors change their strategy given changing market dynamics; the main question is whether the competition is driven by financial goals (profitability) or market goals (market share); the latter will result in much more intense competition

- **Competitor's assumptions about the industry -** these underline strategic decisions made by the competitor; they capture beliefs intuition about market's key success factors; furthermore; such assumptions converge into what J. C. Spender (1989) described as "industry recipes" that can culminate into dominant approaches
- **Competitor's resources and capabilities -** assessment of potential seriousness of competitor's attack is crucial for strategic decisions; such analysis should help avoid unwise decisions to attack the competition where they are strong and establish weak points where the fight could eventually take place

Putting these four factors together constitutes competitor's response profile. Such profile helps us understand competitor's counter-action to our strategy. The competitor can attain defensive or offensive stance (Grant, 2010).

2.3 Analysis of the Firm and Its Competitive Advantage

This section aims to build on the concept of competitive advantage introduced earlier in the thesis by identifying activities contributing to differentiation. The purpose is to analyse the potential sources of competitive advantage and to be able to achieve sustainable competitive advantage by performing activities that are different from rivals, or performing similar activities in different manners. The idea here is simple: strategic choices within the firm aim to move relative prices or relative costs in firm's favour. Subsequently, it is the difference between the two that matters. Companies such as BMW or Apple choose to increase prices more than they increased costs, conversely, companies like IKEA or Southwest Airlines choose to lower costs more than the prices. Managers have to try to think in such terms to quantifiably and specifically assess the economic grounds for strategy (Magretta, 2011).

2.3.1 Value Chain and Link to Differentiation

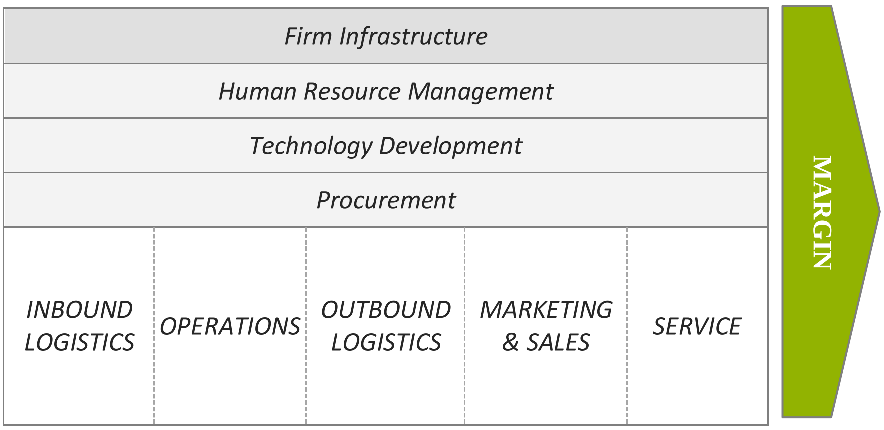
Every cost or price difference arises from hundreds of activities firms choose to perform. These activities build up the value chain. Activity in the context of value chain is defined as a discrete economic function that combines people, technology, working capital and information (Margretta, 2011). Porter (1985) claims that typical company structure, which is often based on traditional functional areas such as marketing, finance, human resources, is too broad for understanding competitive advantage. Additionally, managers may think in terms of skills, strengths or competences. These, on the other hand, can be too abstract and the impact they possess over costs or prices cannot be clearly established as they are often linked to an underlying number of discrete activities. Value chains among competitors often differ - these differences are the main sources of competitive advantage. To establish sources of competitive advantage, value chain is often compared against industry`s value chain (McLarty, 2005).

Value chain is the sequence of activities firm performs to deliver its product to the market. Its role is to understand costs and establish sources of differentiation (Magretta, 2011).

"The value chain disaggregates a firm into its strategically relevant activities in order to understand the behaviour of costs and the existing and potential sources of differentiation." (Porter, 1998)

Value chain consists of nine generic inter-linked categories (sets of activities). The generic version is depicted below - it displays the value chain which consists of value activities and margin. Margin is the difference between the total value and the costs that constitute the activities. Porter divides the value activities into two types: *primary* activities and *support* activities. Primary activities are physically involved in the creation of the product as well as in the transfer of the product. Support activities play a supportive role to primary activities by providing inputs, human resources, technology, or other functions.

Figure 4: Value Chain



Source: Author; based on Porter, 1985, p. 37

Activities within each category play three roles in competitive advantage:

- **Direct** - activities directly involved in creating value for the buyer
- **Indirect** - activities that enable continuity of direct activity (maintenance, administration of sales force or research etc.)
- **Quality assurance** - activities with main role to ensure certain quality levels of other activities

It is crucial to distinguish between the different types of activities, since they have become a significant portion of costs and play an important role in differentiation. The appropriate level of disaggregation should be based on isolation that is based on the fact that activities have different economics, high potential impact on differentiation or represent a considerable increasing proportion of costs.

Linkages

Basic activities are linked together into an interdependent system via linkages. Linkage is an impact of one activity on a performance or costs of another one. Linkages can bring competitive advantage in two-fold: by optimization or coordination (Porter, 1998). Linkages are tightly connected to trade-offs, e.g. optimization can be understood as emphasis on higher quality requirements, which will result in lower service costs. Coordination impacts costs and differentiation. An example can be on-time delivery, which requires other value activities such as outbound logistics.

Linkages are important since they go behind the obvious logic - only value activities can lower costs. Generic origins of linkages are: same functions can be performed differently, the performance (or costs) in direct activities can be improved by bigger emphasis on indirect activities, activities within the firm substantially reduce the need to interfere with the product externally (greater quality control reduces the need of servicing), quality assurance can be done in different ways (in or post-process inspections). Information systems are a great way to capitalize on linkages. The realization of linkages and their consequent management can result in sustainable competitive advantage (Porter, 1998).

Differentiation

Differentiation emerges when a firm distinguishes itself from competitors by bringing something unique and valuable to the buyer. Differentiation can arise anywhere in the value chain and is not narrowly linked to one activity or only to a product itself.

"Differentiation allows the firm to command a premium price, to sell more of its product at a given price, or to gain equivalent benefits such as greater buyer loyalty during cyclical or seasonal downturns." (Porter 1985)

Differentiation is painfully difficult to comprehend by looking at the firm in aggregate. I shall repeat that it originates from the basic activities that constitute the firm's value chain. Differentiation rests on activities that are unique. This uniqueness can be linked to the following (ranked based on the prominence):

1. **Policy choices** - are basically the decisions company takes about its activities; typically they include: product features, employed technology, quality of inputs, skill required to perform the activity etc.
2. **Linkages** - are discussed in detail in the above sections
3. **Timing** - decision about beginnings of activities (first-movers, late-movers)
4. **Location** - convenience of locations
5. **Interrelationships** - sharing activities mainly within holdings or sister businesses

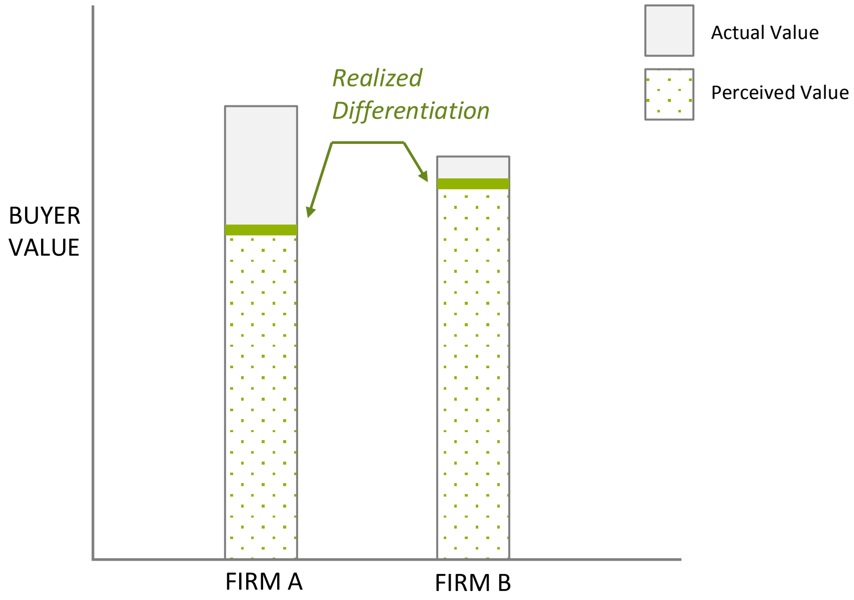
6. **Learning and spill-overs** - can result in copying best-practices or simply put, learning how to perform an activity better
7. **Integration or de-integration** - level of integration within the industry
8. **Scale** - allows to exploit potential of economies of scale
9. **Institutional Factors** (Porter, 1998)

Differentiation of an activity usually impacts its cost base usually by making it costlier. Not always, however[6]. Therefore, it has important competitive implications. Porter (1998) argues that if achieving differentiation happens simultaneously with reducing costs firm has not yet fully exploited the opportunities to lower its costs, or the uniqueness of the activity was previously considered unattractive, or a significant innovation emerged which competitors have not yet adopted.

A firm can justify premium price if it brings value to the customer by lowering their costs (lower delivery times, lower risk of failure etc.) or raising their performance. The logic is the same for consumers but the analysis is a bit more obscure. Buyer value is extremely important and firm's differentiation must relate to it. In other words, firm's value chain must impact the activities within buyer's value chain. This depends on the realization how the firm's product is actually used by the buyer. Every point of clash between the chains involves a potential source of differentiation. Yet, buyers often fail to recognize the full implication of how a product can lower their costs or improve performance. It is important to mention that buyers are in context of Trafin Oil, a.s. the suppliers of the waste oil. They are the customers for the service of waste disposal, which they do not pay for in cash, but in the product and its brute margin.

[6] Integration may result in lowering the cost of an activity

Figure 5: Actual vs Perceived Value



Source: Author; based on Porter, 1998, p. 140

Furthermore, it is absolutely crucial who the real buyer is. The real buyer is the person who makes the decision about the purchase based on the purchasing criteria (Porter, 1998). Purchase criteria are divided into:

- **Use criteria** - actual impact on buyer's costs or performance (product quality, features, perceived status etc.)
- **Signalling criteria** - signalling value by influencing means by which the buyer judges the value of the product or service (cumulative advertising, reputation, market share or segment)

"Use criteria are specific measures of what creates buyer value. Signalling criteria are measures of how buyers perceive the presence of value" (Porter, 1998)

For the development of a meaningful differentiation strategy it is absolutely essential to identify use criteria precisely. For some use criteria a company has to meet only the threshold level of value and the buyer will be satisfied. For others, the value must be higher. However, almost all use criteria follow the law of diminishing returns and extra improvements might actually reduce the value for the customer. Useful matrix for recognizing the impact of different use criteria is presented below.

Table 4: Measurability of Value

		MEASURABILITY OF VALUE	
		Readily Measurable	*Difficult to Measure*
SORCE OF VALUE	*Lower Buyer Cost*		
	Raise Buyer Performance		

Source: Porter, 1998, p. 145

Signalling criteria are identified by understanding how buyers form opinions about company`s ability to meet use criteria. Similarly, they should be defined as precisely as possible.

Individual buyers will most likely boast different sets of use and signalling criteria - that is why buyer segmentation is essential. I will return to segmentation in the later sections.

To sum up, after establishing differences in industry and company`s value chains typical steps in developing differentiation strategy are:

1. Determining who the real buyer is
2. Identification of the buyer's value chain and the impact on it
3. Determining and ranking purchase criteria
4. Assessment of existing and potential sources of differentiation
5. Identification of the cost of existing and potential sources of differentiation
6. Selection of the value activities that create the most valuable differentiation for the buyer (relative to costs of differentiation)
7. Test the chosen differentiation strategy for sustainability
8. Reduction of costs in activities that do not have an impact on the chosen form of differentiation (Porter, 1998)

Buyers should be divided into segments based on four criteria: purchasing needs versus company's capabilities, growth potential; their structural position (ability to exercise their bargaining power); cost of servicing. As we see later in the analytical part, company's current segmentation matches the above criteria very nicely.

2.3.2 Activity Systems

To visualize company's differentiating activities and their relationship to the value proposition and to each other, Porter suggests using activity system map.

It is a very simple tool that starts by identifying the core pillars of the value proposition. Then, it is suggested to determine the activities that are most characteristic, those that are responsible for creating value or those that generate significant costs. The activities should be then placed on the “map” (as shown below). If an activity impacts any of the core elements or affects a different activity, a link should be drawn between them.

Listed activities should be measured up against suggested strategy. Links to overall strategy and fit among linked activities should be revaluated and improved. An activity map helps come up with ideas about how to make strategy more sustainable. Since it is heavily based on the things you choose to do to differentiate yourself from the competition the newly discovered extensions may prove to be excruciatingly difficult to imitate (Porter and Siggelkow, 2008).

2.3.3 The Five Tests of a Good Strategy (Porter, Article What is Strategy)

To recap, strategy is the creation of a unique and valuable position, which involves a different set of activities. In the above sections, a framework for developing strategy that results in sustainable competitive advantage was suggested. Magretta (2011) summarizes the Porter’s frameworks to suggest five tests every good strategy needs to pass.

A. A distinctive value proposition
B. A tailored value chain
C. Trade-offs different from rivals
D. Fit across value chain
E. Continuity over time

These tests are an extension of the discussed theoretical framework and are described briefly below.

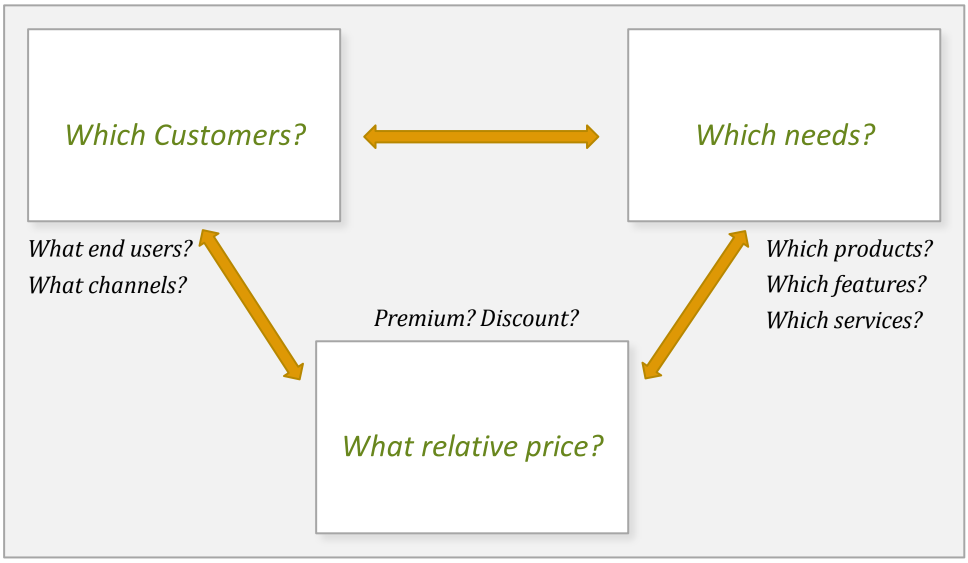
A. Distinctive value proposition

Choosing what to do (and what not to) to bring value to the customer is the essence of competing to be unique. The value proposition is inherently focused on the customer and is realized completely after answering to the three fundamental questions:

- Which **customers** will be served?
- Which **needs** are going to be met?

- What is the **relative price** that provides acceptable value to the customer and brings acceptable profits to the company?

Figure 6: Value Proposition Diagram



Source: Author; based on Magretta, 2011, p. 38

The distinct value proposition goes beyond Porter's revolutionary article from 1996 (*What is Strategy*) and extends his notion of the basic positioning based on variety, needs or access. The concept presented here has been elaborated by porter in a number of lectures and speeches throughout the last several years (Magretta, 2011).

Customers

Generally, a typical part of an industry analysis is customer segmentation. The proposed value can be aimed at a specific segment within the customer pool. Usually, the segments have different needs and are open for different prices. Thus, choosing a segment does always have an impact on the strategic positioning within the five forces.

Consumer segmentation usually revolves around the following:

- Geographic segmentation
- Demographic segmentation
- Psychographic segmentation
- Behavioural segmentation

In the thesis, I choose to work with geographic segmentation that focuses on access to the service the company provides (the same logic Trafin Oil, a.s. is already using). Furthermore, the real buyer, about who we learn later in the thesis, is an important concept in the analysis.

Needs

At times, the needs lead to the primary decisions which customers to serve. The strategy builds on unique sets of activities which meet the specific need. Furthermore, it is linked to a specific feature of a product or a service (Magretta, 2011). The customers are defined by a common need that opposes the common demographics (or infographics).

Relative price

Some value propositions will be based on the relative price, which, if relatively high, will most likely be linked to customers who are overserved. In such instances, the lower relative price may be dominant and sufficient for customers to migrate. The principle works the other way round. Underserved customers may be won over by enhanced features or service.

B. A tailored value chain

A unique value proposition can only transition into a solid strategy when the set of activities used to deliver it to the customer is different than that of the rivals. In this sense value chain is highly integrative. If it is not done so, every rival could simply copy your value proposition without any problem.

"Choices in the value proposition that limit what a company will do are essential to strategy because they create the opportunity to tailor activities in a way that best delivers that kind of value." (Magretta, 2011)

Positive-sum competition within the industry may stem from the variety of needs among diverse customers. The degree of robustness of a strategy depends on the level of tailoring. It is important to realize that value proposition is linked to value chain in a way that the value chain is focused internally on activities and value proposition focuses externally on the customer.

The pillar of competitive advantage is found within the activities firm chooses to perform in order to meet the value proposition. The activities should be different or performed differently compared to rivals.

C. Trade-offs

The two tests described above suggest that strategy is about making choices. The Online Oxford English Dictionary describes a trade-off as losing one aspect or a quality in return for gaining another aspect or a quality. Trade-offs play such an important role in developing strategy that Porter goes on to call them strategy's linchpin.

According to Magretta (2011), there are two deadly misconceptions about trade-offs. First is that more is better. The idea that trade-offs are a sign of weakness since more products, features, sales, customers will generate more profits is inherently flawed. Second, the hypercompetition disallows any sustainable competitive advantage since best practices diffuse and everything can be copied. This again holds very little truth, since it is again, competition to be the best with zero-sum results.

If strategy is about choice and trade-offs concern different configuration of activities within the value chain, it means that one configuration of activities is incompatible with the other. Simply put, if one path is chosen, the other cannot be pursued simultaneously without significant inefficiencies. Such configuration of activities that best delivers one particular kind of value, cannot deliver a different kind of value at all, or do so efficiently enough. The activities should be tailored for a specific kind of value. Over or under-design destroys value (Magretta, 2010).

Furthermore, it is crucial to examine company's current state of practices. Companies that lag behind in operational effectiveness, i.e. they fall behind in generic industry activities can improve the quality of their products simply by lowering waste or defect ratios. They do not necessarily face trade-offs. On the other hand, companies that strive to improve their quality and have reached industry's best practices can only do so by adding features or using better quality materials. Quality, in such sense is definitely not free and requires choice (Porter, 2008).

To sum up, real trade-offs keep competition and imitators distant. Competition will copy whatever is profitable unless trade-offs are in its way. Trade-offs can be defined as choices that assure sustainability in strategy and are difficult to neutralize or match. Everything can be copied, but if there is a trade-off, the imitator must sacrifice efficiency.

D. Fit across value chain

Excellent strategies rely on the linkages among activities. Earlier, it is discussed that choice to pursue unique value proposition delivered by a tailored value chain is linked to competitive advantage. If there are trade-offs regarding the choices, the strategy becomes sustainable and is protected from the competition. Fit, takes up the role of an amplifier that increases the power of both of the mentioned principles. It does so by raising customers' value (price) or by lowering their costs. Additionally, it strengthens the barriers to imitation (Magretta, 2011). The tailored activity choices enhance the value of other activities. There are three basic types of fit:

- **Basic consistency** - the alignment of activities with the value propositions contributes to the dominant theme; inconsistencies cancel out the cumulative effect
- **Synergy within activities -** the value of an activity is reinforced or complement by other activities
- **Substitution -** a choice to perform one activity makes it possible to eliminate another

All three types of fit are fairly common and they often go hand in hand with one another. In good strategies, they are complex and pervasive (Magretta, 2011). Fit makes it harder for the rivals to copy a successful strategy, since to imitate, rival needs to copy a whole cluster of interdependent activities. Porter summarizes the impact of fit onto imitation into following:

- aspiring imitators find it difficult to determine what they have to match; basic consistency is easy to spot, if however competitive advantage rest on a more complex fit, it is difficult for non-insiders to find out what to imitate
- in case of recognition of the crucial interconnections, rivals find themself facing an organizational challenge - fit resonates through integration of decisions and actions through functions, departments and work groups (Porter, 1996)

Porter closes his argument by presenting a mathematical example. An assumption that any unique activity can be matched in 90% of the cases is extended into systems of activities where matching more sequential activities means multiplication of the 90% probability. Interconnected system of five activities then results in 45% chance of successful imitation. Simply put, multiple barriers and obstacles lower the probability of a strategy being imitated.

E. Continuity over time

„Companies can change too much, and in the wrong ways."

Joan Magretta

The final test of strategy concerns continuity. The previous elements of strategy take time to develop. If there is no continuity, companies might find it difficult to achieve competitive advantage. Many argue that Porter is wrong and by setting strategy in stone companies impair their flexibility and ability to function in times of „disruptive" changes. It should be emphasised that making choices and defining limits does not by any means affect company's ability to cope with change. It is extremely rare that a great strategy is built on particularly concrete predictions. Furthermore, value propositions in long-term help think about the correct kind of innovations (Porter, 2008).

Continuity tests the stability of the core of the strategy by stressing the long-term importance of development of tailoring, trade-offs and fit. Continuity allows the constituent pieces to fall into places by:

- reinforcing company's identity by building company's brand, reputation and customer relationships
- helping external parties to contribute to company's competitive advantage

- fostering improvements in value chain activities and their fit; learning to develop tailored and unique capabilities and skills

Continuity is important since it helps to understand the firm's strategy and build culture that is hard to imitate. As was mentioned earlier, the importance is the stability in the core value proposition. Successful companies reinvent and innovate their methods and get better at the activities they choose to perform (they create more relevant value).

2.3.4 Isolating Mechanisms

The last part of theoretical part describes isolating mechanisms, which are nothing but impediments to imitation of a strategic position of a company. Porter (1980) defined mobility barriers as factors that allow firms within a group to earn relatively higher profits without the threat of entry into the industry. Rumelt (1984) extends the notion of mobility barrier into so-called *isolating mechanisms.* The process of competitive imitation helps identify the sources of isolating mechanisms. Successful imitation stems from four following conditions that build on the notions discussed in the above sections:

- **Identification -** essential starting point is the acknowledgement and identification of the competitive advantage possessed by a rival
- **Incentive -** conviction that investments into imitation will bring superior returns
- **Diagnosis -** diagnosis of the key features (activities and linkages) within the rival's strategy that give birth to and cultivate the competitive advantage
- **Resources acquisition -** the resources and capabilities crucial for imitation must be acquired through replication or transfer

Table 5: Isolating Mechanisms

REQUIREMENT FOR IMITATION		ISOLATING MECHANISM
Identification	→	*Obscure superior performance*
Incentives for imitation	→	***Deterrence**: signal aggressive intentions to imitators* ***Preemtion**: exploit all available investment opportunities*
Diagnosis	→	*- Rely on multiple sources of competitive advantage to create "**causal ambiguity**"* *- more complex and multidimensional firm's competitive advantage, the more difficult for rivals to identify the source of profits (Rumelt, Lipman)* *- casual ambiguity results in **uncertain imitability***
Resource acquisition	→	*Base competitive advantage on resources and capabilities that are **immobile** and **difficult to replicate***

Source: Author; based on Grant, 2010, p. 215

2.4 Research Methodology and its Shortcomings

One of the main reasons why it is important for Trafin Oil, a.s. to actively engage in creating sustainable competitive strategy is the fact that the market is becoming unstable. The main dimension on which rivals compete is price. To avoid the destructive nature of price wars, company has to differentiate itself from competition. According to Porter (2008) it can do so by developing a unique value proposition that is delivered to the customer by the means of a tailored value chain, involving different value activities. Hence, the objective of the thesis is:

The objective of the thesis is the assessment of the competitive situation of Trafin Oil, a.s. and development of sustainable business strategy

In order to fulfil the stated objective it is necessary perform a research from two perspectives. First, it is crucial to analyse the company in its competitive environment. Second, it is essential to determine customers' purchase criteria and needs, as they are a crucial ingredient in tailoring company's value chain.

Accordingly, the research process is divided into two parts. First part involves a secondary research (also known as desk research) which systematically reviews the industry, market and forces shaping competitive strategy. It summarizes basic facts about competition and creates competitive environment within which further analysis is developed. Main sources for the desk research are: Czech Statistical Office and other statistical offices (Index Mundi), Justice.cz (competitor analysis), companies�these websites, press releases , regulatory offices (ERU - *Energetický Regulační Úřad*), collections of laws, bills and directives.

Primary research is accomplished via several methods. Phone interviews are based on a short questionnaire which helps understand buyers purchase criteria and offers valuable insights into customers' true needs. Furthermore, operators work with company database and pay attention to links between attractiveness of location and volumes. The results are applied in further basic database research that links the gathered knowledge to customer's loyalty[7]. Additional research involves interviews with general management, drivers and company's sales force. The structures of the questionnaire and interviews are always built in relation to utilized theoretical frameworks. Customer survey revolved around three simple questions

- What was the underlying reason for your decision to start cooperating with us?
- What is our greatest value for your business?
- Tell us one thing we could improve at.

Shortcomings

Before jumping into the analytical part it is essential to understand the shortcomings of the research. The situation on the waste oil market is not well described and no specific competitive fields can be found. Looking at similar fields, such as CZ-NACE 20[8] may lead also to incorrect conclusions, as especially the growth ratios are misaligned (the incumbents are much bigger and the market grows more slowly). Furthermore, the competitive environment is built on the competitor data available from online resources and since there might be big differences in the ways competitors perform activities and account for them, the industry averages might also be skewed. Additionally, not all competitors have obligation to submit financials.

Further shortcomings are linked to the research performed by the operators. The questions were quick, brief and customers sometimes did not take enough time to answer the questions thoughtfully. Additionally, the respondents were in majority Trafin Oil, a.s. customers (with no specific links to any of the segments described in chapter 3.2.7). To be sure the research sample is not biased, I utilized an algorithm for random customer selection developed by company's IT specialists.

Furthermore, major chunk on the industry knowledge presented in the thesis is based on the interviews with company's general director. Of course, cross checking helped remove some biases at least to a certain extent, but 100% objectivity cannot be guaranteed.

[7] Loyalty is determined by regular collections and by „color" in company's database; color points to customer's relatonship to Trafin Oil, a.s.
[8] CZ-NACE 20 is an industry that focuses on production of chemicals and chemicals

II. ANALYTICAL PART

3 Introduction to Analytical Part

The goal of the above sections was to present the essential concepts of strategy and strategy analysis. The sections laid down the basics necessary for understanding strategy and competitive advantage as understood by Porter. These concepts are employed in the analytical part and play a principal role in strategy proposal in the last part of the diploma thesis.

Analytical part begins with a brief introduction with the company. External analysis follows afterwards and consists of a crucial industry definition, its overview and market analysis. Framework of Porter`s five forces is used to describe company`s competitive environment and determine its strategic position. Special attention is placed to the points, where the forces are the weakest. The analysis provides a crucial understanding for potential shifts in current strategic thinking towards more profitable and sustainable positions. Following sections describe factors necessary for correct comprehension of industry`s long-term dynamics and discuss possible shifts in established strategic positioning.

The second part deals with internal analysis and works especially with the concept of value chain. As explained earlier, value chain helps determine the source of current competitive advantage by linking it to activities that individually or together result in lower relative costs or higher relative prices. Together with the grounds laid down by the five forces analysis, value chain should help rethink current activities to achieve higher differentiation and therefore stronger, more profitable position. The nature of activities is adapted and linked to real buyer`s purchase criteria in such a way to increase differentiation.

Entire analysis is performed so the proposed strategy addresses the typical steps in developing differentiation strategy (Porter, 1998) and follows the five tests of a good strategy (Magretta ,2010).

3.1 Trafin Oil, a.s. - A Brief Description of the Company

Figure 7: Logo Trafin Oil, a.s.

Source: Company Internal Materials

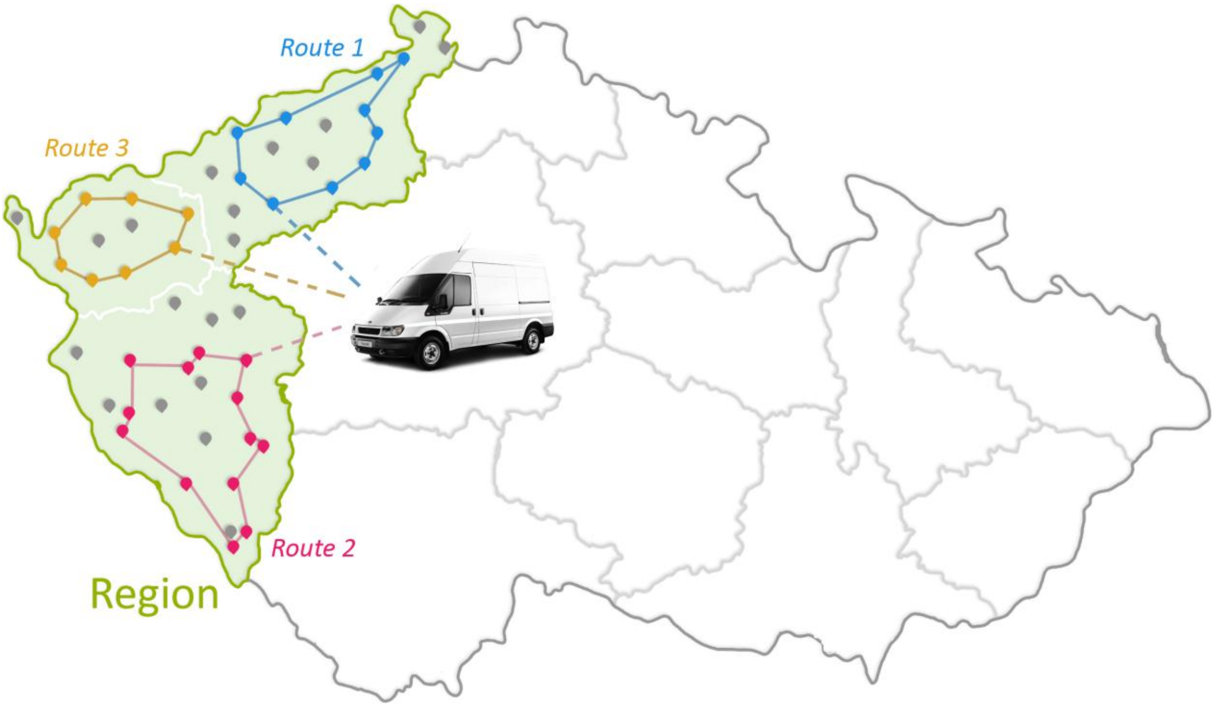
Company name:	**TRAFIN OIL, a. s**.
Residence:	Kopeční 1009/12, 71000 Ostrava-Slezská Ostrava
Legal form:	Joint-stock company
Capital:	2 000 000 Kč
Date of establishment:	January 17^{th}, 2007
Scope of business:	Waste disposal
Average employee count (2012):	**12 + 9**

Trafin Oil, a.s. is a company that focuses on collection of waste cooking oil, its purification and consequent sales. The waste oil is collected from catering premises (such as restaurants, pubs, fast foods) by company's drivers. The waste oil is then mechanically purified and sold to buyers for direct use (energy plants) or further refinement (production of biofuels).

The waste oil is collected from cooking premises into predetermined containers, which are usually provided by collection companies. After the barrel is filled up, it is collected by a pick-up truck and delivered to company's refinement plant. Waste oil is mechanically purified and distributed to buyers for further refinement (for biofuels) or direct processing (energy plants).

The primary service the company provides is the waste disposal. However, as we learn in the further sections, it did not always use to be like that. The legacy system pushes Trafin Oil, a.s. to provide combination replacement service, i.e. it provides the catering venue with clean oil, and takes away the waste. The best practices push market to provide extra low-quality merchandise with its service for almost zero margins. The service of waste collection (and merchandise supply) is done on regular basis depending on the speed at which the catering venue is able to fill up the 50-liter container.

Figure 8: Collection Diagram



Source: Author

At the moment, Trafin Oil, a.s. employs 12 people; 4 of which are engaged as operators, 5 in production, 1 in supply chain management, 1 in project manager and a general manager. Additionally, company employs 9 drivers - 8 of which are engaged in waste oil collections. The job of the last driver is to provide a link between the main inventory and local ones. Company has no clear-cut organizational structure and all people are capable of doing basically anything. This adds to company's flexibility, but also restricts it in certain ways. The company pushes open-door attitude and the general atmosphere is very friendly.

The collection of waste cooking oil creates value where previously were only costs. The product is created from the waste that is the outcome of utilization of the primary product (cooking oil) in the process of cooking. The clean cooking oil is produced with only one purpose - to be consumed. Secondary purpose is not accounted for. The waste created during cooking imposes direct or indirect costs not only on the cooking establishments, but also on the municipalities and sewerage operators. Catering venues need to get rid of the waste oil with minimum costs and effort. They often engage in activities of improper disposal, such as spilling the waste oil into drainage systems clogging up pipes and creating even more costs for themselves or for sewerage operators. Such engagements might influence their own profitability since clogged pipes are a figurative "bottleneck" in their processes and additionally bring further potential health hazards.

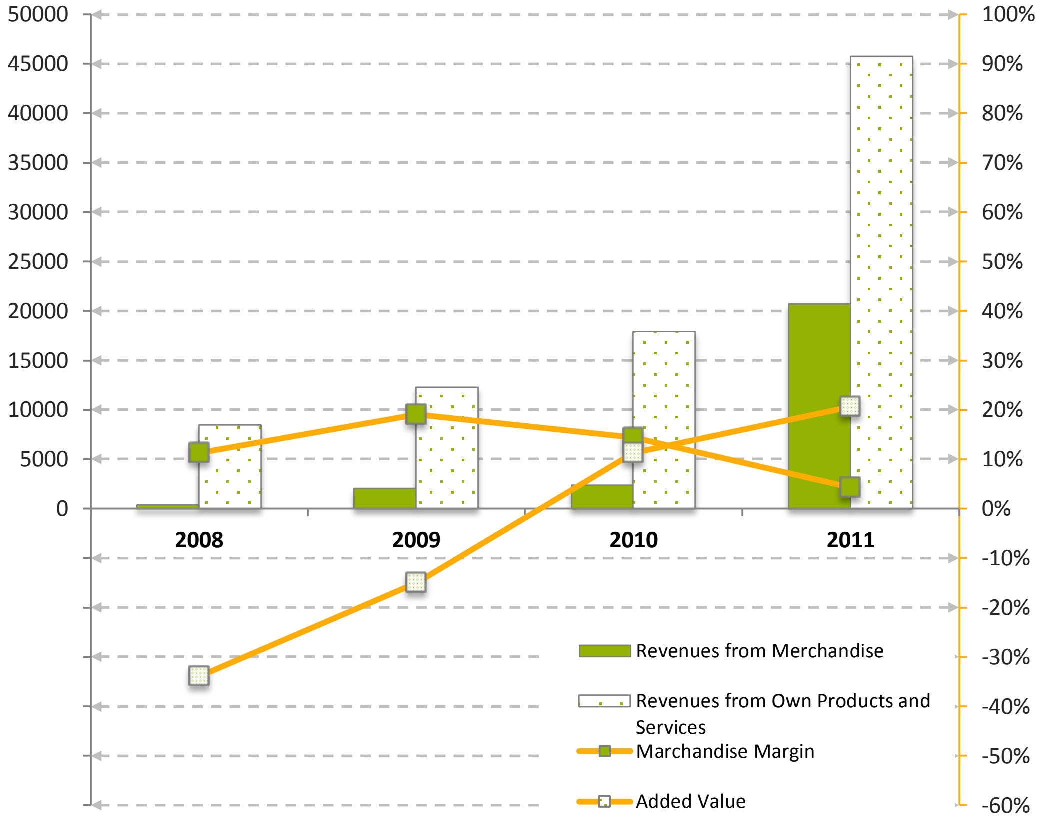
Trafin Oil, a.s. brings efficiency into the process and collects the oil for further - secondary - use. The efficiency is brought about by specialization on the collection process by lowering down the costs for cooking establishments and sewerage operators. The additional (more important) value is created in the process of mechanical refinement of the waste oil and its subsequent utilization in the energy sector.

3.1.1 History & Recent Developments

Trafin Oil, a.s. was established in January 2007 and managed to obtain waste permit in July in the same year. Due to difficulties the company encountered while building production plant, it could not start to operate until January 2008.

The operations initiated with great ambition. Company employed 10 drivers immediately from the beginning and started to collect waste oil. Trafin Oil, a.s. began by collecting 20 tonnes a month on average and soon realized that the collection business was not easy. 20 tonnes are simply not enough to make profits with such assets. It was evident that a major reorganization of its activities is an absolute necessity. Volumes started to pick up slowly but the results were still insufficient. The crisis of 2008-9 pushed the prices of recycled oil very low and caused a major blow to many collection companies, including Trafin Oil, a.s. The general director had to choose. Either he would give up or cut costs to minimum by major reestablishment of the key activities. He chose the latter and began from a scratch with only 3 employees and 3 drivers. The more efficient system was a success, though it had much lower potential to grow quickly. The experience of the general director proved priceless as he foresaw the success of active operators. These operators managed customers and organized collection routes. Also they were actively involved in acquiring new customers and were to a large extent responsible for acquisition of new customers. Up to date, Trafin Oil, a.s. has managed to reach a favourable market position by establishing itself as the second largest collector. Understandably, Trafin Oil, a.s. has ambitions that go much further. Some of them are discussed in to following paragraphs.

Figure 9: Historical Development of Revenues



Source: Author

3.1.2 Financial Assessment

Table 6: Financial Analysis Trafin Oil, a.s.

	2008	%	2009	%	2010	%	2011
PROFIT & LOSS							
Revenues from Merchandise	355	471%	2026	18%	2399	762%	20681
Revenues from Own Products and Services	8459	46%	12312	45%	17907	155%	45735
Merchandise Margin	40	868%	387	-11%	344	161%	899
Added Value	-2867	-36%	-1846	100%	2012	369%	9442
Profit Margin	-32%		-10%		12%		16%
Operating Profit	-7184	-59%	-2972	-98%	-72	100%	4814
Net Profit	-8079	-59%	-3287	100%	98	4034%	4051
EBIT	-7308	-58%	-3094	-104%	126	3200%	4158
BALANCE SHEET							
Assets							
Current Assets	2807	10%	3100	15%	3578	175%	9840
Inventory	1480	-23%	1145	23%	1403	61%	2253
Materials	499	28%	639	-15%	542	103%	1102
Merchandise	333	24%	412	16%	476	97%	938
Accounts Receivable	244	377%	1165	-59%	476	360%	2191
Fixed Assets	954	-21%	754	4%	782	23%	964
Other Assets	1506	-83%	259	-8%	238	1041%	2715
Cash and Cash Equivalents	580	-19%	468	164%	1237	283%	4737
Total assets	5267	-22%	4113	12%	4598	194%	13519
Liabilities and Owner's Equity							
Current Liabilities	14205	-89%	1545	42%	2188	197%	6490
Long-term Liabilities	0	-	0	-	0	-	0
Owner's Equity	-8991	100%	2379	4%	2478	164%	6530
Other Liabilities	189	-72%	53	-57%	23	2070%	499
Total Liabilities and Owner's Equity	5267	-22%	4113	14%	4689	188%	13519
EMPLOYEES							
RATIOS							
ROA	-139%		-75%		3%		31%
ROE	-		-130%		5%		64%
ROS	-83%		-22%		1%		6%
Value Added per Employee							
Current Ratio	0.20		2.01		1.64		1.52
Quick Ratio	0.06		1.06		0.78		1.07
Cash Ratio	0.04		0.30		0.57		0.73
Working Capital	-11398		1555		1390		3350
Debt Ratio	2.70		0.38		0.48		0.48
Times Interests Earned	-9.32		-15.40		-2.57		44.99
Inventory Turnover	5.96		12.52		14.47		29.48
Days in Inventory	60.45		28.75		24.87		12.21

Source: Author

The presented financial analysis beautifully captures the short history of Trafin Oil, a.s. The asset value increases throughout the whole analysed period, despite the negative profits in the first two years. The higher number hidden in current liabilities (category other liabilities) is caused by an investment from the side of Trafin Oil, a.s. investors. There is an increase in asset value in the last year. One of the reasons is that the market managed to shake down the aftermath of the crisis and the prices of rapeseed went up again. This was of course also linked to the law amendments of 2011 that increased the obligatory ratio of bio-components in biofuels to 6%. Another reason for such a jump was company's' focus on operational effectiveness, new customers and increased focus on sales of low-margin merchandise. Last year is also characteristic high amount of cash and cash equivalents. This is linked to the fact that the risk capital from the first year is being paid off. The rise in accounts receivable is attributed to the overall growth of the company and does not bear any special meaning. The increase in accounts receivable is underlain by the same reason.

The emphasis placed on acquiring new customers played an enormous role in the development of sales. Sales from own products grew steadily, and more than doubled in 2011. The positive fact is that Trafin Oil, a.s. despite the investments into structural reorganization managed to keep the value added quite high. It grew in parallel with costs. The opposite is true about sales generated by merchandise. The merchandise margin remained relatively low and brough in almost no direct profits. It should be repeated, that main purpose of merchandise is not to generate profits, but to retain the customer by creating seemingly higher switching costs. However, from the survey and from the interviews, the opinion on merchandise provided by waste collection companies, such as Trafin Oil, a.s., was highly controversial. Majority of customers did not care about it and considered it a nuisance.

The path towards operational excellency is also tangible in the ways inventory was managed. The inventory turnover ratio increases substantially and surpasses competitors. The same goes for days inventory assets are held in the company. An important fact is that the numbers improve dramatically even in the face of significant increases in sales. This shows company‘s realization of the importance of inventory management and its tendency to improve it.

Rentabilities are highly impaired in the first three years and are influenced by company's overall unfavourable position (operating profits are low, or negative). The fourth, most successful year is completely different and yields above average rentabilities.

The levels of liquidity correspond to the overall developments of the firm and reach sufficient levels (Sedláček, 2002) in the last three years. Some might argue that the levels are lower than suggested values, yet, we must keep in mind that the commodity Trafin Oil, a.s. operates with is very liquid and that allows company to be more aggressive.

3.1.3 Current Strategy Assessment

Trafin Oil, a.s. is a fairly young company which focuses on increasing volumes. This is understandable since the market is still settling down and, in the beginnings, held different characteristics. Margins were larger and profits were proportionate to volumes. Incumbents were fewer and achieved higher profitability simply by processing higher volumes. This philosophy stuck and even today all bigger players blindly pursue volumes. At the moment Trafin Oil, a.s. is not any different.

Volumes are achieved by establishing contractual partnerships with suppliers, which in such sense assume role of customers receiving service. In the beginnings, regular, high-volume customers (such as McDonald`s or KFC) were perceived as superior key strategic partners, which could guarantee stability, low collection costs and high profits. Lower-volume partners were not at the centre of the attention but became necessary as market developed and spread throughout the whole Czech Republic. High-volume partnerships slowly became problematic as new entrants invaded the market and pushed the purchase prices up. Yet they remained crucial since higher volumes meant higher sell prices.

The most recent trend is not any different and incumbents still focus on volumes. This has however become more expensive as attractive locations are too crowded and overpriced. Incumbents try to acquire or re-acquire customers by offering low-quality merchandise with extremely low margins.

Trafin Oil, a.s. operates in almost all regions of the Czech Republic. It has managed to achieve relatively strong position in many of them. Newcomers are being fought off with higher prices and high purchase prices also help acquire (and sometimes steal) new customers. Such practices can be categorized as the rawest form of a price war. The market suffers, margins are getting thinner very quickly and the value is transformed to the waste oil suppliers.

The focus on competition to be the best is pervasive and bears negative influence on lower-volume customers. These customers become neglected since they are not perceived very attractive. They are also usually located further from the most attractive regions and therefore, cause higher collection costs. However, it should be stressed, that they are the customers with lowest purchase prices and, based on company`s latest research, are least business-oriented. They focus more on the stability of the partnership, relationships with the employees and friendly, pleasant service. This, I believe, is a crucial point for company`s differentiation strategy and is elaborated in the further sections.

3.2 Industry and Market Basics

An essential step in developing strategy is understanding company`s external environment. In this section, the scope of the industry is defined and the basic market facts and figures are presented. This section is also a starting point for further analyses and its correct understanding should guarantee thorough comprehension further on.

Following analyses help establish company`s relative position within the industry and identify potential strategic positions of higher profitability. Initial analyses aim to identify selected industry participants and segment them into groups. Five forces analysis contributes to further understanding by laying out competitive structure of the industry. The discussion about potential changes and shifts within forces is based on an interview with the general manager and personal research.

3.2.1 Industry

Trafin Oil, a.s. operates in a fairly new industry that focuses on collection and refinement of used vegetable cooking oil. The oil is collected mainly from gastronomic establishments, such as restaurants, pubs, food courts and other cooking or baking venues. Such small suppliers take up the role of company's customers and lay at the core of business of majority of collection companies (competition). Once the oil collected, it is mechanically[9] refined and recycled in the production factory. The resulting product is then sold to be used in:

- production of methyl ester (FAME[10] - biofuel additive)
- direct production of biofuels
- chemical industry (production of stearin)
- electricity and heat generation (as fuel)
- substitute for production of petroleum product
- production of ecologically sensitive fuels and other substances (Posekaná, n.d.)

FAME producers are the biggest buyers of recycled waste oil. Domestic production of fatty acid methyl esters was 210 092 tons in 2011. Additional 35 000 tons were imported. FAMEs are extracted from rapeseed which currently trades at 1,209 US Dollars per metric ton.[11] .

3.2.2 History of the Industry and the Rising Need for the Commodity

The market for oil collection existed in the bud even before the revolution of 1989. The difference was that cooking establishments paid for the service of oil replacement. Companies generated profits by bringing in clean oil and collecting the used oil. The used oil was disposed of by being poured into sewerage systems or onto fields. The research in using vegetable oils in biofuels was in its beginnings.

After the revolution purchase price remained zero, but companies started to focus on logistics. The best practice was to thicken service stops to lower down costs related to logistics and increase margins.

[9] Only raw mechanical refinement is performed since many buyers undergo their own refinement and purification processes specific to their market

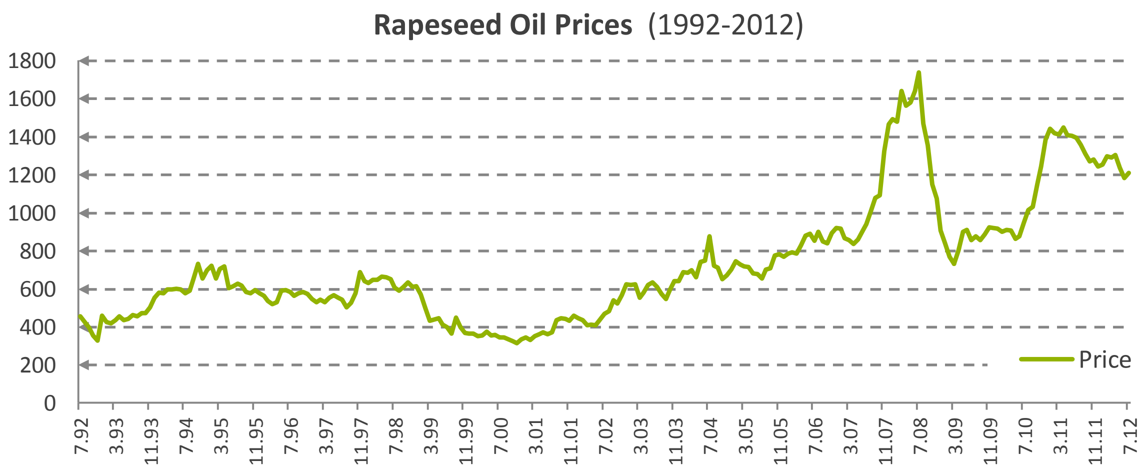
[10] FAME - Fatty Acid Methyl Esthers; crucial substance in biofuels

[11] Price in July 2012

In the 90`s the industry changed as demand for recycled oil emerged at 4 CZK per litre. The waste oil collection still remained a complementary service as only few saw potential.

In the early 2000 aggressive newcomers increased the price for waste oil to 1 CZK as the demand for purified oil pushed the prices to 7-8 CZK. After 2005 used oil suppliers were regularly paid 2 CZK per litre. First companies started to make profits solely on collections, as it became a standard measure to mix in purified waste oils into biofuels. This was mainly due to the fact that the prices of oilseed crops rose and biofuel producers searched for alternatives.

Figure 10: Rapeseed Oil Prices (1992-2012)

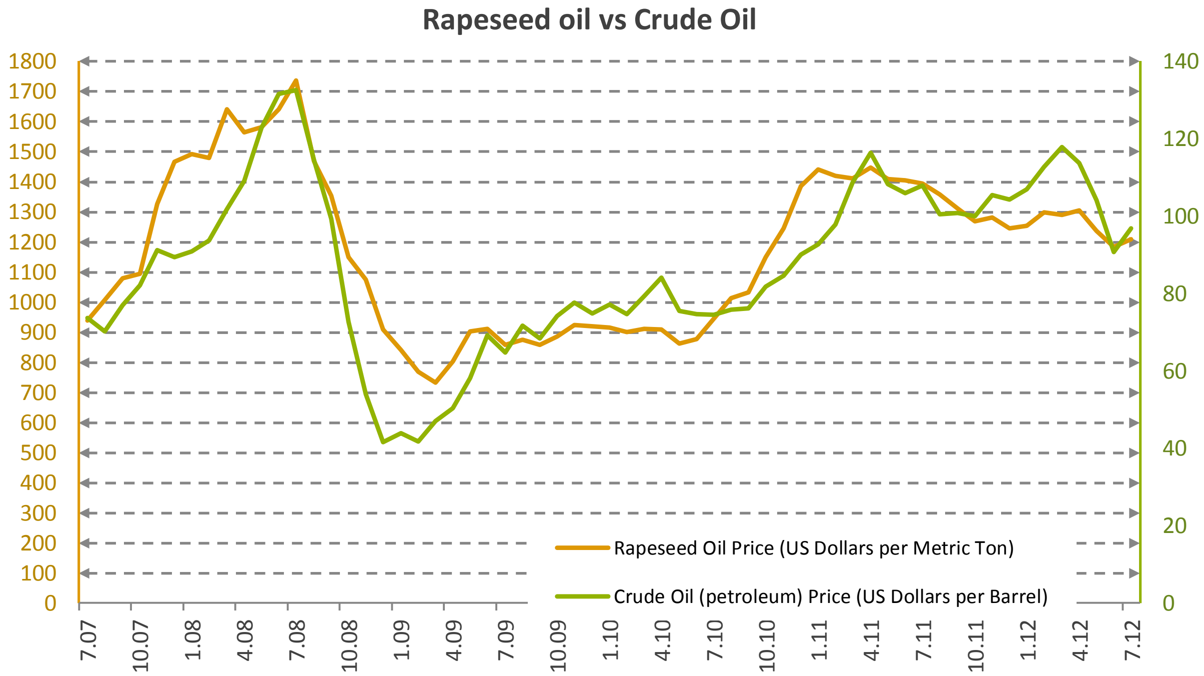


Source: WWW http://www.indexmundi.com/commodities/?commodity=rapeseed-oil&months=240; Available at 13:43, 7th August 2012

The price of recycled oil stabilized in relation to the prices of rapeseed oil, crude oil and diesel. Rapeseed oil plays an important role in the industry as it is a substitute for recycled oil. It is one of the most suitable plants to be used on European soil for production of FAMEs. Currently, the market still attracts newcomers as the spread between input and output is quiet high, with input costs averaging on 5 CZK per litre and outputs being sold at an average price of 20 CZK per kilogram[12]. However, many underestimate the complexity of logistics and fail to achieve profitability. Their attempts result in locally spoilt markets with inflated purchase prices, lower potential margins and angry underserved customers.

[12] Recycled waste oil is always sold in kilograms, but is purchased from suppliers in litres (it means easier calculations); calculation goes as follows - 1 liter of waste oil * 0.92 (oil density) * 0.9 (impurities) = 1 kilogram of recycled waste oil

Figure 11: Rapeseed Oil vs Crude Oil (2007-2012)



Source WWW http://www.indexmundi.com/commodities/?commodity=rapeseed-oil&months=60&commodity=crude-oil; Available at 14:33, 7th August 2012

The preferences of rapeseed are linked to its economics and suitability for European soil. Rising costs of oilseed crops were not the only reason for the rise of waste oil businesses. The overall green tendency towards lower emissions played also a major role. The recycled waste oil brings additional benefits into the equation. The process of "cultivation" of oil recycled from edible vegetable oils and fats yields zero carbon emissions if used in the production of biofuels (*Directive 2009/30/EC of the European Parliament and of the Council*). This is of course, due to the fact that the energetic utilization is a secondary purpose and because CO_2 emissions are one of the key indicators for fuel greenness. However, higher pressures can be applied on clean rapeseed oil, as there are many opponents (Thornton, 2004).

Biofuels have been an obligatory ingredient of petrol (3,5% from 2008) and diesel (4,5% from 2007) with main goal of lowering CO_2 emissions and increasing energy stability. FAME is used mainly in diesel fuels whereas bioethanol the key bio-components in petrol. Such law-enforcements are one of the main reasons for increasing utilization of oilseed crops in the energy mix. However, regarding the true benefits of cultivation of oilseed crops for energy utilization, the jury is still out there as during their lifecycle biofuels from oilseed crops can create up to 4 times as much greenhouse emissions than standard petrol or diesel fuel (Reuters, 2011).

The rise in production and usage of FAME in the Czech Republic is directly linked to 2010 law amendments, which were further developed by *Zákon č. 201/2012 Sb.o ochraně ovzduší*. This act increased the obligatory proportion of biofuels in diesel to 6%. European directives are the main driver of increased demand and rising prices of rapeseed oil. The rising prices on the other hand are the main reason for biofuel producers to look for alternative sources of FAMEs. The reason why FAMEs from waste vegetable oil are so attractive can be traced to the *Directive 2009/30/EC of the European Parliament and of the Council*, which states that waste vegetable oil produces zero CO_2 cultivation emissions and its utilization results in 83% direct savings of CO_2 in the whole biofuel production process.

3.2.3 Industry Definition - Product Scope

Production of FAMEs is built mainly on cultivation and refinement of rapeseed oil. Rapeseed oil (or canola oil) is also a top choice for cooking and constitutes a large proportion of the collected waste oil mix. Trafin Oil, a.s. collects waste cooking oil from all catering establishments with no specific exceptions.

The preference of cooking oil influences the consequent refinement process. The vegetable oils are the commonest among cooking establishments and are also at the centre of the focus. Rapeseed is the commonest in places where a lot of deep-frying takes place (McDonald's uses pure rapeseed oil). Palm oil (or rather palm fat) is popular within bakeries. It is slightly different in composition - it solidifies in higher temperatures and causes production challenges. Its composition and physical properties are why its purchase price is by definition very low.

Animal fats are inevitable due to the nature of cooking but their proportion is minimal. In general, main volumes of raw animal fats come from slaughterhouses and their refinement is to large extent supervised by veterinary administrations. They are not the main focus but minimal quantities are unavoidable due to the fact that not all catering premises offer vegetarian food. Total volumes are discussed in the section describing waste oil market.

The waste vegetable oil undergoes raw mechanical purification process (no chemicals are employed) and is recycled only to a certain extent. The physical particles filtered down with accuracy of 5 μm. The purified oil remains acidic and chemically impure, since small chains of amino acids, proteins and carbohydrates are still present in the substance. This is the final product that is being sold to buyers. The reason for such partial purification is simple. The process becomes exponentially costly due to the fact that non-mechanical measures need to be employed for more precise purifications. Moreover, the volumes are fairly low and specialized machinery is required. Further refinement would therefore only increase the costs and lower the margin. The market dictates price and even if it was possible the increased price would not cover the additional costs since the biggest buyers have to undertake their own purification processes anyway (and at lower costs).

Table 7: Oil Life-cycle

Source: Author

3.2.4 Industry Definition - Geographic Scope

Although Trafin Oil, a.s. has international ambitions, for the sake of this diploma thesis, only the situation on the Czech Republic market is analysed.

3.2.5 Market Facts and Figures

Waste oil market is determined by total vegetable oil consumption. According to ČSÚ vegetable oil consumption is stable and has fluctuated around 16 kg +- 0,5 kg per person in the last 10 years. It is important to realize that approximately half of that oil is thrown away and half is actually consumed by a person[13]. With this adjustment the total market counts approximately 86000000 kg of waste vegetable oil. Portion is consumed at homes, portion is consumed at catering premises and the rest through products. To establish the amount of waste vegetable oil produced by catering premises following logic is applied. The amount of firms (not venues) established in gastronomy services in 2011 was 49 223 (ČSÚ). The number of venues is higher since one firm can operate multiple venues (e.g. KFC, Chachar Pizza etc.). The total amount of venues is very difficult to establish since they pop and vanish on daily basis. These venues are company's true customers. To remain sceptic about the full market potential we can say that the number of firms in gastronomy services equals the number of venues to venues + 20%. Based on company's data an average venue produces 14,68 kg of waste oil per month. Competitor that focuses on chain venues collects on average 40 kg of waste oil per venue per month. Therefore, the potential market for 2011 ranges between **16 150 000 - 20 200 000 kg** of waste oil, which gives us **18,8 - 23,5 %** of the total waste vegetable oil market. This number was confirmed to an extent by Ivan Dědek, (representative of the biggest oil collection company by volume) in an interview with *Prachatický deník* (2011).

The potential market is very stable and has not changed much in the last 10 years. The existing market is lower and based on the data derived from financial statements of relevant competitors, counts between **3,000,000 - 4,500,000 kg**.

The difference with regular commercial markets is the fact that each venue (customer) that produces waste has an obligation to dispose of waste oil appropriately and accordingly to

[13] Based on research perfomed by Trafin Oil, a.s. in cooperation with most loyal suppliers

law[14] (potential market should be reachable). The disposal of waste oil is the primal need that is being satisfied by Trafin Oil, a.s. and its competitors. The cooperation with catering premises is usually underlain by contracts, but in many cases, very little attention is paid to it as direct switching costs are minimal. Furthermore, the competition is merciless and will always try to steal the customer if it identifies him as attractive. The market is becoming spoilt. But that is not all, later in the thesis it is pointed out that, many competitors fail to manage their logistics, employees and fail to deliver on their promises. Such failures in service create costs and waste time for customers (catering venues) as they have to search for alternative ways to store or dispose of the waste oil.

Customers are located everywhere in the Czech Republic and the prices at which the waste oil is purchased differ greatly (price discrimination is possible). It is desirable to have different purchase prices for different customers. The height of purchase prices is correlated to the attractiveness of customer's waste oil volume and their particular location. Densely populated areas with high people flow are the places where competition is the fiercest and purchase prices increase. Remote areas are less attractive and the prices are considerably lower.

Table 8: Summary of Market Figures

MARKET FIGURES	
Average Vegetable Oils & Fats Consumption	16 Kg +- 0.5 Kg
Population (January 2012)	10,505,445
Estimated Total Market	86000000
Catering Firms	49223
Average Collection from Non-chains (per month)	14.68 Kg
Average Collection from Lucrative chains (per month)	40 Kg
Potential Market	16,150,000 – 20,200,000 Kg
Current Aggregate Collections from Catering Premises	3,000,000 – 4,500,000 Kg
Market Saturation	18.6% - 22.2%

Source: Author

3.2.6 Competitor Analysis

In the oil industry, one of the dominant features of company's competitive environment is the behavior of its rivals. Local markets are highly susceptible to the number of active competitors struggling for market share. Good competitors‘ analysis is important and helps predict future behaviors. According to Grant (2010) competitor's analysis aids to forecast

[14] Enforced by *Zákon č. 185/2001 Sb. o odpadech a o změně některých dalších zákonů*.

competitor's future strategy, decisions, influence him or establish his likely reaction to firm's strategic initiatives.

As mentioned earlier, competition in the oil industry revolves around purchase prices and focuses on volumes. Competitors are separated geographically and their strength stems from the historical relationship with their primary customers. However, many attempt to grow beyond their local markets. Trafin Oil, a.s. is not an exception and has managed to achieve rocket volume growths outside Moravian market. There is dominant way to approach the market, yet competitors are not the same. The differences stem from the history and experience the incumbents have with the market and from the activities they choose to perform. Additionally there are huge differences in operational effectiveness.

The number of incumbents that can cosiderably influence the market is not that high, yet the competition is numerous. „Grey" collectors are plentiful and in some place can affect the relationship with customers in serious manner.   Summary data can be found below.

Table 9: Competition Summary (in thousands CZK)

	Viking Group	SK-OIL	Daruel	Kobylka	Trafin Oil
VOLUMES in Kg	180 000	30 000	70 000	30 000	135 000
Owner's Equity	1644	1355	138	-4139	6530
Total Assets	4240	2538	7743	3550	13519
Total Sales	62805	4734	14734	18161	66416
Inventory	0	91	1379	503	2253
Current Assets	3059	471	6468	750	9840
Cash and Cash Equivalents	932	372	41	-371	4737
Accounts Receivable	2127	8	521	616	2191
Current Liabilities	2283	429	4526	6990	6490
EBIT	905.5	864	981	701	4158
RATIOS					
Debt to Equity	0.61	0.47	0.98	**2.17**	0.52
ROA	21%	**34%**	13%	20%	31%
ROE	55%	64%	**711%**	-17%	64%
ROS	1%	**18%**	7%	4%	6%
Current Ratio	1.34	1.10	1.43	0.11	**1.52**
Quick Ratio	**1.34**	0.89	0.12	0.04	1.07
Inventory Turnover	-	**52.02**	10.68	36.11	29.48
Days in Inventory	-	**6.92**	33.69	9.97	12.21
Competitor Černohlávek has no obligation to submit financials, therefore it is not present.					

Source: Author

Viking Group s.r.o.

Viking Group s.r.o. has been on the market from its beginnings (1989) and gained all the advantages of the first-mover. It started to operate on the very attractive Prague market and managed to capture significant volumes by focusing on lucrative customers such as KFC, McDonalds or Burger King. Such lucrative long-term contracts allowed the company to focus on operational effectiveness (pure oil for waste oil was not possible for obvious reasons) and spread throughout the Czech Republic, where its position began to falter in the recent years. Operational effectiveness involved creating efficient routes for its drivers which work on fixed pay without incentives to gain new customers. Additionally, company holds cash and does not pay its customer on the spot. It calculates the amount of impurities in the oil and pays back the following collection. Such measures might encourage many customers to switch.

Viking Group s.r.o. fell into the trap of incumbent inertia and became complacent. It failed to capitalize on the first-mover advantage and became organizationally inflexible. At the moment, the company has been collecting about 180 tonnes of waste oil per month for the last couple of years. Though the financial statements might not fully agree, this is a fact which was confirmed in the discussions with the representative of the company.

The developments of organizational routines and standards in the environment of „free“ waste oil in the past created inhospitable conditions for initiative and hindered motivation. That was an unfortunate mistake and the company might pay for it dearly in the future as many chains start to realize the potential waste oil holds and search for alternative usage or bargain to increase prices. Increased prices or termination of contracts with high-volume producers might cause significant troubles for the company. The framework presented in the theoretical part helps us understand this competitor even better.

Strategy:

- focus on lucrative customers to stabilize collections (no merchandise) and improve operational effectiveness

Objectives:

- retain and strengthen lucrative contracts (even for the price of thinner margins)
- strengthen market position by acquiring new customers

Assumptions:

- essential to keep the prices low to retain margins
- it is essential to search for alternative volumes and revenue streams (pyrolysis[15])

[15] Pyrolysis involves a thermochemical decomposition of organic material (such as waste food from catering premises) at elevated temperatures with no participation of oxygen; the result is pyrolytic oil, that can be refined into fuels

- difficult to acquire new customers given its established collection routes, employee motivation, no salesmen and inactive operators

Resources and Capabilities:

- 180 tonnes/month
- size and position on the market (high returns)
- lucrative target market
- payback policy (pays after impurities are measured for pure oil)

Predictions:

- Viking Group s.r.o. will strengthen commitment of lucrative suppliers,
- search for acquisition target - potential risk of acquiring smaller, more flexible rival
- likely increase is marketing and sales spending
- strengthen focus on alternative services and other potential sources of competitive advantage (such as pyrolysis)

Černohlávek

Černohlávek is a small yet very potent competitor. Unfortunately it has no responsibility to submit its financials so it is difficult to establish its true power. It has been on the oil market since **2004** and its current volumes fluctuate around 60 tons/month. Černohlávek focuses on all variety of customers and obtains the oils through combination services. The primary focus remains waste oil collection, but selling low quality and low price merchandise with high margins is significantly important. Černohlávek's main market remains center Bohemia but it slowly manages to grow out of its native position. Organizationally, it has similar structure to Trafin Oil, a.s. Operators focus on sales and together with the drivers manage collection routes. It utilizes the same pay-back policy (pay later for oil minus impurities) and does not focus on its brand image too much. Many customers complain about dirty collection containers, low quality goods, and errors in collections. The owner of the company has no intention to address such complaints, as he focuses purely on the low costs. As suggested by research, low prices of goods appeal to many customers and therefore can be a significant differentiator. Drivers have no motivation to acquire new customers and since operators focus on merchandise sale, the amount of time sacrificed on new customers is relatively smaller, resulting in slower relative growth.

Strategy:

- focus on low quality, low price goods
- focus on customers that value low costs
- grow through price increases and increase switching costs with merchandise (price war is acceptable where it already has strong position)

- stabilize cash flows through balancing revenues from recycled oil and merchandise

Objectives:

- increase sales of low-quality merchandise
- increase switching costs for existing customer base

Assumptions:

- customers do not value quality; they want only low cost
- our collection company possesses great bargaining power since, no one could do our job more cheaply
- market is getting smaller and hotter, it is important to eliminate grey collection and avoid spoiling the market by offering higher prices

Resources and Capabilities:

- surprisingly strong customer segment[16]
- financial resources and revenue structure to withstand local price wars
- minimal focus on the quality of the service (dirty containers, irregular pickups, low quality goods)
- almost non-existent marketing

Predictions:

- heavier marketing investments
- focus on operational efficiency

SK-OIL Morava s.r.o.

Smaller competitor that has been active on the collection market since 1997 (it has been registered since 2008). Currently, it collects 20 tonnes of waste oil per month mainly on the moravian market and based on its financial statements, it has managed to achieve considerable growth until last year, when Trafin Oil, a.s. and Daruel started to actively compete on the Moravian market. As for now, the company operates at around 20 tonnes a month and struggles to manage the coordination challenges of price war. SK-OIL s.r.o. focuses on combination service (supply of pure oil and disposal of waste) and has only four employees. The reason the company is starting to fall behind is the fact that there is no active comunication towards potential customers. The company does not have operators and organizationally struggled to manage the onslaught of stronger competitors. The growth was considerably hindered (not yet visible in financials). However, the fact that the company is on the market for quiet a while meant that many customers refused to switch to competition,

[16] To quote one of Černohlavek's customers „*I don't care about quality, I am not the one eating it.*"

even in the face of higher purchase prices. Based on the research and interviews with Trafin Oil, a.s. salesperson, the loyalty towards SK-OIL s.r.o. was far more evident outside the main focal points and faltered in larger gastro centers, such as Ostrava (the reason for that is described in the sections above). SK-OIL s.r.o. look very healthy (on paper) and should not be overlooked.

Strategy:

- focus on local market and sustain loyalty among existing customers

Objectives:

- retain established customer base by any means necessary[17] (thoughtlessly increased purchase prices)
- increase loyalty through stable service

Assumptions:

- Moravian market is enough, there is no reason to expand
- no specific thoughts on the market

Resources and Capabilities:

- limited capacity to expand (no operators, drivers only collect)
- capable of decisions that inevitably lead to unprofitability (extreme increases in purchase prices just to retain the customer)
- no hints of innovation
- threat to profitability of local markets

Predictions:

- if attacked directly, capable of decisions to counter-attack and increase local purchase prices beyond the point of profitability
- if its customers are left alone, the company has no incentive to strengthen field force as considerable investments would have to be made

Daruel s.r.o.

The firm has been established on the oil market since 2004 and managed to reach considerable volumes of about 70 tonnes a month. It operated mainly on the Moravian market and was the most unfair among incumbents. The company operated very chaotically with no apparent strategy, no routes and few operators. Drivers collected oil from whereever was

[17] SK-OIL s.r.o. is a dangerous competitor not only due to its economical soundness and growth, but also due to its ability to go beyond profitability and offer sky-high prices when fighting for its customers.

possible and even stole from competition, claiming other companies names or using direct defamations. The retaliation of local incumbents (Trafin Oil, a.s.; SK- oil s.r.o.) was unexpected and fierce. Key customers were easily persuaded not to cooperate with Daruel s.r.o., since the service they provided was extremely irregular and unstable. Additionally, some drivers fled to be employed by competition and caused significant troubles. From 16th April the company is in insolvency proceedings as it was no longer possible for it to stay profitable.

The threat with such situation is that Daruel s.r.o. has become valuable acquisition target for bigger companies or companies outside industry (potential backward integrators). The acquisition would mean access to full database of its customers with addresses, purchase prices and other useful information.

Kobylka s.r.o.

Company situated in Brno with average volumes of 30 tonnes a month. Kobylka s.r.o. has been on the south-moravian market since 1998. It provides combination service with focus on pure oil sales (currently the only company on the market). Such differentiation required different tactics to reach customers and increased their switching costs. The overall sales has remained very stable (slight decline) in the recent years. The sales genereted through collections, refinement and sales of recycled oil increased severalfold (the realized added value is much higher). The company makes no distinction between customers, nor does it place much emphasis on active sales and active development. This might be due to the fact that company wants to remain conservative as it operates on heavy debt. Current liabilities significantly exceed total assets (retained earnings are negative).

The company heavily relies on customer loyalty and remains very unresponsive to competition. Newcomers erode company's sales by offering higher purchase prices. The company remains silent and inactive. Revenues are divided exactly half-half between sales of pure oil and sales of recycled oil. The company realizes very low returns because of high personal expenses.

Unfortunately, I was not successful in speaking with company's representative and did not manage to gain insights about company's assumptions, objectives and plans for near future. The following analysis is therefore built on the insights gathered from the market and interview with Trafin Oil, a.s. general director.

Strategy:

- push pure oil sales (very low relative price) to withstand variability in oil collections

Objectives:

- remain locally competitive by retaining existing customer base
- increase sales of pure oil and retain high margins

Assumptions:

- more important to provide cheap pure oil than to collect waste oil

Resources and Capabilities:

- slowly decreasing customer base, but stable revenues
- high purchasing power low prices for pure canola oil

Predictions:

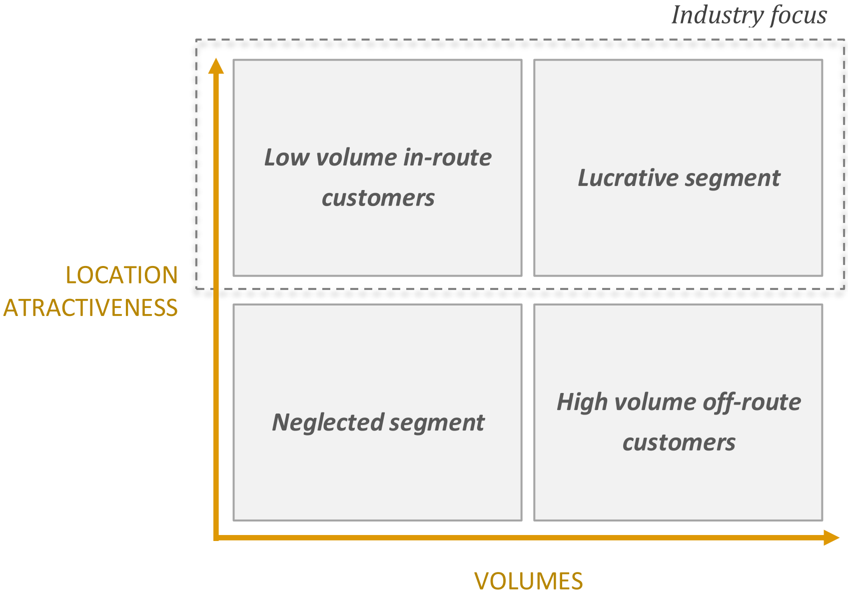
- protecting local market, possibly increasing prices, no intentions to expand beyond or to react proactively to any differentiation strategy

3.2.7 Customer Analysis

Correct customer analysis is an absolute necessity for correct development of a differentiation strategy. Trafin Oil, a.s. generates the volumes from two types of suppliers. First source are the „service receivers“, or the customers the company serves to acquire the waste oil. Throughout the thesis, they are referred to as „small collection“, „service receivers“ or simply customers. The second group are external suppliers, which operate similarly to Trafin Oil, a.s. but their volumes are not big enough to negotiate good sell contracts. Therefore, they sell to Trafin Oil, a.s. which immediatelly resells in higher volumes for higher prices (but relatively lower margins). External suppliers are not service receivers and no special emphasis is placed on their development since they are perceived as highly unstable into the future. Segmentation is took over from company`s internal materials and is built on geographic divisions and collection volumes. Purchase criteria are derived from a survey performed by company`s operators, from interviews with company`s salesmen and brief interviews with selected customers via phone. Internal knowledge of buyer`s needs is employed in ranking purchase criteria since buyers sometimes do not fully understand the ways in which Trafin Oil, a.s. creates value. Use criteria are visited once again in the value chain analysis.

The segmentation of customers is based on geography and supplied volume of waste oil. The attractiveness of a customer is determined by their proximity to existing collection routes and by the volume of the waste oil supplied on a monthly basis.

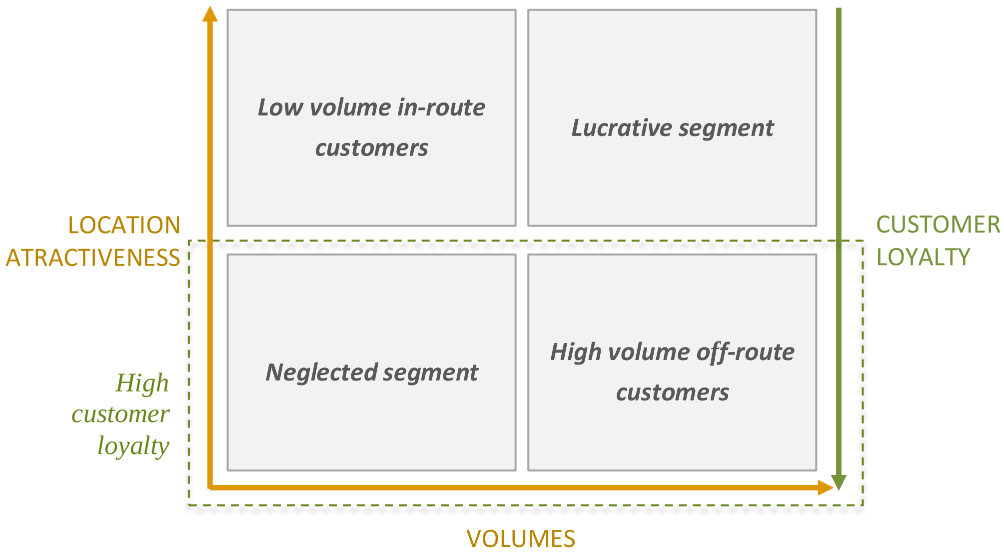
Figure 12: Basic Customer Segmentation



Source: Author

Long-term monitoring brings another factor to the equation - loyalty. Loyalty plays a major role in further analyses and, as mentioned earlier, bears interesting correlations to geography and purchase prices. Loyalty is considerably higher in regions less attractive in geography. Of course, the main reason is the fact that competitors do not choose to fiercely compete in those regions but, it also is about the nature of the business. Based on the phone interviews, the regions further out placed much higher emphasis on stability of the service and friendliness of the collectors. Additionally, being first to reach the customer holds tremendous benefits. For once, the regions are not so dense in catering venues and establishing first contracts preempts competitors and might discourage them in investing into active salesforce. Moreover, the influence of purchase price (direct value) is neglectful and behavioral aspects become much more important. This was confirmed time and again by salespeople. Such emotional potential should not be underestimated and as seen later, can be successfully exploited to streghten the strategic fit. Next, remote customers are much more likely to remain satisfied with the basic service (oil replacement) and ignore the benefits of additional merchandise. Firstly, the merchandise must be low-quality as high-quality merchandise cannot be supplied by a company that disposes of waste (no fit). Secondly, they usually had to plan ahead more carefully to organize their supplies because of their location, and since collectors cannot supply everything and they have to make the trip to the supply center anyway, additional value of extra merchandise is rapidly diminishing..

Figure 13: Customer Segmentation with Link to Loyalty

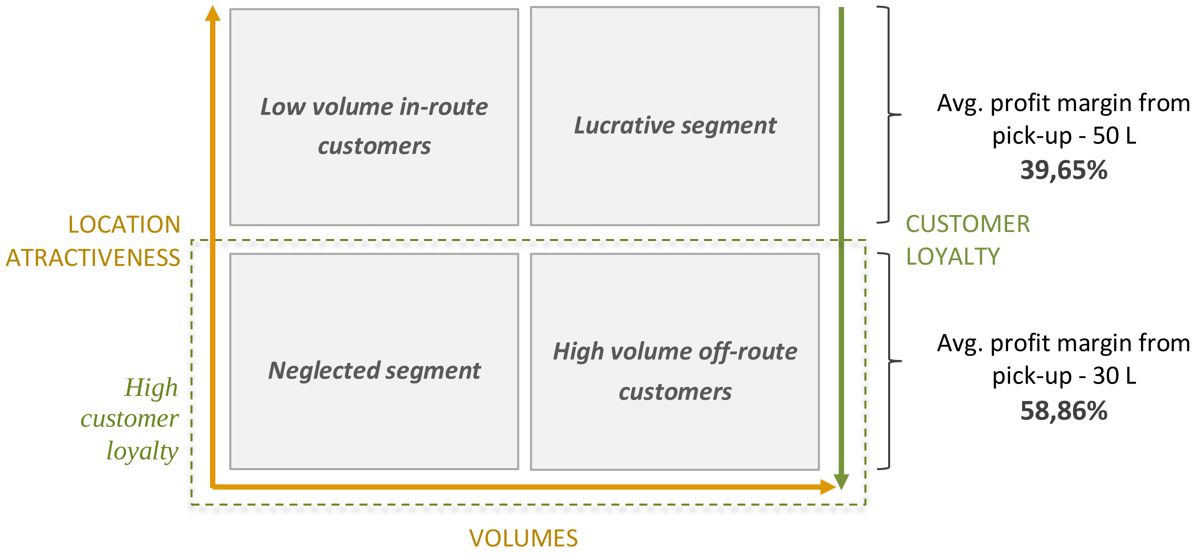


Source: Author

The geographical inattractiveness is a double-edged sword. From one side, it means higher collection costs, but brings in potential for higher loyalty and lower purchase price. Additionally, the average purchase price in catering premises more remote from the points where competition clashes are evident, rises more slowly. The loyalty factor together with the abundance of low-volume providers increases collection stability and better basis for future predictions. Furthermore, stability is also linked to the quality of waste oil. Hugh number of suppliers ensures greater stability in chemical properties of waste oil, lowering product fluctuations and ensuring higher sell prices. For companies that rely on big suppliers, the discontinuation of supplies from one big supplier can mean huge differences in the quality of a final product. Additionally, stability of the chemical properties of the final product (recycled vegetable oil) strenghtens the bonds with buyers.

Finally, the collection vans have limited capacity. If efficient routes are established the high collection costs will be more than covered by the lower purchase prices.

Figure 14: Customer Segmentation with Link to Average Profit Margin



Source: Author

All the above facts are linked to the negotiating power of suppliers (their structural position) which is considerably lower for low-volume providers. The fact that might not be so obvious from the beginning is the profit margin. The profit margin (icluding the cost of transportation) is considerably higher for off-route customers. Negotiating power will be described in the five forces analysis below. As Porter suggests, the company should shelter itself in such a place where the forces are the weakest. My recommendation is to put this group of customers at the center of company`s strategy.

Following chart represents an aggregate of ranked purchase criteria for small collection suppliers, it is based on the survey conveyed by company`s operators and interviews with company`s salespeople. It was creating in cooperation with company’s drivers , operators and salesperson. Criteria are seperated for off-route and in-route customer.

Table 10: Purchase Criteria

		Purchase Criteria	
		Use Criteria	Signalling Criteria
Customers	In-route Customers	1. Reliability and Regularity of Service 2. Purchase Price 3. Quality and Price of Offered Goods 4. Combination Service 5. Communication 6. Evidence of Proper Disposal	1. Brand Uniformity and Professionalism 2. Breadth of Communication Channels 3. Customer Base 4. Purpose
	Off-route Customers	1. Reliability and Regularity of Service 2. Relationship with Employees 3. Communication 4. Combination Service 5. Purchase Price 6. Evidence of Proper disposal 7. Quality and Price of Offered Goods 8. Range of Offered Goods 9. Barrel Cleanliness 10. Toll-free Phone Line	1. Availability of the Service 2. Friendliness of Staff 3. Brand Uniformity and Professionalism 4. Purpose 5. Breadth of Communication Channels 6. Customer Base

Source: Author

3.2.8 Five Forces

Five forces provide groundworks for determination of company`s strategic position. It helps understand profitability drivers industry as well as company`s strengths and weaknesses. It also gives hints how better cope with competition, anticipate and exploit the shifts in the forces and shape the forces to create a more favourable industry structure.

Buyers

The buyers of recycled vegetable oil with focus on technical utilization can be divided into the following categories:

Table 11: Categories of Buyers

CATEGORIES OF BUYERS *(technical utilization focus)*
Biofuel Producers (members of *Sdružení pro výrobu bionafty*)
–> high purchase volumes
–> purchase stability
–> good production and expedition planning
–> lower relative purchase prices
Energy Plants (**ČEZ**)
–> relatively high purchase volumes
–> irregular purchases
–> problematic expedition planning
–> higher relative purchase price
Small Local Transport Companies
–> low purchase volumes
–> irregular purchases due to seasonality
Cogeneration Units (**CHP** - Combined Heat and Power)
–> scalable purchase volumes
–> purchase stability
–> good production and expedition planning
–> potential for high margins

Source: Author

The negotiating power of existing buyers is quite high, since there is a limited number of high-volume buyers that purchase large amounts of the product. The product is undifferentiated and buyers face low-switching costs.

However, there is low risk the buyers will try to vertically integrate since the initial investments are quite high and returns would come in very slowly. If they still choose to integrate backward they could do so by buying up direct competitors. However, the market share distribution is unfavorable and retaliation is expected. Trafin Oil, a.s. collects volumes much higher than smaller competitors combined.

Buyers favor recycled waste oil since it offers zero cultivation emissions and total CO_2 reducions are 83% compared to pure rapeseed which offers only 38% - 57% (*Zákon č. 201/2012 Sb. o ochraně ovzduší*).

Another aspect that speaks in favor to collectors is the fact that the biggest buyers do not lack financial means and the utilization of biocomponents is enforced by law. (*Nařízení vlády č. 446/2011 Sb. o kritériích udržitelnosti biopaliv*). Furthermore, the relative proportion of recycled oil to the overal biofuel mix is low and does not represent a large fraction of buyers` costs. The current amount of mandatory biocomponents in diesel is 6,0%. The time given to price negotiations will be therefore limited.

Cogeneration units offer an alternative. At the moment, there is not one cogeneration unit that is certified to run on mechanically refined waste oil, though Trafin Oil, a.s. operates an experimental unit at VUT in Brno. Should Trafin Oil, a.s. pursuit and operate a cogeneration unit, it would vertically integrate within the industry and catch more value for itself. This would establish greater stability and, since margins could be considerably higher, even greater profitability. Additionally, cogeneration units have significant potential to offer considerable savings to whoever chooses to run them. That gives additional space for consideration to create fit in Trafin Oil, a.s. strategy. Cogeneration units are discussed in the further sections.

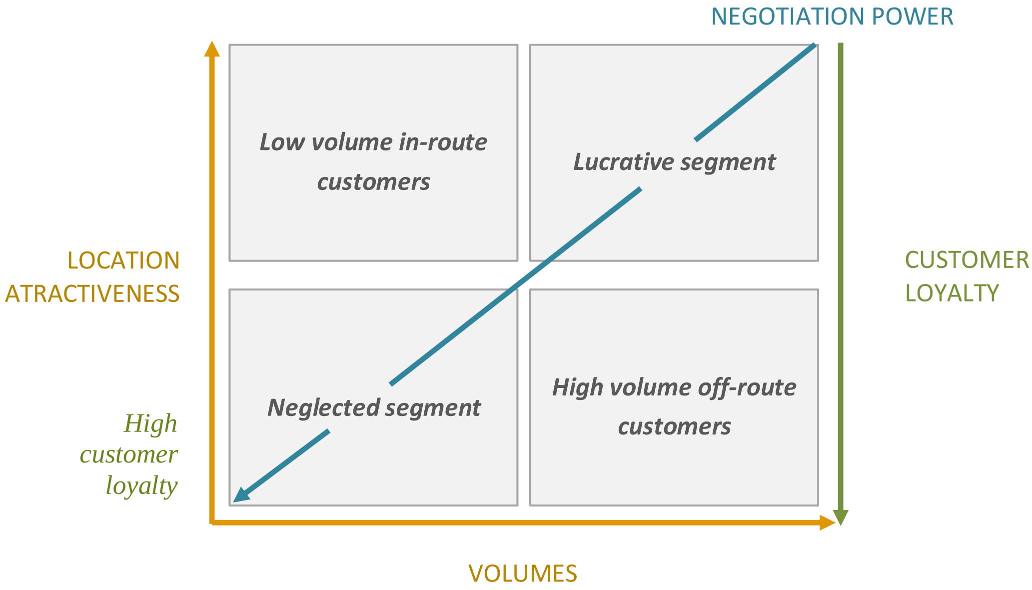
Suppliers

The customer segmentation presented above describes the way in which Trafin Oil, a.s. thinks about its suppliers. This thinking can be extended for determination of their negotiating power (also seen above). The fact that was not mentioned earlier is that Trafin Oil, a.s. sometimes purchases waste oil directly from other competitors, capitalizing on its better negotiating power . These suppliers are called „external suppliers“ and are described at the end of this section.

The concentration of suppliers of waste oil within the market is very high and the product they supply is undifferentiated. At the first sight, their negotiating power is very low. This is true only to a certain extent. The waste cooking oil is an undesirable material and its sale generates very little cash. By no means it can considerably affect anyone’s financial well-being. This fact has a huge impact since the catering premises might simply not care about selling the waste oil. Should a competitor try to steal a customer, it would most definitely try to increase purchase price. If the original collector calculates the investments it had to make in order to acquire and incorporate the customer into its logistics network, it might choose to comply with the demand to increase purchase price. Additionally, increasing The low relative volumes, high margin and the size of the relative investment are the main reasons a company might accede to the demands of the supplier.

One of the main problems with waste oil market is that attractive areas with high volume suppliers, are the first to be invaded by newcomers. Newcomers spoil the market by offering higher purchase prices, increasing costs and lowering margins basically for everyone. The „attractive“ small collection suppliers become aware of their position and can turn the buyers against each other (purchase price ranks higher in use criteria). Their negotiating power increases. Moreover, it might happen that the sale is not accounted for and the money goes directly to the pocket of the person handing over the oil. Since everybody pursues their own well-being, and the immediate relative value the cash brings to the individual is higher to the relative value it brings to the company, the margins will get thinner yet again.

Figure 15: Customer Segmentation with Link to Negotiation Power



Source: Author

The characteristics of external suppliers are the following:

- low logistics costs
- potential for high and quick profits
- low margin compared to small collection
- unstable - risk of a contract termination and consequent volume decreases

If managed carefully, the current negotiating power of external suppliers is fairly low, given the fact Trafin, Oil a.s. operates highest sell prices on the market. However, that can change, and overreliance on external oils can have devastating impact. Additionally, the quality of the recycled oil can be lower and further refinement might have to be employed. Since the volumes are quite high, production can clog up.

Substitutes

There are not many direct substitutes that can satisfy the demanded volumes and serve similar purpose. Pure vegetable alternatives are the biggest threats.

Table 12: Substitutes

SUBSTITUTES
Pure vegetable oils (mainly rapeseed oil)
–> high quality and higher price
–> extremely water dependent (sometimes referred to as subsidized food burning) (Thornton, 2004)
–> lower CO2 savings - not as efficient in meeting legislative requirements as recycled oil
–> controversial (Reuters estimated an average of 4x as much CO2 emissions throughout the lifecycle of oil-seed crops)
Pyrolysis oils
–> low quality and low price
–> higher production costs, low solidification temperature complicated production process (pre-drying, homogenization)
–> carcinogenic and dangerous[18]
–> potentially high switching costs (significantly lower calorific value)
Animal and carcass fats
–> low quality and low price
–> high volumes and high concentration
–> high production costs, low solidification temperature
–> high sanitation costs
–> still in research
–> potentially dangerous

Source: Author

Apart from pure rapeseed oil, the substitutes are not a real threat to recycled vegetable oil and their influence on price cost is minimal. Price-performance ratios (in case of caracass fats) might appear attractive but the initial investments are much higher. Additionally, there is a significant health hazard linked to pyrolisis and carcass fats. Producers of biofuels might face additional costs in dealing with pyrolitic or caracass oils since additional safety measures will have to be undertaken.

The advantage the recycled waste oil has over pure rapeseed oil is the doublecounting of CO_2. According to European legislature, recycled waste oil has zero cultivation emissions. And therefore allows producers to double the amounts of saved CO_2.

New Entrants

The most attractive aspects about the market are low initial investments, high net profit margin (with input prices averaging on 5 CZK and final product selling at around 20 CZK)

[18] According to *Zákon č. 350/2011 Sb. o chemických látkách a chemických směsích a změně něěkterých zákonů (chemický zákon)*

and seemingly easy production proces. These seemingly easy profits lure mainly small and medium companies into the market.

Many such companies understimate the unseeming issues that come with greenfield oil collections and small volumes (low sell price, logistic costs, relatively high fixed costs) and consequently fail.

Such attempts result in locally spoilt markets and very little success. Factors that speak in favor of incumbents are:

- established high-volume collection networks (supply-side economies of scale)
- high sell prices related to benefits of scale
- buyer`s incredulity towards new buyers
- established brands (a rule of thumb is that newcomers cannot live up to their promises and cause many collection errors)
- stabilized costs allow to improve additional extra services, such as call centres, marketing; things that without heavier initial investments are difficult to copy
- incumbent retaliation; price wars are more easily sustained by incumbents since their margins are usually relatively higher

Additionally, the sell prices are to high extent determined by commodity markets and company`s ability to provide high volumes. To sum up, threat of entry is high, but it does not affect the sell price that much, it affects margins by its direct impact on costs. Incumbents are willing to increase purchase prices just to make sure, entrants would find it less attractive.

Rivalry

Rivarly is irregularly fierce and it takes form of price wars. The irregularity is due to the fact that the local (municipal) markets start to grow smaller. The slow growth initiates fight for market share. As the competition revolves mainly around price, the value lost in increased costs is directly transferred to the waste oil supplier. The net difference in volumes is zero. Moreover, for many, it is not only a matter of lost profits and economic calculations. Given the fact that there is a high number of small collection suppliers, incumbents will often overpay the supplier and try to steal him simply because someone else did it to them. It becomes a question of prestige, ego and devotion of the management.

The rivarly of incumbents is one of the primary drivers of industry`s profitability. The rivarly is high mainly because:

- waste vegetable oil is a commodity (more is better)
- marginal costs are low

- new customers are easily influenced by price and their switching costs are low
- rivalry on local markets goes beyond profits (high commitment)
- best practises are often imitated

Value offered by incumbents is undiferrentiated and is aimed broadly at all customers. All incumbents pursue the same goals, imitate and, unfortunately, compete to be the best. In addition, the competition revolves around price, which is the most destructive of dimensions.

Furthermore, there is also many grey competitors that choose to collect oil for personal purposes, and utilize it in their own stoves for heat, their total market share is neglectful.

3.2.9 Overview of the Industry Structure

The profitability in the industry is controlled by all forces. **Buyers** monitor the prices of oil and pure rapeseed oil and establish the price for recycled vegetable oil accordingly. However, their motivation to use the recycled commodity in their business is high, since it hase zero CO_2 cultivation emissions (unlike rapeseed used primarily for biofuels). By 2020, European Commission`s Green Book states that 20% of fossil fuels used in transport shall be replaced by alternative fuels, 8% of which must come from biofuels. This creates pressure on buyers to use alternatives and as recycled oils are cheaper and not primarily cultivated for biofuel production (they bear zero CO_2 cultivation emissions), they will remain an attractive choice. However, the legislation is unfortunately not set in stone and may change - the biofuel producers might stop buying.

Small collection **suppliers** are an absolute necessity for a stable business. Their negotiating power stems from the fact that the sale of their waste oil does not affect their financial performance at all and their switching costs are fairly low. Additionally, in spoilt areas suppliers begin to realize the investments a company has to ake and drive the price even higher. Less attractive customers in more remote areas do not generally attempt such behavior even if competition tries to steal them (high loyalty). The negotiating power of external suppliers is only high if a company overlies on them.

The price of a **substitute** rapeseed oil keeps the sell price low. However, many (Thornton, 2004; Reuters 2011) point out that using pure vegetable oils for biofuel production is wasting food and water. Such lobbying might result in lower subsidies and higher prices. The fact that the primary use of waste vegetable oil was consumption is a great benefit. Pyrolysis oils and carcass fats might also influence selling price. Yet, commercial-scale competitive production plants are still far in the future.

New entrants play a significant role in influencing industry`s costs. Incumbents fear the competition and attenuate their own margins (by increasing purchase price) just to make sure the small collection market appears less attractive. It can be expected that there will be many more ambitious newcomers trying to enter the market with bigger incumbents possibly lobbying for greater government restrictions.

Rivalry is arguably the strongest of the forces and revolves around price that is paid out to waste oil suppliers. Incumbents blindly increase costs by increasing purchase prices. The basic service imitation is almost immediate and rivals compete to be the best. Furthermore, competition on attractive municipal markets goes far beyond profits and has huge impact on margins. Logistically and volume-wise attractive suppliers have a genuine reason to laugh as market value gets transfered onto them. As local markets grow more slowly, they become a battlefield for market share. However there is still a huge potential in less attractive areas, which with current logistics network stand little challenge for Trafin Oil, a.s.

3.2.10 Strategic Positioning & Dimension of Competitive Strategy

Any company trying to reach profitability should try to shelter itself against the forces that drive industry`s competition. To do that, it should position itself where the forces are weakest. This section identifies where the forces are the weakest and establishes basis for further strategy proposition. Furthermore, it also points out the possible shifts and changes within the forces.

Since the sell price is to a huge extent determined by commodity markets the best thing for Trafin Oil, a.s. to do would be to integrate vertically by investing more into cogeneration units. Such investments would basically ensure greater sell price and therefore high margins, since cogeneration units offer high efficiency and decentralization. Additionally, burning recycled waste oil provides company with the ability to obtain green bonuses, wich would additionally help company`s profitability. Furthermore, the danger that the government should limit the obligation to mix in biofuel to diesel fuels is certainly there, however unlikely[19].This would hurt the demand by a huge extent. Incumbents would have to search for alternative buyers. That would push down the prices and loosen up the situation on the small collection market. Incumbents would have no choice but to push the costs down by lowering purchase prices. Lower prices would then cause Trafin Oil, a.s. margins to increase. Benefits of vertical integration include:

- efficiency and higher returns (higher price realization and ability to price discriminate) of combined operations (+ ability to withstand price wars better)
- internal control and coordination
- avoiding FAME market
- stability (assured demand = long-term contracts + hedging against fluctuations in prices; offsetting against bargaining power)

[19] Assumption is based on*Vyhláčka č. 14/2009 sb o způsobu regulace cen v energetických odvětvích* and *Zákon č. 165/2012 Sb. o podporovaných zdrojích energie a o změně některých zákonů*

- enhanced ability to differentiate the service

The risks of vertical integration include the specialization of assets, increased maintenance costs, higher overall capital investments, higher exit barriers, possibility of lower demand (which is based on company's data highly unlikely), dulled incentives to improve and diffused focus.

To deal with supplier power, Trafin Oil, a.s. should reestablish their focus on seemingly less attractive segment of small collection suppliers and deploy active salesforce from now on. As seen from the performed analysis, these customers have potential to bring in stability and considerable profits, especially with good well-built logistic networks, which company already operates. In addition to that, as shown by research, Trafin Oil, a.s. can count on higher loyalty and more emotional engangement. Additionally, high number of low-volume suppliers increases stability and predictability of inputs. Big chains such as McDonalds or KFC have benefits of high volumes (but have high purchase prices) but in case they choose to cease the contract with their service provider, it would have a massive impact on the total volumes. Furthermore, catering premises with higher volumes that switched a service provider for the sake of increased purchase price are very likely to leave again, should a better offer emerge.The inclusion of many low-volume suppliers can guarantee stability and stable growth. It also creates a fit should they choose to deploy their cogeneration units to places such as hospitals or schools (both of which are usually in desperate need to cut costs). Cogeneration units would also help in potential fights against emergent substitutes as they require only specific fuel to run.

To establish a favourable position against new entrants company should lobby at regional offices and health offices to restrict possibility of entry. The arguments should revolve around public safety, safe and proper waste management, and benefits that come with efficient collection. Additionally, if CHP units are deployed, it has a tremendous argument for potential monopolization of the industry as it would clean up the environmennt (lowering costs for sewerage operators) and provide cheap, decentralized power for places most in need (public schools and hospitals).

As rivalry intensifies, competing on price becomes unbearable. Company has to choose a different dimension to compete and can do so by being unique. Utilization of cogeneration units would not only secure stable revenue stream and higher margins but can also serve as a differentiation factor against company`s rivals. Marketing can be more emotional and emphasize the suppliers help in reaching company`s purpose, which is giving cheaper and greener electricity to schools and hospitals. Moreover, the company cleans up the environment and uses green energy for good purpose. As company establishes stable customer base and strong brand associated with "greenness" it will automatically lure more customers into its pool and lower the importance of purchase price (perceived value will increase). Such focus might also reach a state where customers decide to donate waste oil for no charge, since they would understand the extra benefits.

3.3 Competitive Advantage

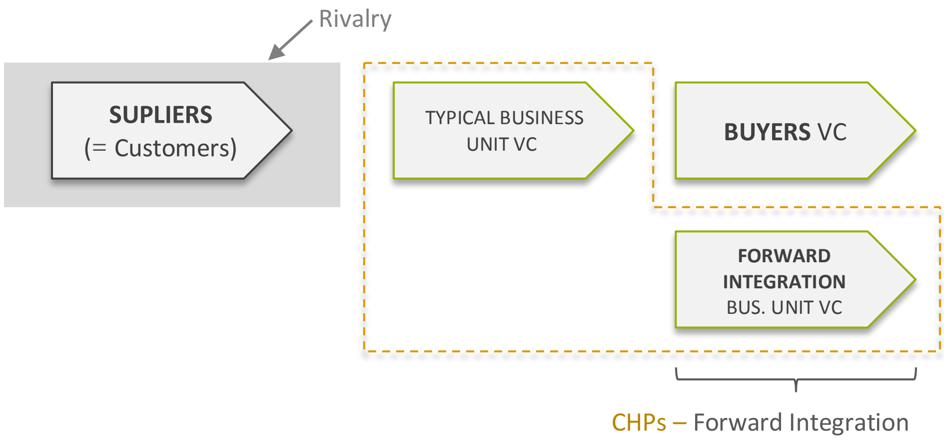
This section is built on the analysis of the company's value chain. Porter claims that company achieves competitive advantage when it commands higher relative price, operates at lower relative costs or both. These differences in relative costs and relative prices can be traced to the differences in activities, which are captured by individual value chains. For the reasons described above, the core of suggested strategy is based on differentiation, which is broadly defined as ability to command a higher price. Since the true customers of Trafin Oil, a.s. are its small collection suppliers, ability to command higher prices can be reformulated into ability to command higher margins.

3.3.1 Value Chain Analysis

As suggested by Magretta (2009) this section begins by laying out the industry value chain. The industry value chain represents the dominant (generic) approach to doing business in the industry. Next, generic chain is compared to the company's value chain and the sources of contemporary competitive advantage are established. Five forces framework helped identify desirable position in the industry by uncovering where the forces are the weakest and showed on which customers to focus. Such insights help determine the activities with the highest impact on customer's purchase criteria and strengthen consequent differentiation.

Firm's value chain is a part of a larger value system. The level of disaggregation of certain subsets of activities depends on the purpose for which the value chain is analysed (Porter, 45). Some activities might be performed in unrelated categories due to the fact that they use the same personnel and facilities. The value activity is categorized based on its impact on competitive advantage.

Figure 16: The Value System

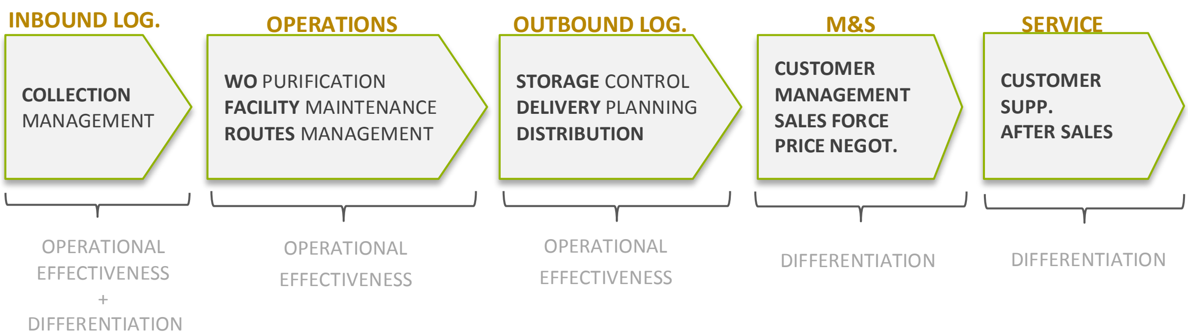


Source: Author

First scheme represents the value system and the traditional positioning of incumbents within the industry. Collection of the waste oil is the primary focus and there is very little conscious differentiation. Incumbents compete mainly on operational effectiveness and try to be the best.

The dominant approach is captured in the generic value chain. It reflects the scope and sequence of activities prevailing within the industry. Majority of incumbents focuses on collection volumes and operational effectiveness. Operational effectiveness is linked to routes management and activities linked to waste oil management. Activities with biggest impact on costs and prices are collection management, pricing, customer management and price negotiations. Active marketing is almost non-existent and working relationship with the customer is built on loyalty, which, as pointed out earlier, is generally futile in the regions of fierce competition.

Figure 17: The Dominant Approach



Source: Author

The differences in relative costs are difficult to establish since the transparency of the industry is very low. The sell price is dependent on the amount of waste oil provided when demand arises and on the established relationships with the buyers. Better product (steadily lower pH) is also awarded with higher price premium.

As much as differentiation is concerned there is also little to be seen. Černohlávek focuses on low cost service but does not focus on a particular segment. Viking Group s.r.o. focuses on lucrative customers but its service is plain and its costs are rising due to higher purchase prices. All incumbents pursuit operational effectiveness and service the customers very similarly. There is almost no focus on brand building and very little investments are made into marketing. Need to increase volumes is satisfied usually by increasing local increase prices.

Figure 18: Value Chain

FIRM INFRASTRUCTURE	*General management, Planning, Finance, Accounting, Legal Affairs, Quality Assurance, Education, Open-door Policy*				
HUMAN RESOURCE MANAGEMENT	*- Superior training - Individual Assessment and Motivation - Hiring*	*- Hiring*	*	*- Superior Training - Individual Assessment and Motivation - Hiring*	*Superior Training*
TECHNOLOGY DEVELOPMENT	*- Mobile App. Development *** *- IS Development*	*- Automation - Stabilization of Oil Quality*	*- IS Development*	*- CRM Development - Sales Force Mobile App. Development*	*- IS Development*
PROCUREMENT	*- Reliable transportation services - Goods*	*- WO - Service*	*- Transportation services*	*Agency Services Marketing Supplies **** *Media Placements*	*CHP Service*
	Collection Management ***Collection and Scheduling*** - Focus on local collections ***Pricing*** ***Supplier Engagement***	***WO Purification*** ***WO Analysis*** - Low RO variability ***Routes Administration*** ***CHP Management*** ***Facility***	***Storage Control*** ***Delivery Scheduling*** ***Distribution***	***Customer Engagement*** - Loyalty development ***Brand Building*** - Story telling ***Sales Force Operations*** - Drivers and Operators ***Promotion*** ***Marketing Management*** ***Price negotiations***	***Customer Support*** - Error Management, Order Adjustments ***Buyer Support*** ***CHP Support***
	INBOUND LOGISTICS	**OPERATIONS**	**OUTBOUND LOGISTICS**	**MARKETING & SALES**	**SERVICE**

MARGIN

Source: Author

* Performed by general director

** Immediate communication and tracking between HQ and drivers

*** Supplies should convey a strong message of recycling and greenness

Presented value chain focuses on company's existing and potential sources of differentiation. The existing sources of differentiation stem mainly from the fact that Trafin Oil, a.s. chooses highly motivational approach towards its employees and does not hold back on investments into mobile applications or IT. The motivation and the skills of general management are the key factor of the recent growth. Additionally, Trafin Oil, a.s. places great emphasis on the relationships with its customers and this should be developed even further. Such focus helps maintain company's customer base and helps increase its loyalty. It will arguably be the key factor for further growth in less attractive regions.

Recent employment of field sales force on a pilot local market helped win over many new customers and proved to be an immense return on investment. Consequent analysis, which was built on the insights gathered by salesperson, forced complete rethinking of the nature of the market. The ranked purchase criteria determined by customer analysis are used to identify activities that have potential to create the most valuable differentiation for customers. Apart from providing the core service (waste disposal) reliably one of the key factors was the communication between the company and catering premises. This is exactly what Trafin Oil, a.s. should continue to be doing. Strengthening customer relationships through conscious CRM (Customer Relationship Management) and shifting focus onto low-volume providers will result in higher loyalty and greater stability, which is crucial for forward integration. Company is one of the first to regularly expose its customers to its marketing and the fact that it started experimenting with CHPs (activities with low direct impact on customer's costs or performance) has the potential to strengthen the overall fit of the strategy as it provides purpose and a "background story" for the customers. The fact that the primary customers of CHPs are schools and hospitals helps achieve higher differentiation and greater emotional value.

Trafin Oil, a.s. places an enormous impact on the development of its IS/IT, that can also be considered a differentiator. It might seem to have very little impact on customer performance or costs, but the opposite is true. Flawless information systems assure flawless planning, pickups, order processing and customer administration. Additionally, the mobile application currently under development will ensure that company's operators can immediately react to the situation on the field, thus lowering costs, avoiding confusion and managing underserved customers. It has a direct impact on service stability and regularity.

Differentiation based on forward integration (deployment of CHP units) will have impact on the business from two perspectives. It will have direct impact on company's operations thus profitability, and it will serve as a background story that will be communicated onto company's small collection suppliers. The initial results of the experimental operation of CHP unit in Brno look extremely well and the company should most definitely go through with it. Such decision will require considerable investments into training. Operators, sales force and drivers must be educated and trained to be able to effectively communicate the importance of what Trafin Oil, a.s. is doing. If it decides to do so CHP units can be the pillar for Trafin Oil, a.s. differentiation strategy. The company should be the first to proactively "tell its story" and build its brand through established marketing channels and mainly through its personnel.

Field sales force proved to be an enormous success and brought in high returns in fairly short time. Should Trafin Oil, a.s. choose to put focus on the relationship with its customers, field force must become a standard. Moreover, proper training and education will ensure that the initial contact with the customer will be valuable in terms of promotion and perceived value.

Table 13: Activities and Purchase Criteria

USE CRITERIA	IL	O	OL	M&S	S	P	TD	HR	FI
Reliability & Regularity of Service	✗			✗	✗		✗	✗	
Relationship with Employees (Trustworthiness)	✗			✗	✗		✗	✗	✗
Communication				✗	✗		✗	✗	
Combination Service	✗			✗	✗	✗			
Purchase Price	✗			✗	✗				
Evidence of Proper Disposal					✗		✗		
Quality and Price of Offered Goods	✗					✗			
Range of Offered Goods	✗					✗			
Barrel Cleanliness		✗							
Toll-free Phone Line					✗				
SIGNALLING CRITERIA									
Availability of the Service				✗					
Friendliness of Staff	✗			✗	✗			✗	
Brand uniformity and professionalism	✗		✗	✗	✗	✗	✗	✗	✗
Purpose		✗	✗	✗			✗		✗
Breadth of Communication Channels				✗					
Customer Base				✗					
Personal Approach to Customers	✗			✗	✗		✗	✗	✗

Source: Author

3.3.2 Additional Isolation and Hindrance of Competitive Erosion

Given the fact that proposed strategy will require high amount of direct communication, it will be very difficult not to give competitors clues on which direction look to search for the source of differentiation and competitive advantage. Proposed activities and changes in activities stem from the need to strengthen the relationship with customers. Marketing communications will be heavier and the amount of information aimed at the customer will be more specific. However, as suggested by Rumelt (1984), Trafin Oil, a.s. can try to obscure its financial performance, which will heavily be linked to the employment of CHP units in its business. To obscure financial performance, Trafin Oil, a.s. can choose to establish a sister company, which main goal would be to administer and operate CHP units. The profits would be diffused and less evident.

If the link between the company and CHPs remains evident it might not be good enough incentive for rivals to imitate, as they might worry it will not bring superior returns. Remember, there is no CHP unit that is specifically designed to run on such oil. Additionally, it is a long run project that requires resources, time, and expertise. Competitors can be deterred by lobbying about the teething troubles project had in its beginnings.

If all goes well, Trafin Oil, a.s. can choose its CHP customers. The most lucrative customers (high energy prices) can be understood as strategic niches that can bring in extra profits and strengthen future position.

Since proposed competitive advantage builds heavily on the relationship with company's customer base, it relies on in-company training of operators, salesmen and drivers. Training is a knowledge-based activity, which increases casual ambiguity. Additionally, the problem the training addresses is socially complex, and will revolve around social responsibility (Peteraf, 1993). The linkage between trainings and CHPs might prove to be a good grabber of attention. Rivals might misunderstand the source of competitive advantage and will pursue less profitable strategies.

4 Strategy Proposal

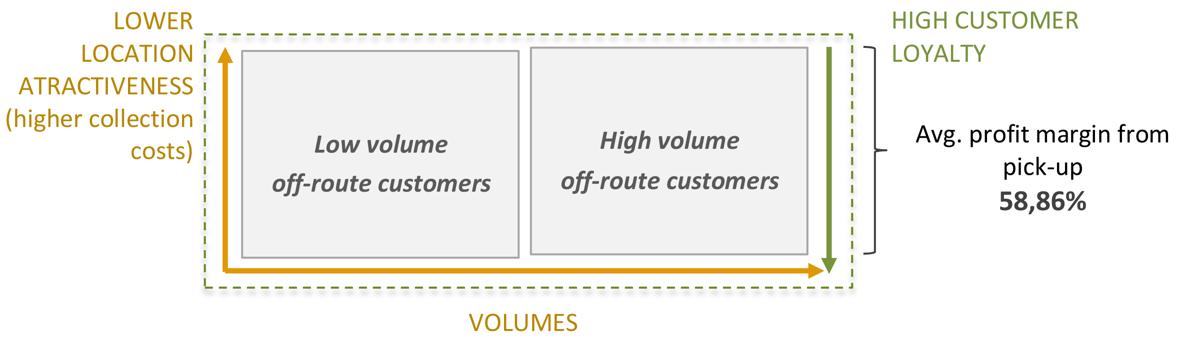
The following section summarizes insights gathered throughout this paper and presents them in a meaningful whole - a strategy. As mentioned earlier, Porter's definition of strategy is normative, not descriptive. The focus is on the content of strategy, on the position where the company wants to be. Not on the strategic planning, the decision making process or even whether it is possible to capture the strategy in fifty words or less. The general principle remains creating and sustaining competitive advantage. Therefore, the strategy will be described in terms of the five tests it needs to pass.

4.1 Five Tests of a Successful Strategy

4.1.1 A Distinctive Value Proposition

The objective is to retain current customer base and actively shift focus towards seemingly less attractive off-route segments, which offer relatively lower purchase prices, greater loyalty, greater cost stability and higher relative profit margins over time. The company needs to address the need of oil disposal by offering basic replacement service[20], i.e. „*We bring you clean cooking oil and take away the waste oil.*“ The advantages of being the first to approach the new customer are tremendous and are discussed earlier in the thesis (e.g. preemption). Additionally, the suggested segments hold enormous potential since the current aggregate collections account only for 18-22% of the potential market.

Figure 19: Customer Focus



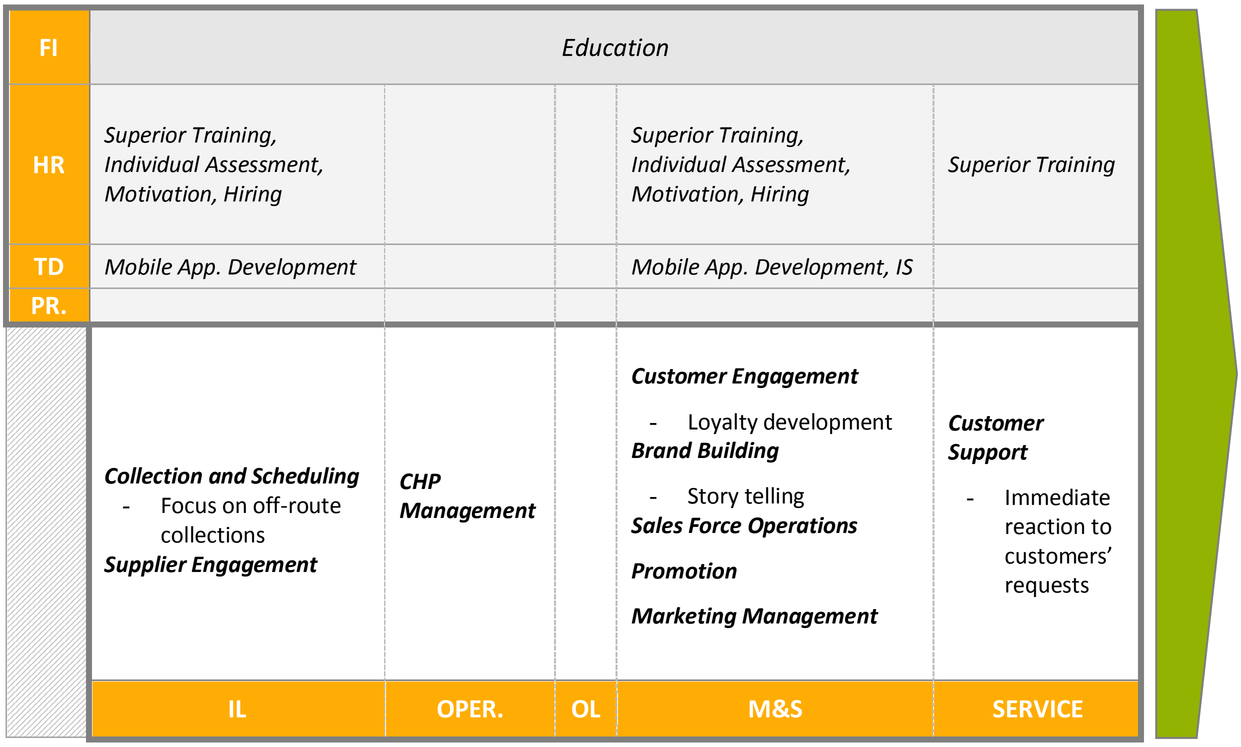
Source: Author

The differentiation must address customer's purchase criteria and emphasis must be placed on reliability, regularity and relationship with the customer. The source of higher perceived value will stem from company's availability of the service, its emphasis on staff training, brand uniformity, and purpose the customer helps to serve by providing its waste oil.

[20] The extra benefit of additional merchandise diminishes rapidly and offers little additional margin.

4.1.2 A Tailored Value Chain

Figure 20: Tailored Value Chain



Source: Author

The value will be delivered to the customer through value chain that is tailored to deliver higher pereived value. The pervasive aspect must be the company's education on the matter of CHP units and the efffect of efficient collection and utilization of waste vegetable oil - the differentiation is linked to company's decision to integrate forwad. Reliability and regularity of the service is a matter of operational effectiveness. However, emphasis must be placed on activities that increase customer's perceived value. Superior training will put focus on interaction with customers, brand building and story-telling. It will be a necessary continuous activity for operators, drivers, salesforce (front-line).

4.1.3 Trade-Offs

Trade-offs Trafin Oil, a.s. undertakes stem mainly from inconsistencies in brand image and reputation. Company chooses to position itself as a professional and ecological partner in waste oil disposal with emphasis on responsible and highly efficient utilization. Therefore, only the basic service is provided (oil replacement). By doing so, company can focus on negotiating better prices with clean oil suppliers and will avoid confusion originating from offering low-quality merchandise that would underminde company's credibility.

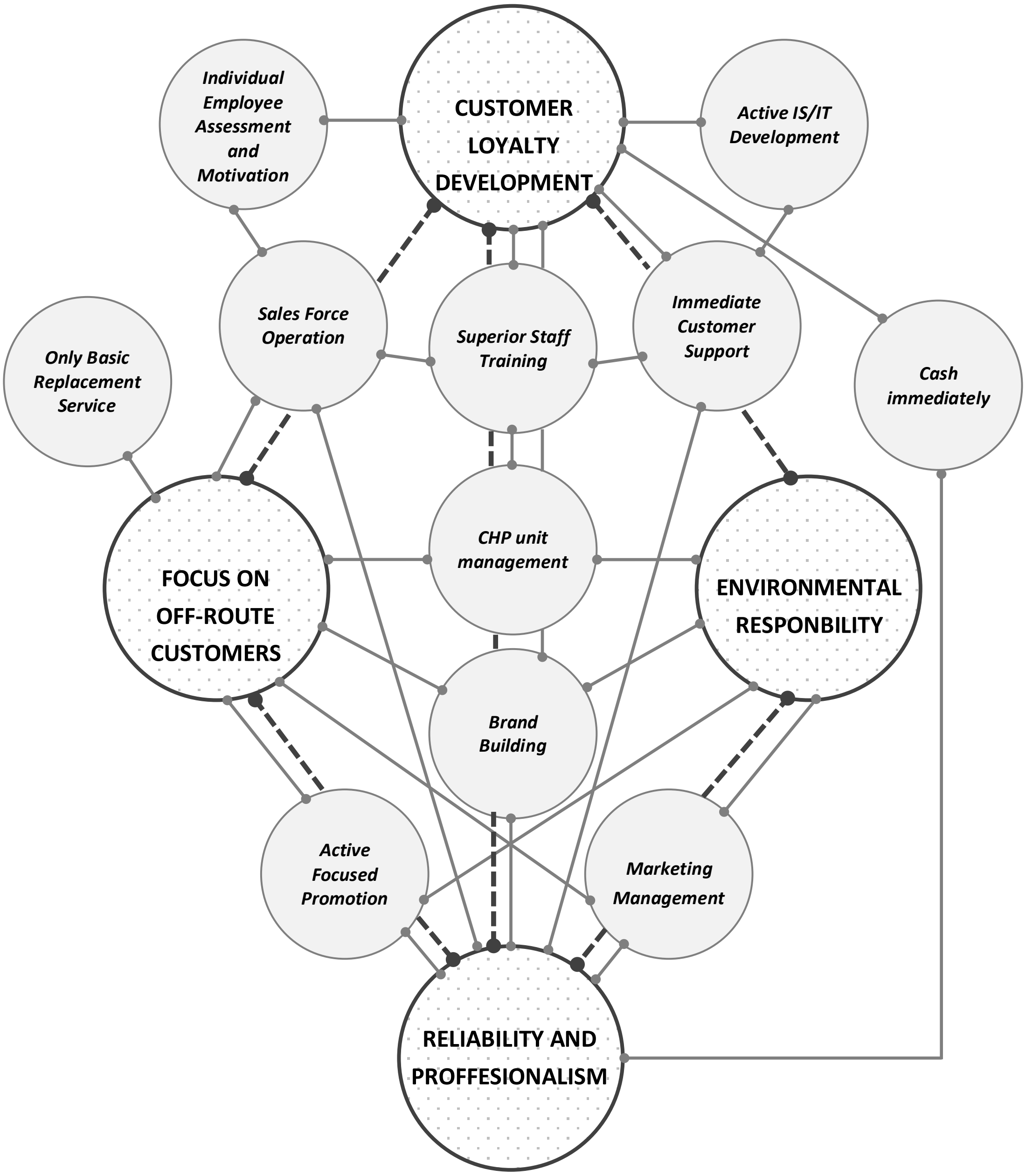
Trade-offs are also linked to the activities themselves - mainly, to the training. Front-line employees will be given extensive training that will shift their focus from orientation on sales to orientation on customer relationships (high level of assistance) and loyalty development.

Furthermore, focus on CHP will considerably lower the volumes available to biofuel producers, inevitably lowering sell prices and possibly evoking fiercer competition in the energy sector.

4.1.4 Fit Across Value Chain

Strategy is about combining activities. The pillar of Trafin Oil, a.s. strategy will be the deployment and operation of CHP units and utilization of recycled oil for renewable, sustainable and highly-efficient energy. It will not only help increase margins from the sales of recycled oil but it will be the alignment with the overall focus on efficient and green waste oil disposal. Basic consistency within activities is assured by trainings and focus on the brand identity. The fact that company focuses more on off-route segments, which proved to be more loyal and emotionally engaged helps reinforce the aspect of social responsibility and makes marketing and promotion activities easier and more efficient. Front-line training will have increased impact on the way the customer is educated about the subject and since, by definition, they care more, it will result in greater stability and higher volumes for lower purchase prices. The focus on technology development in general helps company maintain its competitive edge by constant improvements in operational effectiveness. Such focus enables greater customer care and more flexible realization of customer's requests. Fit is summarized in the following activity system.

Figure 21: Activity System Map



Source: Author

4.1.5 Continuity over Time

Firstly, focus on the neglected off-route segments allows the company to unlock the hidden market potential and build valuable relationships that address the aspects of social responsibility. The specialization on off-route collections and the first contact with the new customer are a tremendous advantage that should preempt competitors from attacking the segment. Additionally, Trafin Oil, a.s. should not anchor itself as a collection company, but should rather try to build its brand as a pioneering company with a purpose. Its brand and reputation must be build on reliability of its services, friendliness of its staff and responsibility toward environment - all done through professionally designed promotion and exceptionally trained employees.

The sustainability of business and its profitability is at the moment linked to inherent uncertainty of commodity market and legislative directives that ensure the demand for the commodity. This might change and Trafin Oil, a.s. should shield itself from its negative impacts, such as decrease in waste oil demand (and prices). This can be undone by demployment and operation of CHP units which ensure stability and long-term profitability. Lower market prices would even help realize higher margins and could enable the deployment of higher number of units Additionally, according to the newest state energy conception, support should be guaranteed towards high-efficiency energy generation, decentralization and towards renewable sources. Burning recycled waste oil in CHP units is all of the above (*Vyhláška č. 140/2009 Sb.* o *způsobu regulace cen v energetických odvětvích a postupech pro regulaci cen*.).

Furthermore, Trafin Oil, a.s. should begin active lobbying at regional and health offices to restrict the possibility of entry to the market. The arguments are logical (proper waste management, efficient collection and utilization of waste oil) and reinforce the activities within company's value chain.

Should all of the above go well, Trafin Oil, a.s. can be successful in luring (and stealing away) more lucrative customers into its pool as the perception of the value it offers would far exceed the benefits offered by company's rivals.

5 Recommendations

The development of strategy and its proposal is not by any means where the process ends. As mentioned in the section 1.1 emphasis should be placed on execution and strategy communication - topics that go beyond the scope of this thesis. Nonetheless, to push the understanding of strategy a step further, I intend to give advice on how to continue when strategy has been developed. The following section therefore suggests possible frameworks for strategy execution.

5.1.1 Execution and Communication

An excellent strategy that is not linked to excellent operational processes and governance cannot be implemented. Companies generally fail to implement strategy because they do not realize the complexity of the process of implementation. Additionally they lack a management system that would guide them through the process and help them reach the true potential of the developed strategy (Kaplan, 2008).

It is crucial to realize that many building blocks for effective strategy execution are already widely used. Strategic planning is performed by utilizing strategy maps and Balanced Scorecards (Niven, 2006). Quality management is ensured by many operational tools, process improvements techniques and many others. Kaplan (2008) presents a six-stage management system that integrates management tools to aid firms with the execution process. The system consists of the following steps:

- *Develop the strategy*[21]
- Plan the strategy - developing strategic objectives, targets, initiatives, measures and setting budgets; typical tools used for this step involve: strategy maps, Balanced Scorecards, STRATEX[22], theme teams
- Align organizational units and employees with the strategy - linkage of strategy with company's individual business units (total comprehension and motivation);
- Plan operations by setting priorities for process management and allocating resources that will deliver the strategy - emphasis on the link between long-term strategy and daily operations or translating Balanced Scorecard into operating plan; involve: improvements in key processes, innovation, dashboards of key process performance indicators, time-driven activity based costing etc.
- Monitor and learn from operations and strategy - the strategy plan and alignment is monitored and reviewed
- Test and adapt the strategy - reviews concerning the fundamental assumption of the developed strategy

By following the above rules, any company should be able to reduce shortfalls or at least, determine the key reason why the strategy is stumbling; either the strategy is inherently flawed or there is a problem with execution. Other frameworks, such as the one presented by Michael C. Mankins and Richard Steele (2005) excercise in essence the same approach by suggsting that turning strategy into performance involves keeping the strategy simple and concrete, making-resource allcoation decisions earlly in the planning process, and contuniuosly monitoring performance as strategic plan is being rolled ou.

[21] The first step was extensibly covered in this thesis
[22] STRATEX - strategic expenditures and investments that are removed from operational budgets (Kaplan, 2008)

Conclusion

The principal objective of the thesis was to develop a strategy that would result in sustainable competitive advantage for Trafin Oil, a.s. - a company that focuses on collection of waste oils and their further refinement.

The presented literature overview builds heavily on the concepts presented and described by Michael Porter, namely his five forces and value chain. These concepts are supplemented and enhanced by further frameworks (such as activity systems or isolating mechanisms), and create a solid basis for the actual analyses performed in the later sections of the practical part.

The practical part revolves around Trafin Oil, a.s. and its strategic position within the industry. The company is financially analysed and benchmarked against its competitors. Porter's five forces help understand company's competitive environment and reveal spots where the forces are the weakest. The framework generates a series of recommendations that should protect the company from the influence of competitive erosion and determine competitive dimensions on which Trafin Oil, a.s. should choose to compete. Value chain analysis is used to determine current and potential sources of differentiation within company's activities and links them to buyers purchase criteria.

The proposed strategy can be found in chapter 4. It should be repeated, that the thesis revolved around the content of the strategy and very little focus was placed on execution or communication.

The strategy builds on the off-route customers and their loyalty. The fact that such a high portion of the off-route market remains underserved is one of many arguments why the company should chase after it. The loyalty must be addressed and is reached through exceptionally trained employees, regular and stable combination service and reliable customer support. Strong focus should be placed on active brand building and marketing that would educate company's customers about its ambition for green future. CHP units play a major role in the strategy for several reasons. For customers they bring very little tangible value, yet, since "purpose" ranked quite high in their purchase criteria they have significant potential to increase the overall perceived value. Further benefits of CHPs are linked to company sell price. Deployment of CHPs brings in benefits of forward integration, the most important of which is the sale stability and high sell price.

Utilized theoretical frameworks proved to be extremely valuable in the strategy development process and helped me achieve the objective of the theses in two ways. First, they aided to establish competitive environment which was truly complete; they provided guidelines which described all the influential forces and factors within it. Second, they helped me trace the source of competitive advantage to activities firm chooses to perform and link them to buyers' purchase criteria.

This thesis has put forward a wide variety of valuable insights and distilled them into a sustainable competitive strategy. The strategy brings next-level thinking into the oil market and if employed correctly, has a significant profit-generating potential. As mentioned earlier, the success of the strategy is highly dependent not only on its inherent qualities, but also on its execution. Therefore more consideration should be given to strategic planning and consequent communication. Yet, conscious realization of strategy by itself is a revolutionary moment with eye-opening qualities that will, I am sure, prove very valuable for the company.

Nevertheless, a final point should be made that the reader should remain attentive when making decisions and drawing definite conclusions. The transparency of the oil market is very low since the market is raw and not all firms are required to submit their financial statements; only limited amount of information is accessible. Additionally, the survey was conducted with company's customers and was very brief in nature. At the end of the day, the main points of the strategy can serve as live hypotheses that are to be actively tested in-field as Trafin Oil, a.s. tries to acquire new off-route customers.

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APPENDIX

Appendix 1: Nine Dimensions of Strategy

NINE DIMENSIONS OF STRATEGY:
1. determines and reveals the organizational purpose in terms of long-term objectives, action programs, and resource allocation priorities;
2. selects the businesses the organization is in, or is to be in;
3. attempts to achieve a long term, sustainable advantage in each of its businesses by responding appropriately to the opportunities and threats in the firm's environment, and the strengths and weaknesses of the organization;
4. identifies the distinct managerial tasks at the corporate, business and functional levels;
5. is a coherent, unifying, and integrative pattern of decisions;
6. defines the nature of the economic and non-economic contributions it intends to make to its stakeholders;
7. is an expression of the strategic intent of the organization;
8. is aimed at developing and nurturing the core competencies of the firm;
9. is a means for investing selectively in tangible and intangible resources to develop the capabilities that assures a sustainable competitive advantage.

Source: Author, based on HAX, C. A. and MAJLUF, N. S., 1995

Appendix 2: Clogged Sewerage Pipe

Source: WWW: http://www.portlandonline.com/shared/cfm/image.cfm?id=247089; Available at 21:44, 5th August 2012