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Title of the Master's Thesis:

Comepetitive Strategy of the company Garena a.s.

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Declaration of Authenticity

I hereby declare that the Master's Thesis presented herein is my own work,
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Prague, 29 August 2011

Signature

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Competitive strategy of the company Garnea a.s.

Abstract:

Garnea a.s. has experienced several significant changes during the last year. Change in the primary market and main part of the product portfolio are the two major ones. Moreover, the company recently experienced a decline in the revenues and profits as well. Therefore, the main goal of this thesis was to define a completely new strategy which would reflect all the current changes and effectively fight the problems the company suffers from. For this purpose, the thesis provides the reader with company analysis. The characteristics of the market and main customers groups are defined in the industry analysis. Competitor analysis summarizes main competitors on the local as well as national level, points out their main strengths, weaknesses and highlights the strategic goals they are likely to pursue. Based on this information the competitive strategy of the company is crafted in respect to its current and future resources and capabilities. The strategy aims at achieving a better competitive position in the market.

Key words:

Competitive Strategy, Competitive advantage, Agricultural equipment.

Název diplomové práce

Konkurenční strategie společnosti Garnea a.s.

Abstrakt

Společnost Garnea a.s. prošla během posledního roku několika zásadními změnami. Jedná se především o změnu trhu, na který se společnost až doposud zaměřovala, a o změnu značky základního prodejního sortimentu. Navíc společnosti Garnea a.s. v posledních letech klesal jak obrát, tak zisk. Z tohoto důvodu je hlavním cílem této práce definovat novou strategii, která by brala v potaz zmíněné změny a zároveň efektivně řešila problémy, se kterými se společnost potýká. Pro tento účel byla vypracována analýza společnosti. Analýza tržního segmentu obsahuje jasnou charakteristiku trh a hlavních skupin zákazníků. Analýza konkurenčního prostředí poskytuje základní informace o hlavních konkurentech na lokální i národní úrovni, vyzdvihuje jejich silné a slabé stránky a zmiňuje cíle, kterých tyto společnosti hodlají dosáhnout. Na základě všech těchto informací a s ohledem na současné i budoucí možnosti společnosti je formulována nová konkurenční strategie. Tato si klade za cíl dosáhnout lepší pozice na trhu.

Klíčová slova:

Konkurenční strategie, Konkurenční výhoda, Zemědělská technika.

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INTRODUCTION

Garnea a.s. has been for a long time very prospering regional company selling and servicing agricultural machines and equipment. It started from zero, alike many others in the region, and managed to develop itself to one of the leading companies in the region, currently employing 31 people. Over the time the company was performing relatively stable with constant turnover increases. In 2008 the historical maximum was reached – CZK 250 million. However, after 2008 the company was hit by the global economic crisis. Furthermore, changes in the management of the company, various inefficiencies and internal problems started to emerge which led to further decrease in turnover and especially profitability. Moreover, the company was facing very unsatisfying, if not dangerous situation in respect to its major supplier.

In spite of all these complications, the company managed to achieve a big success and became a sole distributor of Deutz-Fahr tractors for the Czech market. Although this agreement brought escape from the dependence on its major supplier, it also brought further challenges and made existing internal problems even more visible. In the following year the company changed its management structure and hired several experienced managers in order to be able to cope with the new challenge. Nevertheless, all this effort has not brought satisfying results yet.

I have been working for Garnea a.s. for several years with interruptions. Especially during the last year I worked very intensely with the management of the company and was enabled to see all the changes from the managerial point of view. I firmly believe that the company has done a huge progress. However, to make the company successful again and to be able to achieve the targets set by the distributional agreement, the company needs a clear strategy. This strategy should provide a clear plan in which direction to go and what targets need to be reached.

The lack of a proper and complete strategy was the main reason why I decided to use this paper to work out a competitive strategy which would help the company to become a top performer again. This is also the core question to be answered by this thesis.

“What strategic changes need to be implemented in order to make the company a top performer achieving a sustainable long-term growth?”

In order to be able to answer this question, it is necessary to look at the causes of the current problems more in detail. Therefore the following subquestions need to be answered.

“What are the internal causes of the current problems?”

“What is the competitive landscape the company is competing in and how can the company strengthen its position?”

“What targets must be met in order to enable the company to growth sustainably and profitably?”

Only when these questions are answered, the company will be able to concentrate its strengths towards those activities, which really bring desired results. Furthermore, activities which are not relevant or even impede reaching the targets set will be abandoned.

The main aim of this paper is clearly to define a competitive strategy, which would make the company successful on the market in the long run. However, definition of competitive strategy requires throughout analysis of the company itself and of the relevant environment it is competing in. The main focus is on identification of major weaknesses and strengths the company possess and the use/elimination of these during the strategy execution and implementation.

Answering all questions will also require significant amount of data and information. Here the focus is on secondary desk research with the aim to obtain as much quantitative data as possible. In order to obtain qualitative data on market conditions and competitors, in-depth interviews with customers and market experts were conducted. Moreover, a focus group was organised with Garnea's sales representatives to get their view on the company and its competitors. Finally, an open question survey was conducted among the sales representatives of Deutz-Fahr sales network. All these activities were extremely helpful in gathering the otherwise very scarce information about the agricultural equipment market.

The paper itself starts with a literature review part, which provides an overview of the main work that has been done on strategy and competitive strategy during the past decades. Special focus goes on the concept of competitive strategy and competitive advantage defined by Porter (1980, 1985). Moreover, the process of crafting and executing strategy has been introduced in order to provide a theoretical background for own strategy formation presented at the end of this paper.

Second part is focused on the methodology being used. The various sources of quantitative as well qualitative information are described. Also the different methods used for obtaining information are presented.

The third and main part of this thesis is only concerned with the company Garnea a.s. and with the solution of the underlying questions leading to strategy formation. In order to make the whole part understandable, basic information on Garnea a.s., its history, development and current challenges is provided. Subsequently, the company is analyzed and the main strengths and weaknesses as well as resources and capabilities are identified. The following chapter focuses primarily on the market Garnea is competing in and on the various competitive forces. In chapter 8, a descriptive analysis of all main competitors on the local as well as national level is carried out. Finally, the competitive strategy of the company is formed in chapter 9 according to the process described in the literature review part designed by Thompson, Strickland and Gamble (2007).

PART I - LITERATURE REVIEW

The first part of this paper acquaints the reader with the basic concepts around strategy in the first chapter. The second chapter then continues with discussion on the core parts of competitive strategy. Subsequently, the strategy crafting process is briefly reviewed as it represents the way how to proceed when creating new strategy. The last chapter of this part concentrates on communication, which is extremely important for a good strategy acceptance among the company's employees but as well among customers. All four chapters then form an important basis for understanding of the analysis performed in the third part, which uses the described theoretical concepts and applies them on a real world example of a small company competing in a particular industry.

1. BASIC STRATEGY CONCEPTS

Strategy as a word is a very widely used term connected to any action which is supposed to deliver some result in a broader context. Most of the time it is used as a synonym of the word plan or action plan for a task being performed. However, we can encounter it rather in connection with more complicated activities involving several or many interconnected tasks which are necessary in order to reach a goal efficiently.

The origin of the word strategy comes from the old Greek language. In antiquity the meaning of the word “strategía or strategiké” referred to a general's abilities or skills. Later on, during the Byzantine times the meaning of strategy became more defined towards the meaning of the word as we understand it today. However, it took more than 1.500 years to integrate this today widely used term into the western languages. Although the western scholars did build on the theories of the ancient Greeks, they did not use the word strategy until the late 18th century. Though, it was not until the beginning of 20th century, where the word strategy was finally used for a non-military purpose (although its meaning was merely set into a different setting). Eventually during the cold war, strategy started to become accepted as we know it today – in the broadest sense as “how to do something” (Heuser, 2010).

1.1 Definition of strategy in the business context

In the business context, the term strategy, usually defines the way how to lead a company successfully and possibly outperform competitors or reach different sets of goals most efficiently – depending on the industry, company's stakeholders and the company management itself. Nevertheless, also today we often encounter reference to military history of the word. One example for all here is price war. But there are more terms used in strategic management which refer to war and military planning – only the means has changed.

Strategy can be defined in many ways, and, given the extent and frequency of its use, these definitions can include many different elements. However, the core of every such definition consists of the same element – a plan how to achieve a goal most efficiently.

An example of a very broad strategy definition from businessdictionary.com defines strategy as follows:

“A method or plan to chosen to bring about a desired future, such as achievement of a goal or solution to a problem.” (BusinessDictionary.com)

One example of a definition coming from a business environment is the definition stated by Jack Welch, the very successful former CEO of General Electric is as follows:

“Strategy means making clear-cut choices about how to compete”

The definitions above are indeed very simple and do not cover explicitly all the complexities of a strategy. It is clear that in the real world a company must do a lot more than just a plan. Mintzberg and Waters (1985) and Mintzberg and Lampel (1999) found in their research work conducted over many years that there are many approaches to strategy. Planning, as mentioned in the basic definitions, is only one basic approach, which is valid to some extent to all strategy crafting and formation concepts. Mintzberg, Ahlstrand and Lampel (1998) has defined in their work a total of ten so called “strategy schools” which build extensively on the planning and analyzing of internal and external environments and own competencies while crafting the strategy. Thomson, Strickland and Gamble (2007) summarized most of these ideas in one extensive definition:

“A company’s strategy is the game plan management is using to stake out a market position, conduct its operations, attract and please customers, compete successfully and achieve organizational objectives. The central thrust of a company’s strategy is undertaking moves to build and strengthen the company’s long-term competitive position and financial performance and, ideally gain a competitive advantage over rivals that then becomes a company’s ticket to above-average profitability.”

1.2 Importance of strategy and strategic planning

A company without a clear strategy is like a vessel without helm heading against rocky coast. Without a plan of how to compete, a company cannot compete and is sooner or later doomed to failure. There are many examples where companies without a clear direction are consistently underperforming or went bankrupt because of missing direction (Porter 1980; Thompson, Strickland and Gamble, 2007). It is even not incorrect to state that without strategy a company cannot sustain for longer periods of time, given the fact that a good strategy is the key element for creating long-term competitive advantage. This is a company’s

“ticket to above-average profitability” as mentioned in the definition above. Relying only on a good and efficient business model is not enough and will sooner or later force the company out of the industry. (Porter, 1996; Margretta, 2002)

Unfortunately, the reality today is that many companies do not have real strategies, use strategies which are outdated or resemble a business model. The last one is by no means a replacement of a strategy, although it sometimes works well. The reason is simple. A business model says how the company makes money, what is the value of company's customers, what is the logic behind the company's way of doing business. It is the description of the current company's operations, processes and competencies and the interaction of them which should lead to a positive economic result (Margretta, 2002). Although this is the essence of the current days, it is by no means something on what the company can rely if it starts thinking about sustainable profitability and outcompeting competitors in the future. Here it is necessary to do much more than just design the processes in order to generate the best achievable result from the current status of operation. It is crucial to take into account the development of the external environment the firm is competing in (competitors, substitutes, potential entrants, suppliers, buyers, government) and of all other possible bodies which could have an effect on the company's operations in the future. This is the core but by far not all what a good strategy should take into account. The company cannot forget on own internal competencies, processes, strengths and weaknesses. Knowing all this the company's management should then be able to direct the company so that it operates in some way unique not replicable by its rivals. A mere business model which most of the companies in an industry follow does not deliver such differences (Porter, 1996).

Uniqueness does not need to be something really different. It can but this is rather rare. Through a careful analysis and planning and with a little bit of intuition the management should be able to find a real strategy how to make same things in the value chain defined by the business model differently or let the main competencies the company has interact on a basis that rivals can hardly copy (Porter, 1980; 1996; Mintzberg, Ahlstrand and Lampel, 1998). Here the world strategy is deliberately used because all these things are the essence of successful presence on the market.

Porter (1996) mentions an interesting example from the car making industry. He describes in particular the Japanese car makers and their excellence in operational efficiency, which brought them dominance. Via many quality and cost efficiency programs, Japanese car

makers managed to outperform all competitors. However, today they seem to have reached the productivity frontier and are left unprotected to the rest of the industry, which, in the meanwhile, has caught up. Without finding a real strategy, they will find it increasingly difficult to compete with the American and European manufacturers.

On the other hand, there are companies, who created such a unique business model, that they can be easily considered as great strategies – because they are so different and hardly to imitate. One example for all here is Dell with its orientation on high margin business customers and unique distribution system. (Margretta, 2002)

1.3 Key success factors of a good strategy

The essentials of each successful strategy, even in war, are based on using available resource efficiently with the best result possible given the environment it is located in. It is therefore clear that a company without clear idea of its future goals and targets – its vision – can hardly direct its resources to the most efficient activities. Moreover, without knowing in which activities the company excels over its competitors, the company would probably find it hard to find the way how to use its resources most efficiently. Such a situation would resemble attacking too many targets with the weakest units and few soldiers – a plan destined to failure.

In order to avoid such situations a deliberate strategy is crucial. The following points are the most stressed in strategic management:

- A core of a company strategy is a vision of where the company should head in the future and on which markets, customer groups, product categories etc. to focus on. (Thompson, Strickland and Gamble, 2007)
- The company core values have to be reflected in the company's vision and strategy. (Collins and Porras, 1996)
- A strategy and the underlying vision must reflect and fit company's abilities, competencies and resources and exploit these to build sustainable competitive advantage. (Barney, 1995)
- A strategy must be directed at strengthening current competitive advantage or creating a new one and making it sustainable in the long-run. (Porter, 1980)

- A strategy must take into account all possible actions, reactions and changes in the environment it is competing. (Thompson, Strickland and Gamble, 2007)
- The customer has to be in the middle of the strategy. In many companies the main focus often goes to competitors, market, government actions and to internal problems. In good strategies, however, the customer remains in the centre of the strategy. (Roman 2010, Porter, 1980)
- A good strategy establishes a difference in the way the company is doing business in relation to its rivals. Either it performs some activities in a unique way or the set of otherwise usual activities and competencies is fitted together in a way the rivals can hardly reach. (Margretta, 2002)
- The strategy must be well communicated and understood throughout the whole organization and the leaders have to show their commitment to it. (Kaplan and Norton, 2007; Thompson, Strickland and Gamble, 2007; Collins and Poras, 1996)
- The strategy has to well fit the company's business model and deliver viable results. (Margretta, 2002)
- A good strategy is not task – a good strategy has a life and adapts to the environment if necessary. On the other hand the adaptations need to reflect the main strategic direction. (Thompson, Strickland and Gamble, 2007; Porter, 1980)

1.4 Different ways of approaching strategy – ten schools of strategy formation

In the second half of the 20th century, there has been a lot of research work done on strategy and strategy formation. One of the current guru of strategic management, Henry Mintzberg, together with his colleagues Ahlstrand and Lampel spend many years doing research on strategy and especially different ways of strategy formation. The result is the definition of ten schools of strategy formation presented in their book in 1998 and briefly summarized one year later. This paper will provide only a very short overview in order to show all the different views on strategy, which are in some way reflected in the strategy formation discussed in chapter 4.

Table 1: Ten strategy schools

Name of the school	View on the strategy process	Short description
The Design School	Strategy formation as a process of <i>conception</i>	Strategy formation aims to reach essential match between internal and external environment of a company
The Planning School	Strategy formation as a <i>formal</i> process	Strategy formation proceeds divided into several steps similar to project management
The Positioning School	Strategy formation as an <i>analytical</i> process	Strategy formation is largely based on the analysis of the company environment and finding the most advantageous position
The Entrepreneurial School	Strategy formation as a <i>visionary</i> process	Strategy formation is based on intuition and vision of the top management
The Cognitive School	Strategy formation as a <i>mental</i> process	Strategy formation's core element is cognition about the environment on the newly gained information
The Learning School	Strategy formation as an <i>emergent</i> process	Strategy formation is emergent based on the learned experience
The Power School	Strategy formation as a process of <i>negotiation</i>	Strategy formation can be described as a political process between different power parties within the company
The Cultural School	Strategy formation as a <i>collective</i> process	Strategy formation tries to focus on common agreement. Extensive change cannot be

		expected
The Environmental School	Strategy formation as a <i>reactive</i> process	Strategy formation based on expected responses from organizations in the environment
The Configuration School	Strategy formation as a process of <i>transformation</i>	Strategy formation based on integration of the previous ideas leading to a change

Source: Adopted from description by Mintzberg and Lampel, 1999

2. COMPETITIVE STRATEGY

In the majority of the reviewed literature focused on competitive strategy, the purpose of a strategy is described as acquirement of the most favorable position in its environment given the company's competencies, skills and resources (Porter, 1980, 1985, 1995; Barney, 1995; Thompson, Strickland and Gamble, 2007; and others). By most favorable position many can indeed come into our minds. However, the fact is that the purpose of a firm is by its nature to generate profits. Therefore, aimed market share or other targets should in the long term result in the most favorable position in terms of the basic purpose of a firm – to secure sustainable profitability. (Monks and Minow, 2008)

Many readers would suggest that profitability is not all and that there are other targets (like being a good citizen) than earning money. That is truth and I do not refuse this. Nevertheless, all these activities, even CSR, eventually ensure that the firm can exist profitably in the long-run. Only a socially active and well accepted company can sustain for a long time. (Monks and Minow, 2008)

Securing profitability in the long-run is not achieved by just being in the market and offering a product. Firms have to compete for its customers with other companies and maybe in some industries even individuals. Therefore, every strategy pursuing the target of sustainable profitability has to take competition as a matter of fact, as an element that is there and cannot be excluded. The outcome is that the vast majority of strategies in the business context are strategies which can be attributed as competitive.

This chapter will present the major elements of a competitive strategy as they are crucial for the strategy being proposed in the third part of this paper. The first point to stop is again the definition. Consequently, generic competitive strategies come into the focus representing a kind of role model strategies for companies crafting their own competitive strategies. Then the concept of competitive advantage is discussed as competitive advantage forms the core of every successful competitive strategy. The last two chapters are devoted to the relevant analyses of internal and external environment which are here introduced as the basis for strategy creation.

2.1 Competitive strategy – the definition

In the introduction of this chapter I have mentioned that every strategy has to be competitive, given the nature of a firm. Nevertheless, pursuing the main goal of a firm does not necessarily mean that every aspect of a strategy is directed at competition. Therefore, the competitive strategy, which is the main focus of this paper, can be seen as a specific type of strategy – the one considering not only the company, but as well its environment (rivals, suppliers, buyers, government etc.). Michael E. Porter (1980) defines competitive strategy in his famous book with the same name as follows:

“Competitive strategy is about being different. It means deliberately choosing to perform activities differently or to perform different activities than rivals to deliver a unique mix of value to the customers.” (Michael E. Porter, 1980)

The definition clearly shows the difference between a classical strategy definition, which in essence is a synonym to the word plan of operation, and the competitive strategy definition which is specifically directed at performing better in relation to the others in the market.

Similarly, the definition of Thomson, Strickland and Gamble describes competitive strategy as:

“A competitive strategy concerns the specifics of management's game plan for competing successfully and securing a competitive advantage over the rivals.” (Thompson, Strickland and Gamble, 2007)

2.2 Generic competitive strategies – the role models of strategic management

In psychology it is claimed that every person is unique and has different character. And even though this is unquestionably truth, there are patterns in each person's character, which make it possible to divide people into groups based on their character. As an example, the four temperaments defined by the Greek physician Hippocrates, sanguine, choleric, melancholic, and phlegmatic, can be used. People can have many characters - companies can have them too. Of course as a simile and not in reality. Company's strategies indeed do share some common characteristics with the concept of human temperament. And alike knowing the temperament type of a person, knowing a generic strategy of a company can be incredible helpful when dealing with it.

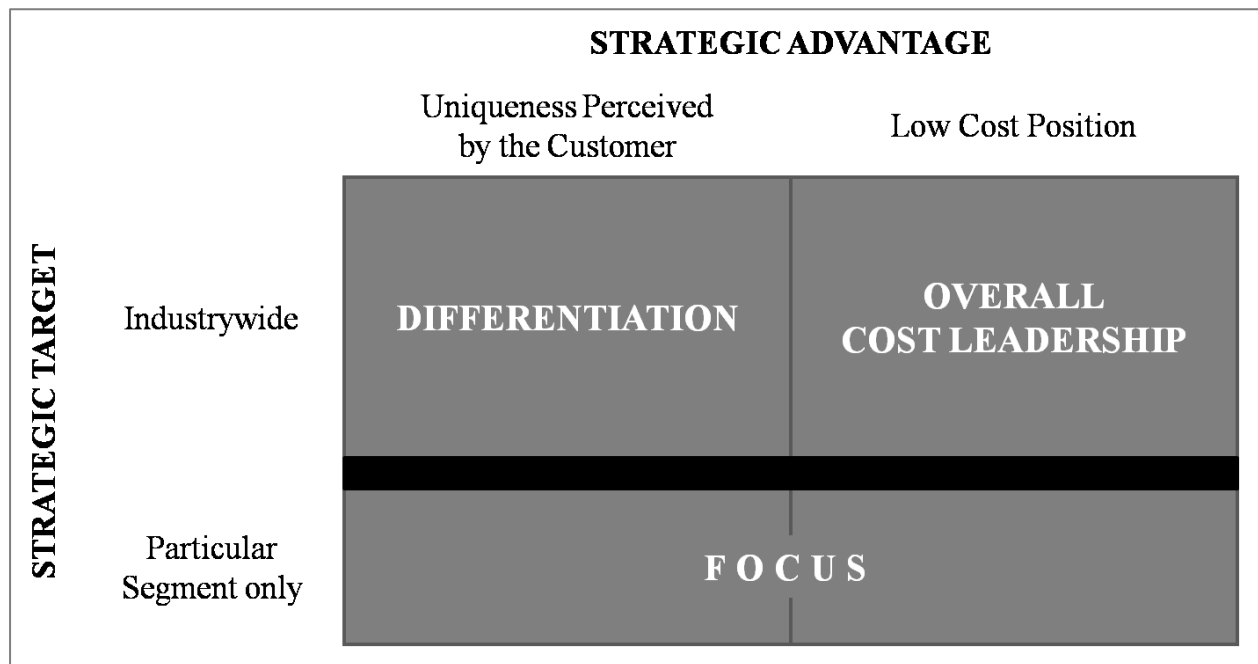
The reason why I mention this similarity with human character when talking about generic competitive strategies is evident. The generic competitive strategies, alike human temperament types, are the basic types of successful competitive strategies to be found among the many millions of strategies in the whole world. Alike with humans, there are endlessly many strategies (temperaments), but they do in their core resemble one of the generic strategies. This is true no matter if we take the basic three generic strategies defined by Porter (1980) or the extended version to be found in the work of Thompson, Strickland and Gamble (2007).

Porter's three generic strategies

Porter (1980) has in one of his most acknowledged work's defined this concept in order to show that irrespectively of the industry every company has the choice between several options for a successful strategy formation. In Porter's view of strategies, there are 3 strategy types that can be used to divide virtually all successful strategies being applied by companies all over the world. These has been proved in within the last 30 years where they helped strategist and top executives of past and of today to craft new successful strategies which eventually helped them to create a defendable positions in the market (or markets) they compete in and to outperform rivals. Figure 1 clearly displays the three generic strategies on a two-dimensional chart clarifying the main dimensions Porter uses to differentiate the three strategies – strategic advantage and strategic target (customer group): The three generic strategies are:

- Overall cost leadership.
- Differentiation.
- Focus.

Although these words and their meanings should be familiar to any strategy practitioner, a short description is provided given the importance and almost dominant position of the concept in strategic management all around the world.

Figure 1: Three generic strategies according to Porter

Source: Porter 1980, Competitive Strategy, p. 39.

Overall Cost Leadership

Basic objective of strategies following this concept is to direct all company policies and processes at one basic aim – cost efficiency. This should, by no means, be done generally but with respect to certain activities crucial for successful performance in the individual industry. Porter describes the requirements as follows:

“Cost leadership requires aggressive construction of efficient-scale facilities, vigorous pursuit of cost reductions from experience, tight cost and overhead control, avoidance of marginal customer accounts, and cost minimization in areas like R&D, service, sales force advertising and so on.” (Porter, 1980)

The extent to which costs in certain areas should be reduced requires careful consideration in order not get under an acceptable level, under which value compensation by lower price is no more possible. This refers especially to service and quality, but depending on the industry other areas may be crucial as well. Another important aspect of the cost leadership strategy is experience and use of the experience curve as the tool to further lower costs and maintain distance to rivals trying to pursue similar strategy (Porter, 1980).

A greatly successful and well known example of overall cost leadership is the Irish Airline Ryanair. This once unimportant and consistently underperforming Irish airline company is today the largest air carrier in Europe. The reason? Overall low cost leadership strategy brought to excellence by greatly defining core activities where value is generated and other activities where costs are uncompromisingly cut to minimum. (Box and Texas, 2005)

Of course as any strategy, overall low cost leadership does not work in all situations and requires certain conditions to be fulfilled (Porter, 1980).

- Heavy investment in the beginning.
- Large relative market share.
- High volume of many related products (cost sharing possible).
- Very tight cost management.

In case a company is able to meet these, it can then enjoy above average profits in the long run. However, it is necessary to be aware of the fact that the profits come only when these conditions are fulfilled. Moreover, usually only very limited number of companies can enjoy the position of a cost leader, given the fact a significant market share is necessary to achieve it.

Differentiation

The main aim of this strategy is to reach a position that is considered as special. Industrywide. Unlike the low cost strategy, companies pursuing differentiation are not so much concerned by decreasing costs. Rather they are trying to create a set of unique features of their products or services, which are seen by its customers as valuable and worth to pay for. By doing so they strive to gain acknowledgment as unique and different compared to their rivals. Typical example is exceptional reliability, service, speed delivery etc. (Thompson, Strickland and Gamble, 2007)

Acquiring such unique position is necessarily connected with higher cost and extra expenditures. However, acquisition of such perception by its customer group leads indisputably to higher profitability than most of the rivals in the market are able to achieve. The crucial condition with differentiation is that it will preserve and therefore yield positive results only in case the unique characteristics cannot be easily imitated or surpassed by the

rivals or other firms potentially entering into the industry. This is also the upmost condition for successful implementation of a strategy based on differentiation.

Unlike the low-cost strategy, differentiation does not require being the market share leader in the industry and usually does not lead to such an outcome. Nevertheless there are exceptions. Caterpillar is a great example which differentiated itself with its unmatched spare parts availability. The fact that in construction business every hour of not using a machine is effectively a loss enabled caterpillar to achieve market leader position even though it was not the cost leader (Barney, 1995). Nor is the differentiated company, according to Porter, a company which serves only a focused group of customers and rather focuses on the whole industry with its wide product portfolio. However, as we will see later in the extended form of generic competitive strategies, the current view on this matter is that such companies do exist and perform exceptionally well. (Thompson Strickland and Gamble, 2007)

Focus

The last generic strategy identified by Porter and widely acknowledged is the strategy of focusing on a niche in the market. The core of this strategy is the focus only on a certain group of customers with similar needs. The focus on this particular customer groups enables the respective company to get much closer and direct all company processes towards satisfaction of their needs. As a result, the company is able to do so more efficiently than rivals offering similar products but to the whole industry. The higher efficiency is usually achieved by experiencing lower costs in the particular niche area than anyone can achieve without focusing or by offering the niche customers extra value which can be achieved only through specialization and close contact with the customer.

As with low cost and differentiation strategies in the broadly defined markets, similar rules are valid for the niche market. The only difference is the scale, though the relevant conditions for becoming successful with each of the strategies are similar if not the same.

Stuck in the middle position

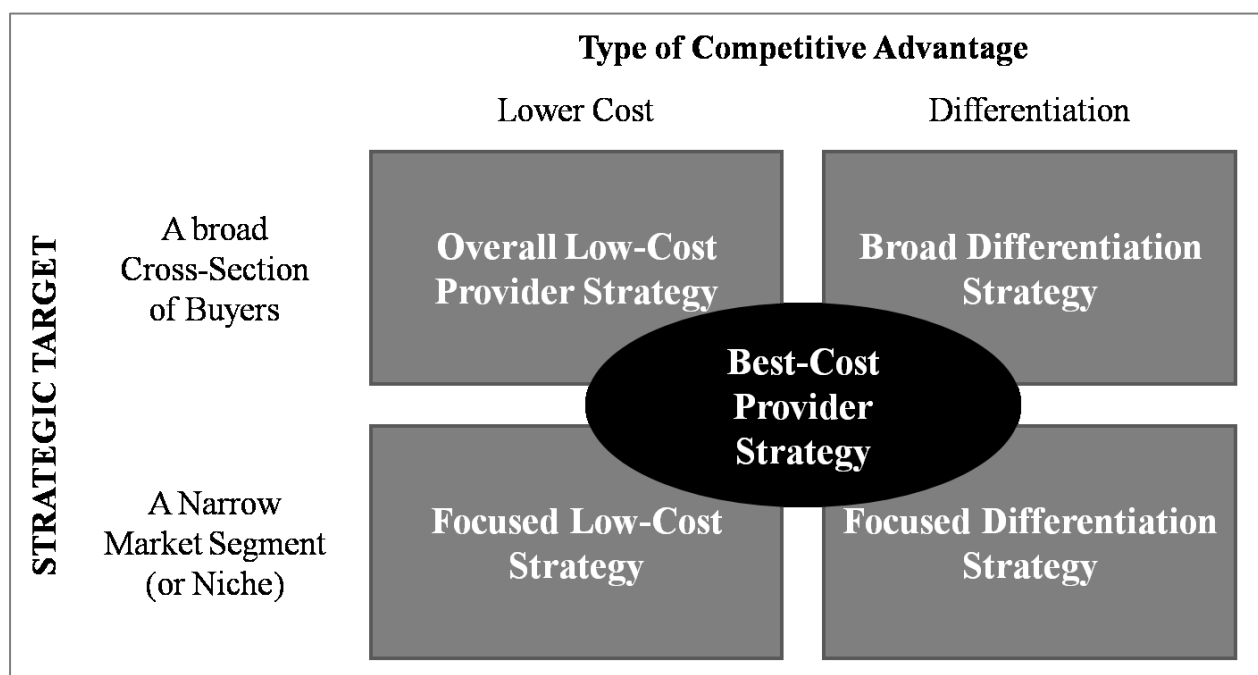
A company, which does not pursue any of the three generic strategies or on the contrary is in some way trying to achieve all of them together, is almost surely doomed to constant underperformance or even cessation of its operation. Such a company usually lacks a long-term direction, as it is not able to decide which way to go. Pursuing low cost and

differentiation at the same time cannot work as the two are simply in contradiction to each other.

Expanded version of generic competitive strategies

Thomson, Strickland and Gamble (2007) used Porter's generic strategies in their work and created an expanded version. In figure 2, this model is graphically displayed. They defined in total 5 model strategies which are based on the same criteria as Porter's model. The really new position here is the best-cost provider strategy which was not included in Porter's model. The other four were already present in Porter's work, however, they were considered only for the broad market. In this model also the focus strategy gets divided into 2 separate strategies: Focused low-cost and focused differentiation. Therefore, only the new strategic position is presented more in detail.

Figure 2: Extended version of generic competitive strategies



Source: Thomson, Strickland and Gamble 2005, *Crafting and Executing Strategy*, p. 134.

Best-Cost Provider Strategy

The best-cost provider generic competitive strategy is a newly defined way how to compete in the market. The key of this strategy is to deliver more value for comparably the same amount of money. The authors describe the strategy as follows:

“Deliver superior value by satisfying customer’s expectations on key quality/features/performance/service attributes and beating their expectations on price.” (Thompson, Strickland and Gamble, 2007)

A good real world example is the Czech car maker Skoda, which is well known for its great price/quality ratio.

As it might become obvious from the definition, the best-cost provider strategy very much resembles a position which Porter describes as “stuck in the middle” (see above). Indeed this strategy’s main aim is to find the right balance between low-cost and high quality/service attributes. In practice this means using the words of the authors:

“Incorporate attractive features, manufacture good to excellent quality products with good to excellent performance and provide attractive customer service all at lower costs than rivals.” (Thompson, Strickland and Gamble, 2007)

The similarity to the “stuck in the middle position” is also where the risks of this strategy come from. Once the company is not able to balance ideally between low-cost and differentiation, it can easily get squeezed either by rivals with pure low-cost strategy or by rivals with pure differentiation strategy. This risk is connected with the fact that best-cost provider strategy is not suitable for markets where people are highly sensitive on price and products are either very similar or highly differentiated. Rather it can be very profitable in markets with large group of value seeking customers. Here the best value can be the way to success as in such markets many customers are reluctant to buy the very cheap low-cost products or very expensive and highly differentiated products.

2.3 Competitive advantage

Although most of the time business people talk about strategies, it is extremely important to be precisely aware on what the competitive strategy rests on. Without competitive advantage, a company would hardly be able to create a successful strategy. Except such strategy aims at creating an advantage. Competitive advantage is at the heart of each competitive strategy. It is always easier to craft a strategy with an already present and sound advantage. Unfortunately, the reality is rather pitiful. Only a really tiny fraction of companies today know exactly and without doubt what their competitive advantage is. What is even more

alarming, the remaining majority is not able to explain plausibly what their advantage is (Smith, 2006). Therefore, before a company actually starts thinking about which strategy to choose, it should make a sound analysis of its internal resources and capabilities in respect to the external environment and define exactly what the resulting competitive advantage(s) is. Only then top executives can start thinking about which strategy to go for in order to exploit fully the present advantages or, if any real advantage is present, to use current potentially distinctive resources and capabilities in a way such an advantage is created. (Barney, 1995; Duncan, Ginter and Swayne, 1998; Peteraf, 1993)

Smith (2006) carried out a vast research focused on competitive advantage and found that many companies are not really aware of what they call “*the what keeps you in business*” meaning the competitive advantage. This result may rest on the fact that most businesses are particularly more concerned about their competitors and customers and often forget to focus on the core value their own company relies on. As Barney (1996) stated: “... *environmental analysis... is only half the story.*” The top management of each company has to concentrate on the internal side of the competitive advantage as well. The difference between a strategically advantageous resource or capability and one which is not advantageous refers to the extent by which this resource or capability can be considered as distinctive or unique resulting from its occurrence in the competitive environment.

However, the company must first possess such resource or capability to find out about its uniqueness. Therefore, an internal analysis and evaluation of how much are individual resources and capabilities contributing to the company's competitive advantage are key activities of crafting a competitive strategy. In this way the management must make sure it really understands the sources of the competitive advantage or it has to find such resources and capabilities, which are appropriate for creation of such advantage through a deliberate competitive strategy.

Although the literature provides numerous easy to use techniques for analysis of external environment in regard to competitive strategy (Porter's five forces, Strategic group maps, various tools for competitor analyses) the internal analysis is not so well equipped. Certainly there are many tools how to analyze company's resources and capabilities, though these are rather individual islands focusing on a particular part of the company's internal environment. For purposes of strategic management and identification of competitive advantage top executives need to analyze the internal environment completely, not just in parts. They need a

complete system in order to be able to spot the reasons behind a competitive advantage (Duncan, Ginter and Swayne, 1998).

How to look now for a competitive advantage inside a company? Barney (1995) tries to answer this question by using a simple SWOT analysis and answering a series of four questions for each of the strengths and weaknesses defined. Answering those questions will help the management to understand which resources and capabilities form very important strength contributing to a competitive advantage and which have a rather negative effect, representing a weakness devaluating the final advantage. The questions Barney (1995) asks are as follows:

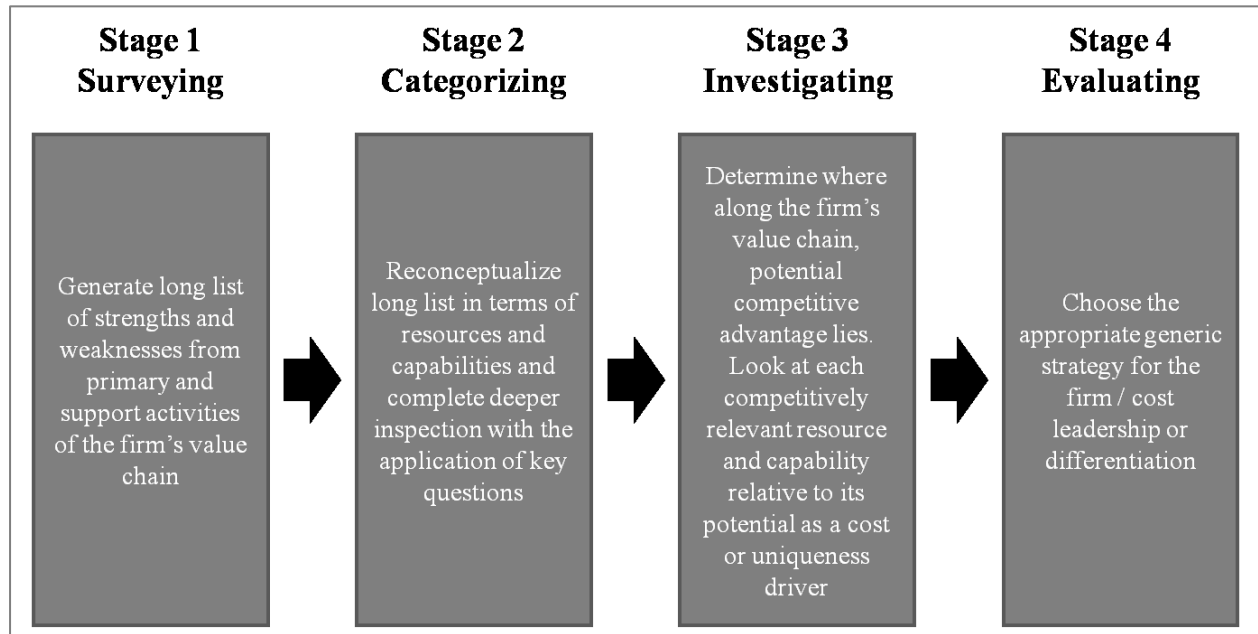
- *“Question of value: Do a firm's resources and capabilities add value by enabling it to exploit opportunities and neutralize threats?”*
- *“Question of rareness: How many competing firms already possess these valuable resource and capabilities?”*
- *“Question of imitability: Do firms without a rare resource or capability face a cost disadvantage in obtaining it compared to firms that already possess it?”*
- *“Question of organization: Is the firm organized to fully realize and exploit the potential of its valuable, rare and hard to imitate resources and capabilities?”*

In case the answers to these questions indicate that the company does possess some distinctive resource and capabilities which are valuable, rare, hardly to imitate and that there is a good organization to support the exploitation of these resources and capabilities, it has then the best precondition for creating and keeping a sustainable competitive advantage.

Another, systematic but more complicated approach was designed by Duncan, Ginter and Swayne (1998) by combining the work of Barney and his four question framework together with the company's value chain. The so called “Internal Environmental Analysis Process” as well puts emphasis on sustainable competitive advantage. At the end it is the attribute of sustainability that makes competitive advantage and also a strategy a winner in the long run. An advantage, which is not sustainable, has to be either made sustainable or a company has to develop in the meanwhile a new and sustainable one. Otherwise, after the unsustainable advantage is imitated, the company will end up with average or below average profits as before the initial advantage was created. The process itself relies on four stages which result

in a definition of competitive advantage or in finding resources which have the potential of becoming the basis of a new and possibly sustainable advantage.

Figure 3: Internal environmental analysis process



Source: Duncan, Ginter and Swayne, 1998

Once the top executives or owners know their sustainable competitive advantage, they can start crafting competitive strategy because now they know exactly what are the company's resources and capabilities compared with the rivals in the industry.

Although finding a competitive advantage requires an analysis of external environment to be already performed, the competitive advantage was intentionally placed right behind the generic strategies as they are very much interconnected. The various analyses of the external environment are discussed in chapter 2.5.

Moreover, this part is by no means a replacement for a company analysis. It is solely directed at competitive advantage as an extremely important part of a strategy coming from within the company. Company analysis is discussed in the following section more in detail, forming so a natural extension of the discussion above.

2.4 Company analyses

The more is the top management aware of the objective company situation, the better it can prepare for the future. An understanding of the company's current position, its resources and

capabilities together with strengths and weaknesses, current strategic direction and the operational effectiveness are all issues which should not be left out when a new competitive strategy is being crafted. It is extremely important to know what the company is able to achieve and how to make the company a better performer. One part of this was finding the valuable, rare and not imitable resources as mentioned by Barney (1997). The second part is to look at the rest of the company's operations and find all the ineffective spots which need to be abandoned or made effective (Roman, 2010).

Before looking at the company's value chain, resources and other activities, an evaluation of the current strategy should be carried out. Such an evaluation is by no means easy to perform and needs to be critical. Qualitative as well as quantitative evaluation should be done in order to find out how well is the company doing with the current strategy (Thompson, Stickland and Gamble, 2007). A strategy which does not help to acquire new customers and does not lead to better financial and operational performance can never be conceived as good and need to be changed or replaced. In terms of financial performance, there are many commonly used ratios which do inform about the company's financial health and how this developed over time. Generally the financial ratios can tell a lot about the company performance. Even things like inventory turnover, gross margins, net margins etc. A whole array of books has been written on this topic. They precisely specify which indicators to use in order to find out certain data (e.g. *Corporate Finance: a practical approach* by Clayman, Fridson and Throughton, 2008).

The typical and most widely used step in company analysis is the SWOT analysis. This famous analysis can be used for both, our own company but as well for competitors. This very powerful tool should, by no means be missed out when analyzing the company's strengths, weaknesses, threats and opportunities. Although it was not specified above, the internal part of the SWOT analysis was used in the discussion on competitive advantage. The external part should be viewed as equally important. Although mere listing of opportunities and threats is by far not enough for creation of a sound competitive strategy, it is still one of the basic elements of the underlying analyses (Barney, 1995, Duncan, Ginter and Swayne, 1998).

There are further concepts for company analysis. As the aim of this paper is not to discuss the usefulness of each tool, only a short description is done for completeness and better understanding of the main part of the thesis.

Company value chain and activity based costing are the two other most commonly used concepts for company analysis. They are both very powerful, but unlike the SWOT, their primary target is to focus on costs and at how effectively are individual activities performed. Benchmarking and different unweighted and weighted assessments use the industry key success factors and compare the company's results with its competitors. This tool enables to identify the areas in which particular competitors are strong and most importantly where improvement is necessary. (Thompson, Strickland and Gamble, 2007)

2.5 Analyses of the competitive environment – the key task for successful competitive strategies

External analysis represents the second part necessary for a successful and effective competitive strategy creation. In the beginning a parallel was used to highlight the importance of a competitive strategy. Therefore, if a company without strategy is like a vessel without helm, then a strategy creation without a careful and complete analysis of the external environment and competitors is like having a captain which is blind. He knows what he feels and what his strengths are, but is unable to see what is going to happen in the direction he is heading to.

Before any analytical tool is used, each company should first gather basic information about the industry, its, development in the past and the trends which are prevailing. In fact this means to list a certain amount of hard statistical data and make a small statistical overview about the industry. Maybe the company gathers this data regularly. If this is the case the analysis can start immediately. If not, at least basic statistical data needs to be collected. Hereby especially following parameters are meant: size, number of competitors and buyers, growth rate, technological change, average profitability etc. Any various indicators can be collected unless they are relevant to the industry key success factors or form the basis for financial performance analysis. (Porter, 1980)

There are several powerful tools widely used for the analysis of the external environment. SWOT could be the first to come into once mind. However, SWOT is a company analyses reflecting on the environment. It is not an analysis of the environment itself (except it is used for a competitor analysis). Probably the best and most widely used tool, which includes all possible actors in the competitive environment is the five forces model created by Porter

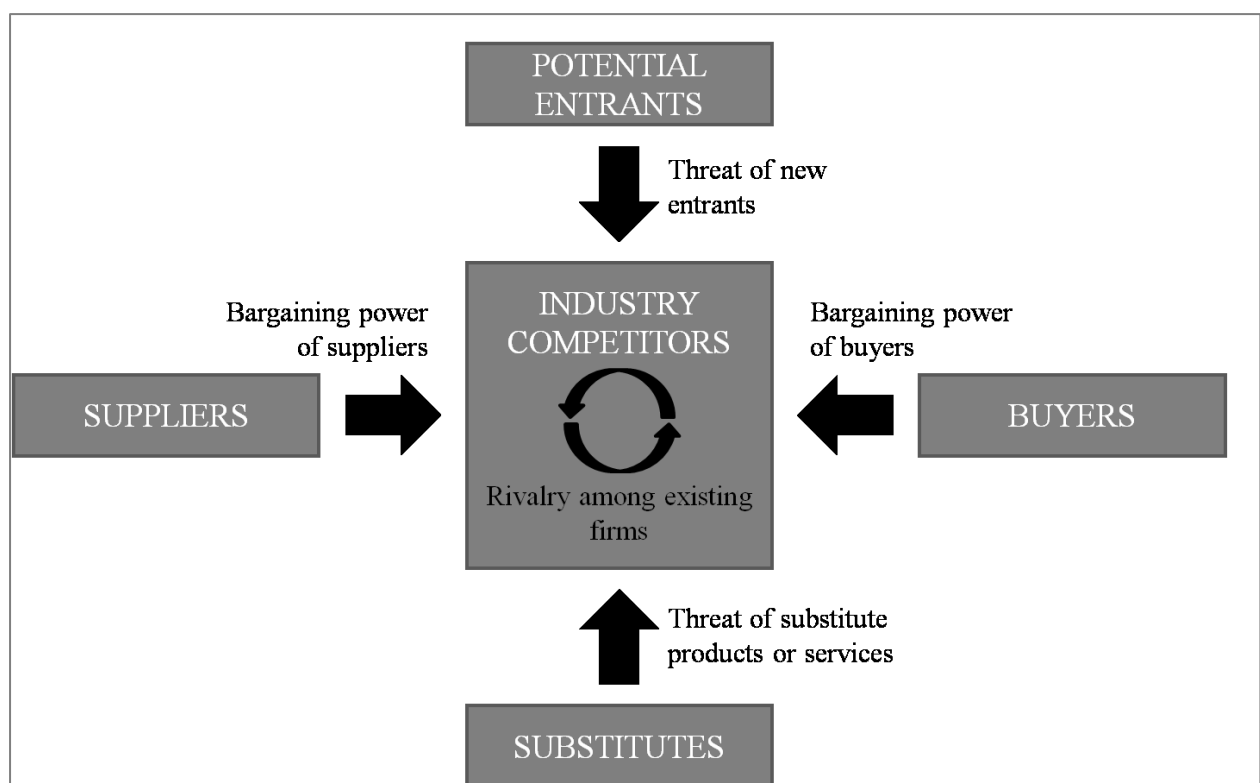
(1980). Figure 4 displays a basic graphic version of this model describing the key forces driving the competition in an industry.

This model was developed as a tool to help companies to find a position in which the company can best defend itself against the competitive forces (Porter, 1980, 2008). The fact that it covers the whole competitive landscape in an industry and not only the direct competitors makes it an ideal tool for industry analysis. As such it analyzes each of the forces and aims to find a way how to effectively protect the company against the relevant force. The level of competition is described by the collective power of the forces (Porter, 1980, 2008). For the purpose of this text only a very brief description of the forces is provided based on Porter (1980) and Thompson, Strickland and Gamble (2007).

Rivalry among existing competitors: The first major force in an industry comes directly from within and rests on the fact that firms are mutually dependent and react to each other's moves. Major factors determining the intensity are industry growth level, size and number of rivals, entry and exit barriers and many others.

Porter's five forces framework – Benchmark in industry analysis

Figure 4: Porter's five forces framework



Source: Porter 1980, Competitive Strategy, p. 4

Threat of new entrants: this threat is particularly serious especially when no or low barriers to entry are present and the industry is still characterized by good profit potential. As entry barriers high initial investment, necessary experience, need of an excellent distribution system and many others can be named.

Pressure from substitute products: If there are products which can carry out the same function and either cost less or does it better, then the pressure can be extremely high. The protection against substitutes can be most effectively done by differentiation – if possible collectively by the whole industry.

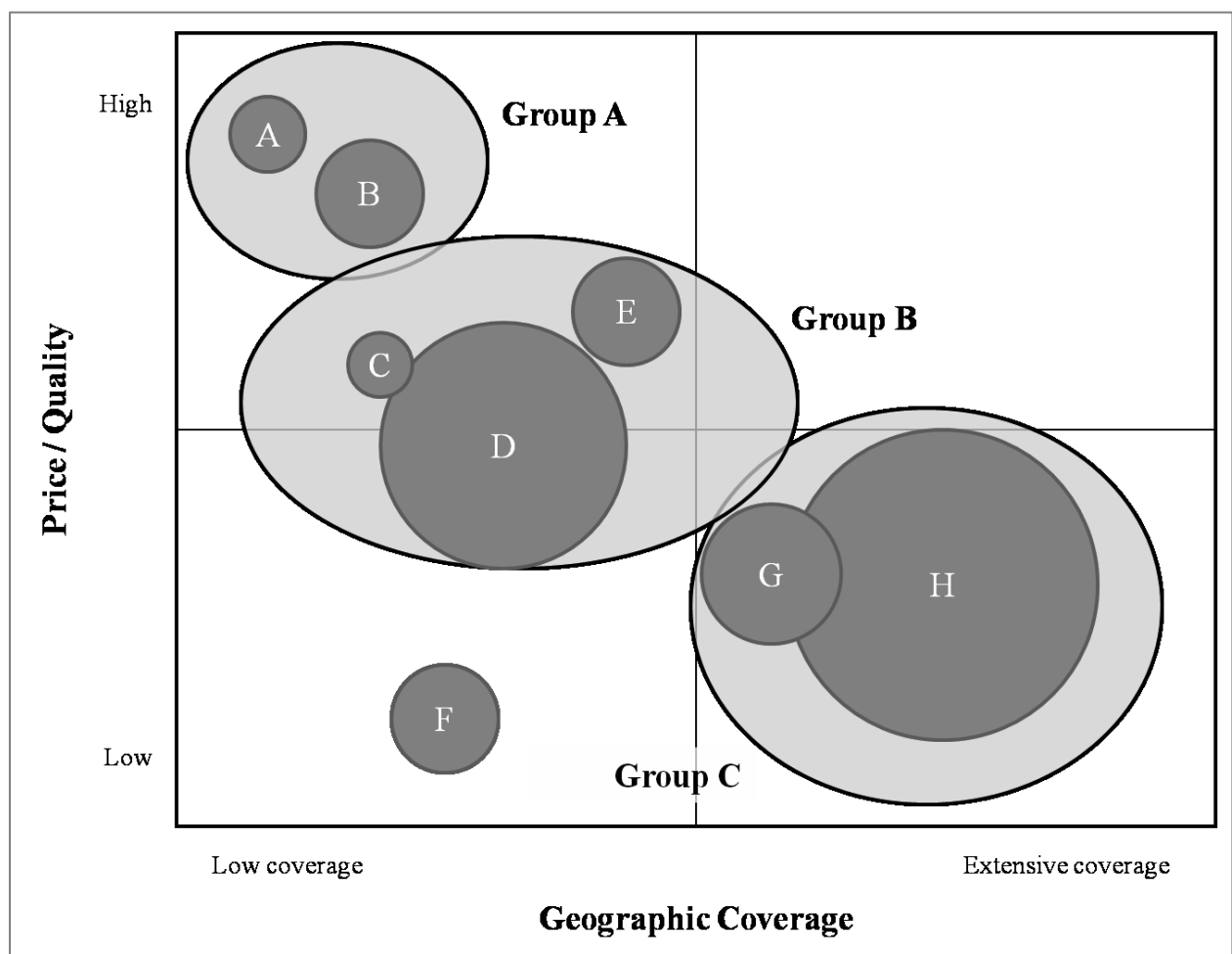
Bargaining power of buyers and suppliers: The bargaining power of buyers and suppliers is put here into one joint point as it rests on similar factors. This is logical as the supplier of the buyers is the company itself. The same logic is valid also for the reasons of the bargaining power of suppliers which is a situation where the roles are switched. The main source of power for both sides is information. The more information one side has compared to the other, the better it can exert its power. A second very widely experienced situation is where the external part is highly consolidated whereas the company itself faces a highly fragmented industry. It is clear who will have the higher bargaining power. These two sources of power are the major ones along with many others, not so commonly experienced.

Competitor analysis – Who are our rivals and what can a company expect from them?

The SWOT analysis is a powerful tool for analysis of any company. However it gives a company only basic information about what a rival's strengths, weaknesses, opportunities and threats are. Moreover, not all competitors are really directly competing with each others. Along with the SWOT analysis the current literature provides several interesting ways how to make a throughout analysis of them. One was already mentioned in the competitive advantage part. Benchmarking is a tool particularly useful for assessment of different attributes of many companies and finding who is the best performer within the industry at particular activities. Similar to benchmarking, the weighted assessment of industry competitors not only reveals in which areas the company is really good in, but takes also into account if this particular area is important for the industry's value chain. By assigning different weights, it is possible to determine which company has the highest potential to become an industry leader - although it does not have to become it as everything depends on how well it exploits its competitive advantage (Thompson, Strickland and Gamble, 2007).

All the above mentioned tools are analyzing all competitors. However, especially in fragmented industries, the reality shows that each company is competing more intensely against some of the competitors than against the others. Also one can easily find several types of competitors, which share some common characteristics, be it the target customer group, the product characteristics or the way they provide service. In such way it is possible to define so called strategic groups with similar ways of competing and positions in the market – thereby pursuing a more similar strategy than companies in other groups (Porter, 1980). This very simple, still powerful tool can tell a lot about the competitors. Moreover, it can show a company the possibilities which help the company to find a way to reposition itself within the group or even outside. Strategic group analysis helps to shows the company on which rivals to concentrate and how to move to a more favorable position – either within the group or outside the group. In a special case it might even reveal a new group where the company could have a dominant position (Thompson, Strickland and Gamble, 2007).

Figure 5: Strategic group map of a fictive industry



Source: Based on Porter 1980, Competitive Strategy, p. 131

In the figure above a fictive industry is displayed. According to the key industry characteristics three strategic groups could be identified. The company F is clearly in not a favorable position. Nevertheless, adding historical data could bring more light into the analysis. Further comparison of positions of individual companies in the past could bring new findings. It can be that company F is moving towards the upper right corner, which should signify an improvement in its positions (following a simple assumption that higher coverage and higher price yields higher profits).

The strategic group model can help the company identify a wide range of interesting results. Not only it shows who is a company competing with, but it can provide further information about the competitive barriers between the groups, industry trends, possible reactions and other valuable findings (Porter, 1980).

Customer analysis – who are the people we sell to?

Customer analysis focuses predominantly on analyzing what are their needs and how much are they actually willing to spend for a certain product, attribute, service etc. Although this is a rather traditional way of analyzing customers, it still helps to realize what are the key factors influencing customers' decisions. The underlying problem is the way how to find out about all this. In some large industries, huge amount of statistical data is available reducing the need to focus on what consumers are actually willing. However, this is not the case for all industries and even in those "overanalyzed" cases a company might feel a need for more information. Thereby it is sometimes sufficient to look into the company's information system or at the historical sales data to find out what actually worked well and what business is the real source of strong revenues. Here we come to the source where Porter (1980) was heading when defining his strategy toward buyers. He claims that the selection or concentration on high growth, financially strong and not price sensitive buyers is a very important variable. Generally, his competitive strategy rests strongly on the five forces framework for analyzing competitive forces in an industry. And buyers indeed play a very important role. But how to identify the buyers on which to concentrate? And what to do with the remaining ones, who are not so profitable, although they still bring in total a significant part of the company's revenue?

Porter suggests concentrating on four broad criteria, which, outgoing from the five competitive forces, not only help the company to identify the most profitable buyers, but as well give the company more power over these buyers.

The criteria are as follows (Porter, 1980):

- Purchasing needs versus company capabilities.
- Growth potential.
- Structural position (ability to exert bargaining power).
- Cost of servicing.

Although the needs are in total 4, some of them might play a more important role than others. Therefore, it should be possible to create strategic groups of customers of an industry, analogically to strategic groups of competitors. By doing so the company can then easily identify, which customers are the ones it needs to stick with or where closing deals would be most profitable. Alternatively, it is possible to make four strategic groups charts for each of the criteria. However, the results can, but do not have to deliver an unambiguous set of buyers on which to focus on.

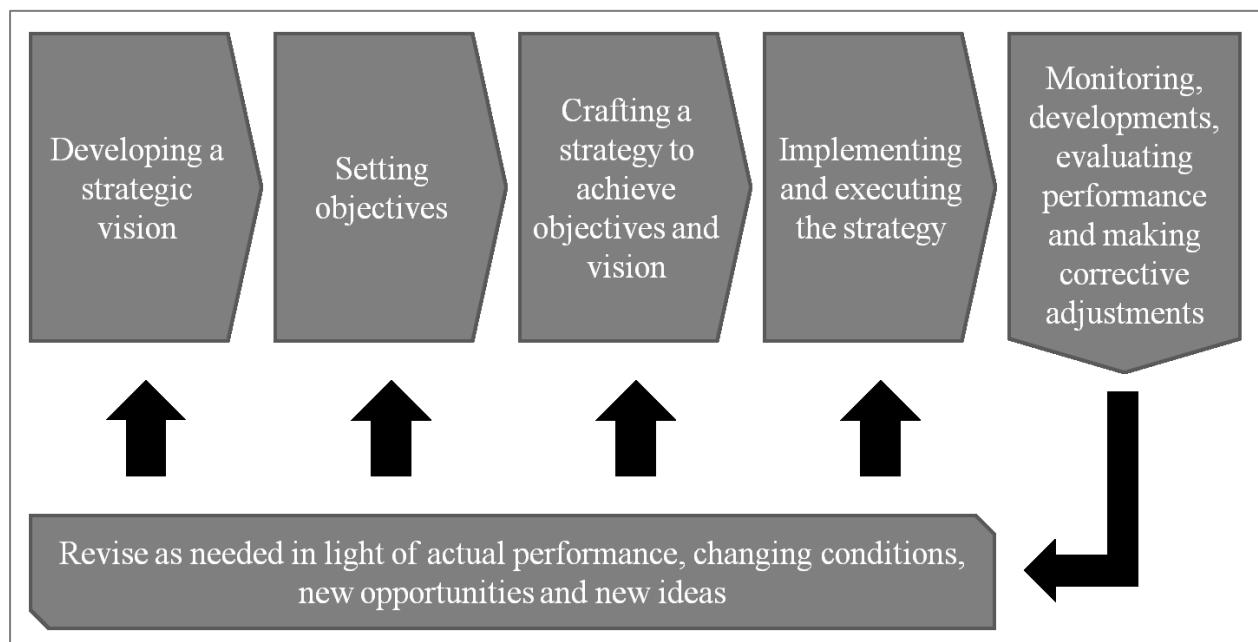
Overall every company should very carefully analyze its current customers as well as other customers in the industry and decide, according to the four criteria, which customers are the best fit for the company and which will with high probability bring only thin margins and rather troubles than good business.

3. STRATEGY CRAFTING PROCESS

Once all the underlying analyses are performed, the strategy crafting process can start. Very probably it has already started as the company identified the need to do something with its current strategy. As well the management certainly possesses at least a not fully articulated vision of which direction to take. Still it is important to be aware of all the steps of strategy creation in order to avoid any mistakes which could possibly make a good strategy a bad performer – something that has to be avoided at any cost.

Thompson Strickland and Gamble (2007) created a formal process consisting of five main steps. The process is displayed in figure 6. The displayed framework even combines several of the Mintzberg's strategic schools attributes (design, planning, positioning, entrepreneurial, cognitive, learning, environmental and partly as well configuration school attributes) and generally form a complete picture of strategy crafting process.

Figure 6: The strategy crafting process



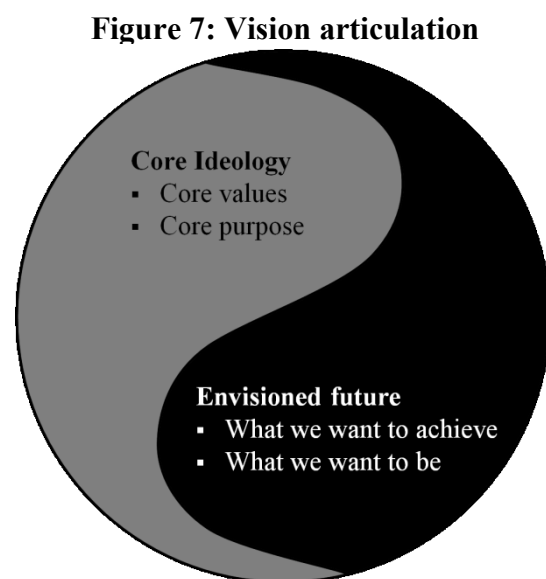
Source: Thompson, Strickland and Gamble, 2007, *Crafting and Executing Strategy*, p. 20

The five phases are directed at important steps in strategy creation which need to be thought through carefully in a way that it reflects company's resources and capabilities and especially brings the company higher profitability or secures more stable position in the market. Taking it into the realms of Porter's five competitive forces the newly created strategy should enable

the company to better defend itself against the competitive forces and/or create a more sustainable and favourable position.

3.1 **Phase 1: Company's intention for the future – strategic vision**

Vision has become a trendy term in the past two decades. When people start talking about success, great performance and other things they usually use vision as the start of these great stories. Sometimes one can even get the feeling that everything really great was always caused by a visionary idea. However, the core of a vision is not what it looks like from these stories – making something radical by forgetting what or even neglecting what was before. In contrary. Collins and Porras (1996) make a very clearly statement what a strategic vision is. Their picture of vision is displayed in figure 7. The graphic shape of the vision articulation was not chosen by chance. It should display that a vision is not all about new things and complete changes. The new direction and new ideas how to exploit the attractive market opportunities has to respect the core ideology of the company. The core ideology, consisting of core values and purpose, is what stays with the company possibly for its whole duration. Similarly, people possess core values which rarely changes throughout the life, but the where people head to and what do they want to achieve in the future represents the second and probably more visible part of the vision. Therefore the envisioned future is the way a company chooses to go and the targets it will pursue. The core ideology is the basis for how it will be done.



Source: Collins and Porras, 1996

For this reason a vision needs to be communicated carefully and with respect to the values and purpose. But this is not the only restriction about vision. As vision is where a strategy starts to develop, it needs to be defined precisely and understandably so that everyone in the company knows in what direction to go. Kotter (1997) points out several important characteristics which a vision needs to possess:

Table 2: Characteristics of an effectively worded strategic vision

Imaginable	Paints a picture of the desired future of a company and its position.
Desirable	Appeals to the interests of all stakeholders.
Feasible	Takes into account the resources and capabilities of a company.
Focused	Is specific enough to provide a good basis for effective decisions.
Flexible	Allows adjustments to individuals' needs to respond to new conditions.
Communicable	It is easily explainable in not more than 5-10 minutes.

Source: Kotter, 1997, Leading by vision and Strategy

3.2 **Phase 2: What goals are to be set in order to realize the vision**

A vision might be sometimes little bit blurry for an uninterested person. It shows the picture of a company in the next couple of years, maybe decades, however, it is not as specific as some people might require. Indeed, if a vision should be transformed into reality, it needs a little bit of hard numbers. Sentences of where the company will be in years ahead are tempting, but what will be its performance by then, what market share can be expected, how many employees will the company have, what will be the profit margin etc. The aim of setting objectives is to give the vision a quantifiable dimension on which to orientate. Also, numbers without time perspective are worse than having no numbers at all. If a company wants to set targets which are to be reached, it has to say when. Otherwise they are of no value and remain just numbers as we learned them in mathematics.

Thompson, Strickland and Gamble (2007) spell out the whole issue of numbers as follows:

“... saying precisely how much of what kind of performance by when”

The numbers, even the few mentioned in the lines above, can be according to Thompson, Strickland and Gamble divided into two separate groups. Although they are interconnected, they relate to two different areas. Financial objectives are purely focused on financial performance of the company and do not take into account variables, which belong into the second group. Strategic objectives represent the current and future market position of the company and its competitive strength. It is important to know that only a company which achieves its strategic targets can in the future be sure of reaching the financial ones as well. As Thompson, Strickland and Gamble (2007) point out in their work, it is not the financial

performance that guarantees how the company will perform in the future. Even companies with the highest profitability in the market have no guarantee to stay financially strong – especially when they are not able to meet their strategic targets.

3.3 Phase 3: Define the way how the company should reach its goals

Phase 3 answers all the “hows” of the goals which has been set in phase 2. Before a company can really do something, its employees need to know all the how questions. They need to know how to achieve a higher market share, how to achieve higher customer satisfaction or higher margins. There are indeed many of these questions and all need an answer, so that the goals can be reached within the given timeframe. Thompson, Strickland and Gamble (2007) state a very important condition. The strategy being crafted should be a top-down process in order to ensure that all functional hierarchical levels of strategy are in line and do support the overall strategy of the company. Therefore, all steps of how to achieve a certain objectives along the whole hierarchy need to follow the target set by the top management.

3.4 Phase 4: Implementation of the defined measures necessary for goal achievement

Until now, the whole process was about planning and preparing. Although the experience from project management shows that planning should account up to 80% of time in order to prepare everything for a fast and trouble-free implementation (Project Management Institute, 2008), the situation in strategy implementation is somewhat different. As strategy requires significant changes and overcoming resistance, it can be assumed that the implementation part of a strategy will take longer than the remaining 20%. However, the logic that proper planning makes implementation easier is still valid although there are many other reasons why implementation takes longer than planned and sometimes doesn't work at all or delivers only partial results.

Indeed, in a study done by Neilson, Martin and Powers (2008) 3/5 of all responding employees evaluated their company as weak in strategy implementation. This result makes everybody wonder why things go so often wrong and what can be done to improve the situation. The answer was provided in the same study by ranking the reasons why strategy execution goes so often wrong or takes a long time. Surprisingly, the main sources of problems were accounted to problems with information flow and unclear decision rights and not so much to the structure of the company itself (although this is still an often mentioned

reason too). Therefore, what should managers keep in mind when facing a strategy implementation? Thompson, Strickland and Gamble (2007) offer an exhaustive list of activities which are necessary. These are provided in table 3.

Table 3: Managing the strategy execution process

Strengthening the organization with needed skills and expertise, building strategy-supportive competencies and competitive capabilities, organizing the work effort.
Installing information systems that enable company personnel to better perform their roles.
Ensuring that policies and procedures facilitate effective execution.
Using best practices to perform core business activities and pushing for continuous improvement – periodical reassessment of past decisions is carried out.
Allocating ample resources to those activities critical to strategic success.
Motivating people to pursue the target objectives and if necessary modifying their duties to better fit the requirements of successful strategy execution.
Tying rewards and incentives directly to achievement of performance objectives of the strategy.
Creating a company culture and work climate committed to successful strategy execution.
Exerting the internal leadership to drive implementation forward and keep improving on how strategy is being executed.

Source: Cited from: Thompson, Strickland and Gamble, 2007, Crafting and Executing strategy, pp.42-43

3.5 Phase 5: Adjustment and corrections: Are all the phases correctly planned?

There is one more important thing about strategy crafting process. Strategy execution will never end. It is a never ending process which can only be replaced by a new strategy implementation. However, a completely new strategy occurs very rarely and is reserved for a situation where the current strategy does not work anymore and they only chance is a real turnaround strategy (Roman, 2010). In usual cases the strategy crafting is a process of continuous improvement which aims at reacting to changing market conditions and strengthening the company's position. Especially in case of bigger changes, needs for corrective measures are high and might cause some of the originally well planned parts of the strategy to be corrected, replaced by new ones or completely abandoned. This was in particular described by Mintzberg (1985) by clearly drawing the distinction between intended, unrealized, deliberate, emergent and realized strategies.

Moreover, as we mentioned earlier, strategy execution is a very troublesome process where many companies encounter problems. For this reason it is necessary to be flexible and ready for adjustments and corrections in order to make the implementation faster and give the employees the tools to reach the targets. This phase is more or less parallel to phase 4, as it reacts on the uncovered difficulties which could not be found during the phases 1-3. Nevertheless, it still considers all four phases.

Generally, it would be very unusual if a company went through phases 1-3 and even 4 without encountering any significant problem in execution. Therefore, the last step is always there to make sure that managers do not simply start execution without measuring if the previously planned progress in different areas is really happening according to the plan, and if not, what can be done to get back on track.

4. STRATEGY COMMUNICATION

It is not by chance that communication was not very often mentioned in the previous chapters. And if, then only without emphasis and any special attention. This is done on purpose as communication deserves a more exposed place than just a reference in a text. I firmly believe that this issue is worth at least a short but separate chapter.

A new strategy in any company means a change. A step into new, unexplored grounds where nobody knows what can be really expected. And here we come to the core of the problem – uncertainty. When people feel uncertain about decisions or generally about what is going to happen, they start to lose the security they have when they know everything. This leads to fear, gossips, and effectively to lower productivity as people devote less time to what they should do by discuss instead all potential scenarios of the future.

Here communication starts to play its crucial role. No matter if the company is doing well or if the economic situation requires a hard restructuring plan. Keeping people informed as much as possible will help to maintain productivity and overcome the transition time faster, easier and possibly without resistance (Roman, 2010).

Collins and Porras (1996) put a strong emphasis on communication already when the top management is in process of creating a new vision for the company. They stress the important to spend large amount of time communicating the vision, so that everybody can understand it and is prepared for the strategy which will follow and aim at reaching the vision. The main goal of extensive communication efforts is simple – to win the interest of the people and prevent resistance before the execution and implementation has even started. There is nothing worse than enduring resistance from employees when implementing a new strategy (Thompson, Strickland and Gamble, 2007). Therefore, the sooner will they be persuaded about the good sense of the prepared strategy, the easier will the strategy be fulfilled.

Neilson Martin and Powers (2008) found out in their research, that even employees consider communication and free flow of information as very important and often causing companies they work for to encounter significant problems during execution. And here they do not mean resistance. The people they have surveyed often state reasons like not sufficient information on who should decide what, which things are to be done under the new strategy and which not etc.

All these reasons illuminate greatly how disastrous can be a problem with insufficient communication. Therefore the important message here should be exactly as Smith (2006) names one of their chapters:

“Communicate, communicate, communicate!” (Smith, 2006)

Although both authors use this title for explaining how important it is to spread the word about the company's competitive advantages among sales people, but generally among all employees of a company, it is valid for the strategy as well. Crafting a new strategy can and will lead to changes on the external image of the company and customers will sooner or later ask what is going on. And here all employees should be advised to tell the right things in order to show the customers that new strategy means improvements from them as well.

PART II – USED METHODOLOGY

The methodology part contains information about the way how market data was gathered and quantitative as well as qualitative results created. This part provides the answer on the question where the information from chapters 5 - 8 comes from. Generally, finding information about agricultural equipment market in the Czech Republic is very problematic. There is only very limited statistical material. Therefore, quantitative data brought by secondary research had only limited results. On the contrary primary research was the source of relevant qualitative information.

Secondary research

Secondary research was based primarily on desk research of publicly available information. Especially following information sources were used:

- Czech statistical office: basic statistics on agriculture – size, capital expenditures and other basic data.
- SDZT (Sdružení dovozců zemědělské techniky): The Association of Importers of Agriculture Equipment has its own statistics which are directed at tractors and harvesters.
- Companies' websites: Companies' websites were used especially to find out about companies' portfolio, history, targets and achievements and dealer network (in case of national competitors).
- Press research: The main newspapers and magazines with focus on agriculture and agriculture machines were analyzed on possible sources of competitive advantages, extend of advertising and PR, main topics communicated via PR and other relevant information. The following magazines and newspapers were used for the analysis: Mechanizace, Zemědělec, Vinař a Sadař, Komunální revue, Zemědělský týdeník.

The information found was especially quantitative data used for underlying analyses of the competitive strategy. The press research information was used to estimate the strength and strategic direction of the major companies on the market.

In addition to the publicly available information, the Czech capital information agency's database was used for financial and ownership information.

Primary research

Agriculture equipment market is a very difficult market. Not many companies provide official statements about their strategic intents. Even signalling is not very usual and most of the communication is done via customer contact. Moreover, there are not many people who are in the industry sufficiently long to be able to see the long term strategic development of the main competitors on the national level. Therefore, to get to the right information about the companies, it is necessary to spend some time with people working sufficiently long in the market.

- An open question survey was done among the Deutz-Fahr sales representatives. Although the total number of respondents was not high given the size of the network, the respondents expressed their meaning about the main tractor brands they are competing with. The companies which are distributing these brands to the Czech market were evaluated.
- To gain more detail on the competitive landscape on the national level, in-depth interviews were conducted with two experts on the agriculture equipment market. Both conversations were extremely enriching and brought a lot of inside information about the historical development of the strategies of the main players in the market and the possible future goals.
- A focused group was conducted within Garnea and its sales representatives with the aim to find out more about the competitive position of the company and its especially local competitors. Many new insights on the different but often conflicting strategic points of interest were gained.
- Several in-depth interviews were conducted with loyal customers of Garnea a.s. the main focus was on the reasons of purchasing machines from Garnea. Moreover, different competitors were discussed in terms of their weaknesses and strengths.

The acquired information was sorted out and evaluated in a way it is usable for the analyses in the subsequent chapters. The most relevant points were all pointed out and used in the discussion on Garnea's competitors.

PART III – THE COMPETITIVE STRATEGY OF GARNEA A.S.

The four chapters in the literature review part made the reader acquainted with the basic concepts of strategy. Further it offered a view on the competitive strategy and the underlying processes which are necessary for a successful strategic plan resulting in a long lasting competitive advantage. Generally, the creation of strong competitive advantages is very difficult in the highly competitive agriculture machinery market in the Czech Republic. However, it is the only way to above average profitability and long-term market success. Therefore, the current competitive advantages will be defined and new potentially strong advantages identified throughout this part.

The subsequent chapter introduced the five basic steps in strategy creation. Some might suggest that a much better and more continuous process of creating competitive strategy is offered by Porter (1980). The reason behind choosing the described framework was partly because I don't want to rely on a single, although very respected author. But rather the framework from Thompson, Strickland and Gamble (2007) was selected due to its higher suitability for crafting a completely new strategy. Nowadays, Garnea does not have any real strategy and rather relies on its experience and competencies developed over time. A clear strategy has never been in place. Today, the company is in a situation, where a clearly defined strategy would help to increase Garnea's performance, efficiency and establish conditions for further growth. These are otherwise difficult to achieve under current conditions.

Finally I mentioned communication which I firmly believe is a key aspect of successful strategy execution. I will discuss this issue in the company analysis chapter as problems with communication represent a significant weakness. The proposed strategy suggests a solution how to eliminate the problem and possibly turn the former weakness into Garnea's strength.

5. GARNEA A.S. – THE INTRODUCTION OF THE COMPANY

Garnea a.s. is one of the leading companies selling agricultural and constructing machines in South Bohemia, Czech Republic. It is located in Neplachov, right in the middle of the region and directly on the most frequented road (E55). The company has been serving its customers successfully since 1992 and constantly expanded its activities on the local market - until 2011. This year can be considered as year of turnarounds for the company.

In this chapter all relevant information around Garnea's existence will be provided. Firstly, brief history of the company until 2005 is described. Next part of this chapter tries to explain the major events in the period from 2005 until present. Subsequently, the most important data and information about the company is provided. At the end of this chapter current situation and challenges are presented.

Especially the challenges and situational description of the company in the last year form a starting point for the analyses and the strategy crafting process. The result of all these activities will be the competitive strategy of the Garnea a.s. A part of this strategy is already being implemented. However, a larger part of the newly crafted strategy has been completely neglected so far. Nevertheless, it is necessary for a complete transformation of the company from its past status of a local dealership towards a distributor operating in the region of the whole Czech Republic.

5.1 The history of Garnea a.s. (1992 – 2005)

Currently, the business is represented by a corporate body, the joint-stock company Garnea a.s. It was one of the first businesses in the region which was not based on continuous operation of an entity founded during the communist regime. As such, it has emerged from the need of the founding family not to rely solely on farming but to find an economically more interesting activity. Moreover, there was a strong demand for modern agricultural equipment in the region. The traditional activity of the family in agriculture has been kept until present. Not only as a matter of tradition but also because being a customer itself brings advantages in understanding customer's needs. Furthermore, the use of products which has been actively promoted in the region proved to be an excellent marketing tool.

The business physically started from scratch. After overcoming several hard years in the beginning where especially financing was extremely scarce for everybody in the agriculture sector, the company started to develop and work on its position in the regional market. In 1995 the turnover reached CZK 30 mil. and the business employed 6 people. In 1996 the company moved to a newly acquired building and in order to be able to offer a really professional service in a fully equipped workshop. The portfolio stabilized at that time and consisted of Fiatagri (the core brand - tractors, combines and balers), Kuhn (farm machinery), Tecnomat (sprayers) and some local companies providing especially lower priced products. The new location, stabilized portfolio and active approach to any customer demand helped the company in further development. In 2000 the number of employees reached 15 and the turnover more than doubled to CZK 70 million. In the same year the name of the core brand, Fiatagri changed to New Holland after coexistence with its sister brand Ford for several years (New Holland Agriculture, 2011). This was indeed a big challenge for the company. However, a well managed one.

Although the brand name change was in many cases problematic, the company coped with it well. It felt even strong enough to undergo a risky step of building a completely new company headquarters right next to the national road. The new location provided the company not only excellent visibility but as well new and more suitable room for its activities. The new building was finished in 2001 and started a very fast development of the company. Owing to the new place the company was operating from, it was able to gain many new customers. Indeed, with the construction of the new building the new era of Garnea started. In 2005, the company reached a turnover of CZK 135 million and employed 25 employees. New division of constructing machines was successfully launched which proved to be extremely important in the following years.

Over the whole time, from 1992 to 2005 the company did not concentrate only on sales but as well on excellent service and spare parts availability. Being a customer itself, the company managed to be always a little bit closer to the customer than competitors. This represents one of the company's sound competitive advantages.

5.2 Recent development of the company (2005 – present)

After 2005 the company experienced a very positive development which was partly caused by the company's performance itself, partly by the positive economic situation. The turnover

soon soared up to CZK 250 million in 2008 and the number of employees increased to the currently 31 people working in the company. A part of the success can be attributed to the constructing machines division. In 2009 revenue from constructing machines sales brought more turnover and profits than the agricultural machines sales (already fully hit by the economic crisis). However, in the consequent year the constructing machines division, mainly driven by governmental investments, experienced a sharp drop, which has not been recovered yet. Moreover, the outlook for the following year is dominated by further cuts in the budgets – including infrastructure. Therefore, the main revenue driver became again the agricultural division of the company. The total turnover in 2010 reached CZK 190 million.

Garnea a.s. historically had several suppliers, though one of them always played a dominant role. Agrotec a.s. was from the beginning the main supplier of the following brands: New Holland and Kuhn. These two brands constituted at the end of 2010 a significant part of Garnea's revenues. The relationship between Garnea a.s. and Agrotec a.s. had never been a problem although Garnea had always aspired to achieve a direct relationship with manufacturers of world class machinery in order to strengthen its position. Although several attempts with Kuhn and New Holland were done, all failed. Both companies wanted to keep the current, one sole distributor model. Unfortunately for Garnea, the relationship with Agrotec did not develop ideally as the pressure in the industry started to increase. In 2004 Agrotec started to push on the margins available to dealers. In reaction on the worsening conditions, Garnea negotiated several partnerships with foreign partners in Germany, Austria and Slovakia. As a result in 2005 the total volume of New Holland machines supplied by Agrotec decreased by more than 50%. In reaction to this drop the conditions improved in 2006 and almost all machines were supplied via Agrotec a.s.

In 2007, the formal owner of Agrotec a.s. decided to sell its company to Agrofert Holding a.s., owned by the Slovakian multi-millionaire Andrej Babiš. Very soon after the transaction, the whole strategy of Agrotec changed. Agrofert Holding a.s. is the owner of many companies in the agricultural sector and provides a wide range of services to the industry. Moreover, it owns many properties all around the country. After the acquisition of Agrotec a.s. Agrofert started to insist on the new strategy of acquiring the whole New Holland sales network – unofficially. Officially the old network did not change. Soon the strategy was followed by establishing new dealers owned by Agrofert and located at its grain purchase locations – at a place where every farmer must go to. Only within the first 3 years, this strategy managed to completely wipe out all private New Holland dealers or forced them to

sell their weak companies in the region of Moravia. At the end of 2009 the focus moved towards the western parts of the country. Garnea was very much aware of this strategy and has seen the danger since the acquisition of Agrotec. Therefore, it has very intensely tried to establish a direct contractual agreement with a world class producer of agriculture machines. Unfortunately, all of them were running successful dealer networks without a need to make a change of their established sales policies. For this reason, the focus moved towards strengthening partnerships with German partner companies and even creation of plans on merging the companies and creating one Czech-German group operating in the neighboring regions of the two countries. Even though these plans came very close to realization and they are still in consideration in terms of the constructing machines business, the agricultural division of Garnea a.s. took a completely different direction.

In the beginning of 2010, Garnea management spotted a chance in overtaking the very underperforming distribution network of the German agriculture machines brand Deutz-Fahr. Although Deutz-Fahr was not really keen to change the distribution system in the beginning, eventually the agreement was reached in June 2010, effective from 1.1.2011. For the top management of the company this was a historical success. However, it also meant that a great challenge is awaiting the company and all its employees. Nevertheless, both sides believe that the step will be beneficial resting also on the assumption that both companies are family controlled and are looking for stable long-term relationship rather than short term profits.

In the meantime, Agrotec has bought the two neighboring New Holland dealers and started to build its own branch only 2 km away from Garnea. Therefore, all the securities given by the management of Agrotec to Garnea proved to be a lie.

Overall, the year 2010 has been a difficult year. The period of low demand continued throughout the whole year. Constructing machines division experienced a further drop as a result of the governmental investment restrictions. Although the company managed to achieve a higher profit than in 2009 this was caused by several onetime transactions. The operating profit decreased further by ca. 50% constituting another challenge on top of the newly acquired distributorship. It is clear that there is a strong need to increase the efficiency of the whole company and fight the causes of the situation; strong need for a new strategy.

5.3 Garnea in numbers – fact & figures at YE 2010

Table 4: General and financial information on Garnea a.s.

General information				
Company status		Joint-stock company		
Company status development		Partnership (1992-1996)		
		Garant A spol. S.r.o. (1996 - 2004)		
		Garnea a.s. (2004 - present)		
Number of employees		31		
Year of establishment		1992		
Main activities		Sales of agricultural machines and equipment Sales of constructing machines Service of agriculture and constructing machines Spare parts sales Consulting Other related services		
Headquarters		Neplachov 129, 37365 D. Bukovsko		
Number of subsidies/dealers		1/8		
Subsidy address		Prušánky 136, 696 21 Prušánky		
Product portfolio brands		Deutz-Fahr, Kuhn, Tecnomat, SMS, OpallAgri, New Holland, WTC Písečná, New Holland Construction, Kramer Allrad, Ammann		
Financial information				
Total revenues (CZK)	191 212 000		Current liabilities (CZK)	67 587 000
Operating revenues (CZK)	178 884 000		Inventory (CZK)	41 672 000
Revenues from merchandise (CZK)	164 441 000		Current ratio	1,29
Revenues from own products and services (CZK)	12 494 000		working capital (CZK)	19 666 000
Operating Profit (CZK)	2 651 000		Total assets (CZK)	116 169 000
Net profit (CZK)	8 089 000		Total debt (CZK)	75 648 000
Gross sales margin	10,35%		Total stockholders' equity (CZK)	40 499 000
Operating profit margin	1,48%		debt-to-asset ratio	0,65
Net profit margin	4,23%		Debt-to-equity ratio	1,87

ROA	6,96%	Times-interest-earned-ratio	1,44
ROE	19,97%	Days of inventory	103
Current assets (CZK)	87 253 000	Inventory turnover	3,54

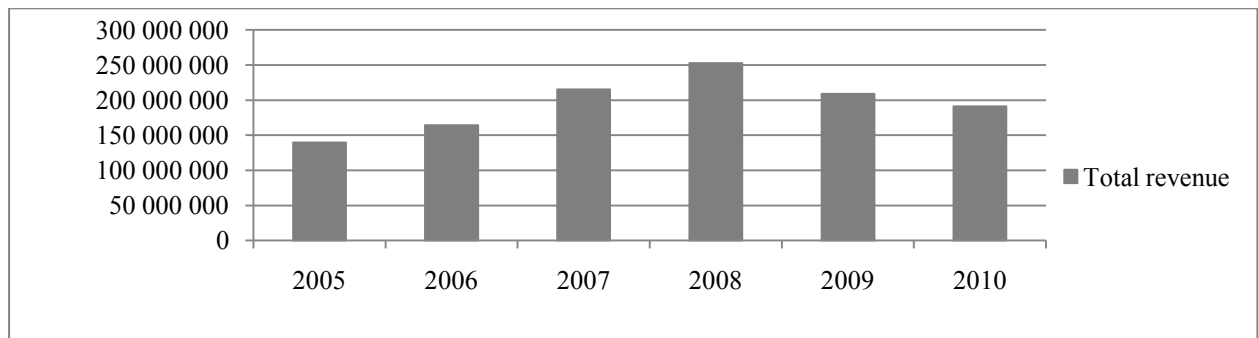
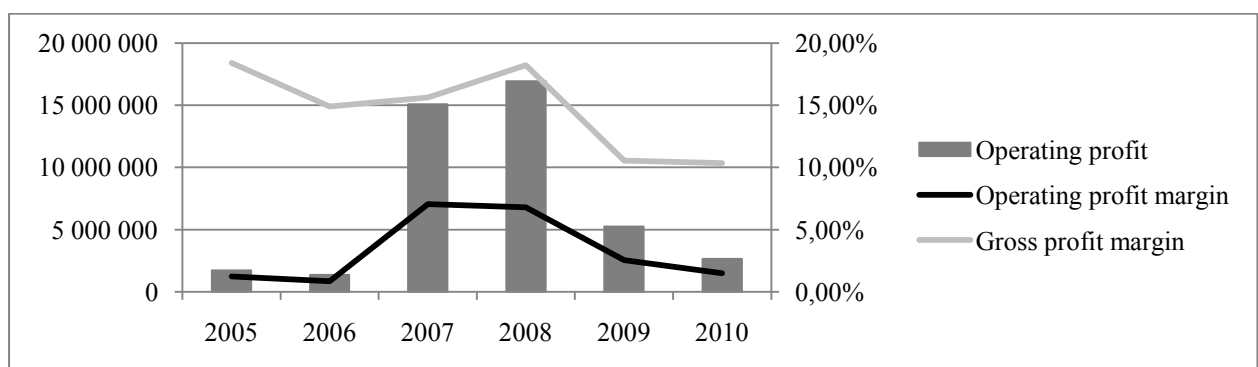
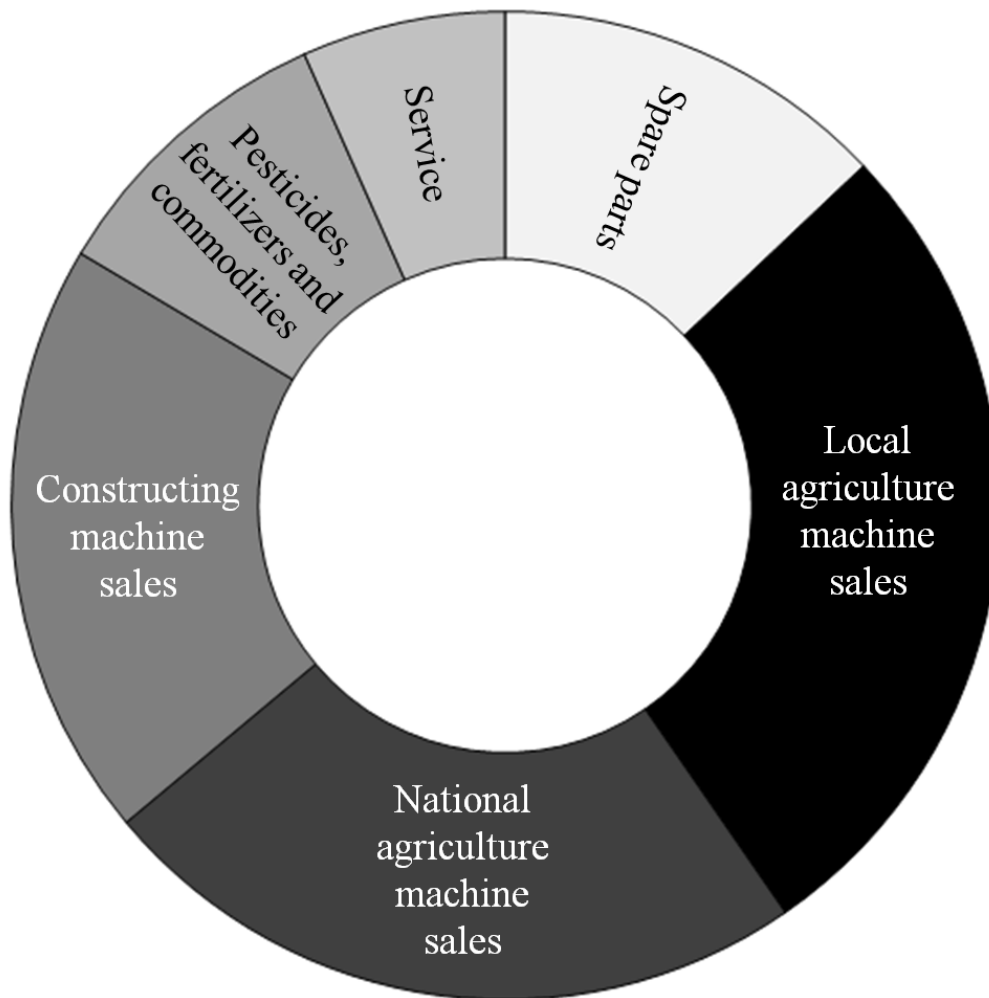
Chart 1: Total revenue development 2005 - 2010**Chart 2: Operating revenue and operating margin**

Chart 3: Main revenue sources of Garnea a.s.

Challenges and the current situation description

Only a short look at charts 1 and 2 reveals the main problem the company is currently facing – a decreasing profit margin. But let us first look at the reasons which are enrooted in the current way of doing business. The financial results are only where these problems become visible.

Change of the main brand in the product portfolio

As a result of the strategy of Agrotec a.s., Garnea's main supplier, and the company's continuous effort to become a sole distributor, the company changed the main brand it was selling for the whole time of its existence. Moreover, in order to be able to build up a dealer network and cope with the new obligations of being a sole distributor for the whole Czech Republic, the company extended its management team. Effectively this meant adding a new management level between the CEO and the managers of the functional departments.

This resulted in problems especially with the sales representatives who had to acquaint themselves with the new brand – a hard task to do in a very conservative agriculture environment. Moreover, the new brand, in Germany originating Deutz-Fahr, is not very well known in the Czech Republic. Although the mother company, Same Deutz-Fahr Group, is the third largest producer of Agriculture machines in the World, its position was very much affected by its very weak presence on the Czech market in the past 20 years.

Problematic constructing machines sales

The whole construction division was relying on a few main customers which were predominantly focused on infrastructure building. As a result of the economic crisis and lower expenditures of government on infrastructure, the situation led to an almost complete purchase stop in this area. Therefore, the company decided to temporarily limit its activities in this area and concentrate solely on agriculture machines and Deutz-Fahr distributorship.

Service department and customer satisfaction

The business model of selling agriculture and constructing machinery is heavily relying on excellent after sales service. Unfortunately for Garnea, its service department did not have a very good reputation and the trend was even worsening. This was partly solved by employing an experienced person dedicated only for technical customer support and replacing the former service management. These two steps helped to improve the reputation of Garnea service since the change in the beginning of the year. However, at higher costs.

Weak agriculture machines sales management

Many of the current problems emerged in the past. The most visible one was the dispute with the former sales manager over the direction of the company and problematic communication between him, the economic department and the management of the company. This led to his dismissal in 2009. Mr. Nemec, former sales representative, was chosen as his successor. He was considered to be the most capable of all the sales representatives. In the beginning he was given some time to cope with his new position. However, even after a longer time he was not able to get back to the relatively good performance of the years 2005-2008. This had and unfortunately still has several reasons, among others insufficient communication, use of price as only competitive argument and very weak purchasing and bargaining skills.

This problem is becoming more and more visible as the company is currently concentrating mainly on the agriculture machine sales and temporarily stopped offering constructing machines. Therefore, the pressure on agricultural machines sales has increased.

Spare Parts

Spare parts business has been facing increasing competition in the last years. However, the major problem lies in the system how spare parts are purchased and sold. Unfortunately, the management has not found a way yet how to solve this problem with current personnel (including the former service manager). The search for a skillful spare parts department manager has been unsuccessful so far.

Structural problems

Although the effort of many company employees increased during the year 2011, the results are still unsatisfactory. This can be attributed to the not well defined structure, but especially to the problematic decision making rights and accountability in some areas. Moreover, the top management was not able to define a proper reporting system until now and faces significant communication problems in the company. Furthermore, the management urgently needs to create a proper sales management system and a financial forecasting tool. All of these are regularly being missed but nobody has done something to improve the situation so far.

Human resources

Although Garnea can be considered as a good employer in the region with above average wages, given the industry it is competing in and its rural location, it constantly faces problems with finding new and qualified personnel. Moreover, the specifics of the agriculture industry require the people to be acquainted with the environment or to possess extreme learning skills and resistance.

6. INTERNAL ANALYSIS OF GARNEA A.S.

Internal and external analyses are the core source for understanding the general environment of the company and find a way how the company can adapt to this environment – or even shape it. On the following pages Garnea a.s. is closely analyzed from the internal point of view. At the end valuable resources and capabilities are specified and the main competitive advantages are described.

6.1 Current strategy evaluation

The “strategy” Garnea was pursuing until 2010 was to gain as much independence on its supplier as possible and to possibly find a product which could be sold directly from the producer without the necessity to rely on any other mediator company. Rather, this function should be reserved for Garnea. Moreover, the company focused its activities purely on South Bohemia and on improving its position as a local dealer of agriculture and constructing machinery. The market performance was of a concern as well and the company's efforts were heading against achieving a stable market result of 30 tractors sold per year in the region.

Also, the constructing machine sales should stay an important part of the company's activities in such a way that the two divisions are physically separated. As well as the service department's plan was to split into two separate divisions – constructing and agriculture. In case this is so far the company would finally physically separate the two very different customer groups which are in very negative relationship.

Certainly, one of the big targets is further improvement of service quality and organization and spare parts revenue increase, which has been stagnating for many years.

Financially the company's strategy was to keep high margins and to free itself of notoriously bad customers and concentrate instead on companies which would bring stable returns once acquired. Moreover, the company tried to focus on some historically lost customers and to reacquire them. Nevertheless, it was not defined specifically how high the profitability has to be on average.

It is also important to mention that these plans, which are called strategy here, were created on the go and never deliberately thought through. They were seen as a target but never

specially enforced as a necessity. Also, there are no fixed deadlines. The core goal remains generating enough profit and keeping the company competitive on the broader local scale.

In 2010, the company managed to close a contract which obliged the company to represent the brand Deutz-Fahr in the Czech Republic. This situation brought several effects. Most importantly, the goal of direct relationship with a world class producer of agricultural machinery was undeniably fulfilled. The independence on Agrotec was achieved. Without gaining Deutz-Fahr distributorship this would have been much more difficult, though not impossible as the company had unwritten agreements with partners in Germany, Austria and Slovakia. Moreover, the competitive position is much stronger as a direct distributor and with a differentiated product. In this respect, the acquisition of Deutz-Fahr exclusive distributorship seems to be the better choice than the mentioned partnership. Especially, when the long-term effects and stability are considered.

Becoming a sole distributor shot the company on the top of the remaining competitors in the region in terms of competitive position. Nevertheless, it has caused together with the experienced crisis that the company was no more able to achieve that high financial results. This is partly due to the heavy investment into the new brand, but not exclusively.

Moreover the company had to adjust its plans in terms of constructing machines division as the market conditions caused a sharp drop in the demand. Together with the definite separation of Garnea and Agrotec, the company not only lost its supplier (most machines were still bought in Germany) but the situation also created a new competitor with a similar constructing machines portfolio. In order to solve the fundamental problem with service reputation, the management of the company decided to put the constructing sales manager into the position of service department manager. At the same time it was decided to mute the activity on the constructing machinery market a little bit down until the market conditions improve and the company has found a suitable person to lead the service department. This led to decrease of the total margin in sale of machines as selling constructing machines was relatively profitable. However, it very much improved the satisfaction with the service department.

Although measures were taken to improve the situation around spare parts, the increasing competition and inability to find a new capable manager caused spare parts department to remain a big problem for the future. The strategy to help the current team and equip it with new managerial and planning tools and more support failed on the team's incredible

reluctance to change and on the risk of ending up without people in spare parts department when the management pushed too hard.

Generally, the strategy to improve situation often fails on the fact that it is impossible to employ new people without experience or with experience from similar but different areas. Although huge steps were done in some areas, in others the situation even worsened. Overall, the old strategy needs a large update or better a complete replacement as the situation around Garnea radically changed. Some adaptation has been already made, however, only separately. Therefore, the current strategy can be seen as a mix of the prevailing old problems and several new parts which cannot work without adapting or changing the complete system. Given the negative economic situation today, there is a strong need to adapt the whole strategy and to define firm objectives and targets so that everybody in the company can follow them and direct own efforts towards these targets.

6.2 **SWOT analysis and the company's value chain**

The following SWOT analysis describes the main strengths, weaknesses, opportunities and threats which the company can use or should try to eliminate. Subsequently the company value chain is displayed in Figure 8. All information is based on internal documents of the company, interviews with company's executives and on own experience from working for the company with interruptions over several years.

SWOT analysis

Table 5: Garnea SWOT analysis

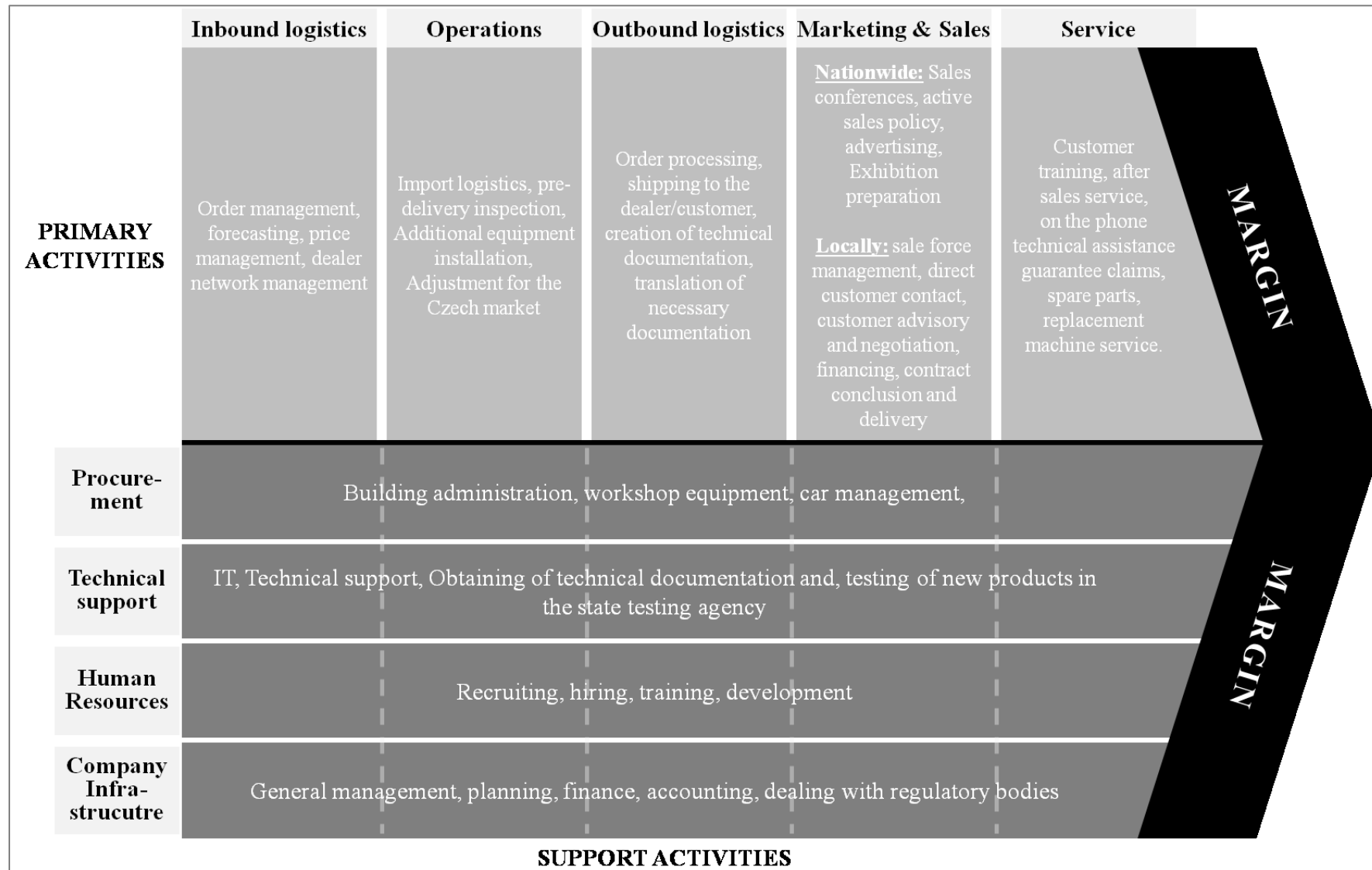
Strengths	Weaknesses
<ul style="list-style-type: none"> • 20 years on the market. • Stable company. • Strong Aftersales. • Stable and experienced sales team. • Stable and loyal customer base. • Large service department. • Experienced servicemen. • Own technical department. • New, very modern workshop to be 	<ul style="list-style-type: none"> • Reluctance to any change. • New, not well known brand which is internally still not completely accepted. • Weak communication. • Unclear decision rights – problems with assigning responsibility. • Inactive spare parts department. • Lack of customer focus. • Weak Agriculture machinery sales

<p>opened in September.</p> <ul style="list-style-type: none"> • Low average age of employees. • Cheap borrowing. • Several alternative spare parts sources. • Highly motivated management team. 	<p>manager.</p> <ul style="list-style-type: none"> • Very weak dealer network. • Low sales margins in the last two years. • Problems with customer training and machine delivery.
Opportunities	Threats
<ul style="list-style-type: none"> • New brand with a lot of potential and good quality (Deutz-Fahr) • Possibility to strengthen company position once the brand will be accepted • Remaining private New Holland dealers could switch to Deutz-Fahr • Agrotec's bad image caused by its own and Agrofert's strategy 	<ul style="list-style-type: none"> • Many competitors in the surrounding • Agrotec a.s. and the newly launched subsidiary • Problems with brand image • Increasing competition in the region • Inability to increase sales margin • Losing customers due to inability to provide sufficient service and spare parts

Garnea's value chain

Porter (1985) uses company's value chain to find out the activities, which are perceived as valuable by the customer and at which the company is good at. In Figure 8 Garnea's value chain is drawn. The division of the company into several core activities will make it possible to look at each separately and find sources of competitive advantages – resources and competencies which were described by Barney (1995) as valuable, rare and imitable.

The value chain of Garnea can be considered as typical for the industry and for a company which is providing sales and service of agricultural constructing machines. Therefore the primary activities are oriented at getting the right machines to the market with equipment in respect to the Czech market standards and in certain cases to fit the machines with additional kits as required by the customer. Further the preparation of all necessary documentation like manuals, service books, spare parts catalogues, brochures etc. has to be done in order to fulfil all requirements of the regulators and of the market.

Figure 8: Garena's value chain

Marketing, Sales and Service are activities which are directed on the customer and have to bring information and new contracts into the company. Otherwise the previous three activity blocs could not be done professionally and would only make the last two activities complicated. Service is extremely important part as only good service can secure stable customers and repeated purchases. In fact it is service and sales that make sure the relationship with the customer becomes a never ending story beneficial to both sides – the company and the customer as well.

The support activities make sure all the primary activities have the right conditions to be performed efficiently and qualitatively on a high level.

6.3 Main resources and competencies – the source of a competitive advantage

In literature review Duncan, Ginter and Swayne (1998) recommended to link company's strengths and weaknesses with its value chain in order to find out which are the really relevant ones. A subsequent application of the first 3 questions of Barney's competitive advantage model reveals the resources and capabilities which are the source of company's competitive advantages.

In the performed analysis following resources and competencies proved to be real source of competitive advantages are defined below:

- The management team is highly motivated and determined to make Garnea a top performer in the region and a significant player on the national market.
- The whole company has a low average age which makes it very flexible and ready to fulfil most customer wishes.
- Recognized company in the region with stable customer base and long tradition.
- Well equipped service with a completely new workshop to come.
- Excellently trained personnel with own technical support with direct contact on producers.
- Unmatched price/quality ratio in terms of service price.
- Great location at the national road between Prague and Ceske Budejovice and in the middle of the region.
- Very close to the producer in Germany – customer has a guarantee of fast solution.

Following resources and capabilities are seen as inadequate and therefore should be eliminated or corrected as they are source of competitive disadvantages:

- New brand in the region with low credibility, although it is considered as premium on the western markets.
- Product portfolio is not stabilized in several areas.
- Inactive spare parts department.
- Agriculture machines sales manager with weak purchasing skills – narrowing margins.
- Problematic communication throughout the company.
- Unclear decision rights and until recently unstable organizational structure.

This list of resources and capabilities leading to competitive advantage can be all described as competitive or some even as distinctive – depending if they are compared with local or national competitors

However, the second part of the list are issues which create significant problems. For some of them the company has been even notoriously known among the customers in the region

Competitive advantages of Garnea a.s.

1. Clearly a big advantage which Garnea can boast with is a good and experienced service with even improving tendency. Employed mechanics are very well trained and able to repair vast majority of defects. Especially in 2011 the rate of repeated repairs has fallen down by more than a half owing to own technical support department with direct contact on support centers of producers. For 11 mechanics there are 6 well equipped vans and one truck for cases when a machine cannot be repaired on the field and has to be brought into the workshop.
2. The sales team of Garnea is well known in the region and has a good reputation among the customers. Although there are still some points to work on, the customers in particular value the long-term stability and proactivity of the sales team. In many cases the sales representatives have personal relationships with the customers.
3. The management team is not only highly motivated. It consists of younger and older members, mixing courage with deliberation. Moreover this combination brings into the company new fresh ideas with flair of experience of the older and experienced members.

4. The last undisputable advantage is the company's location right in the middle of South Bohemia and very close to German and Austrian border. Only a few companies have such a favourable location with several thousand cars passing by every day. Moreover, it is very close to the Deutz-Fahr headquarters in Germany. This makes it possible to solve even complicated problems very fast and if necessary on a personal level.

6.4 Financial analysis

Table 6: Financial analysis of Garnea a.s.

GARNEA a.s.	2010	2009	2008	2007
Total revenues	191 212 000	208 783 000	252 630 000	215 529 000
Operating revenues	178 884 000	206 333 000	249 156 000	214 301 000
Revenues from merchandise	164 441 000	181 265 000	214 433 000	196 214 000
Revenues from own products and services	12 494 000	16 272 000	13 206 000	12 032 000
Operating Profit	2 651 000	5 245 000	16 930 000	15 084 000
Net profit	8 089 000	3 533 000	11 871 000	11 180 000
Gross profit margin	10,35%	10,55%	18,21%	15,61%
Operating profit margin	1,48%	2,54%	6,79%	7,04%
Net profit margin	4,23%	1,69%	4,70%	5,19%
ROA	6,96%	3,70%	12,81%	8,28%
ROE	19,97%	10,90%	40,00%	69,35%
Current assets	87 253 000	75 897 000	77 155 000	97 458 000
Current liabilities	67 587 000	57 134 000	51 274 000	100 825 000
Inventory	41 672 000	34 897 000	43 057 000	34 433 000
Current ratio	1,29	1,33	1,50	0,97
working capital	19 666 000	18 763 000	25 881 000	-3 367 000
Total assets	116 169 000	95 459 000	92 634 000	135 009 000
Total debt	75 648 000	62 995 000	62 937 000	118 872 000
Total stockholders' equity	40 499 000	32 410 000	29 678 000	16 120 000
debt-to-asset ratio	0,65	0,66	0,68	0,88
Debt-to-equity ratio	1,87	1,94	2,12	7,37

Times-interest-earned-ratio	1,44	3,04	9,68	17,81
Days of inventory	103	79	90	76
Inventory turnover	3,54	4,65	4,07	4,81

Source: Garnea P&L statements and Balance sheets from the years 2007-2010

The financial analysis of the company revealed several issues which could be potentially dangerous in the future. First of all the company is facing decreasing turnover without having lower costs. If such a trend continues, the profitability might soon turn negative. Moreover, not only the turnover has decreased in the recent years, but as well the gross sales margin and the operating margin. The higher profit margin in 2010 is caused by an one-time transaction which won't repeat in the future. Therefore there is a big need to either increase the sales margin or to decrease the company's costs. Otherwise the financial health of the company is in danger.

Except of these two issues the management should be very careful with the increasing ratio of debt. Although it is not critical yet and is caused mainly by the intentionally low level of equity, financial institutions could perceive this as a problem. Possibly, they might be reluctant to provide necessary funds for stock financing.

The last issue worth concerns is the inventory turnover. Although it has not reached any critical level yet, it has been worsening over the last four years. One explanation is that Garnea bought several Deutz-Fahr tractors in second half of 2010 which remained on stock together with four New Holland Machines already from 2008, all of which has been sold in the meanwhile. Further reason is that there is high level of dead stock in spare parts which needs to be sold urgently. Improvement is necessary here as well.

7. AGRICULTURE EQUIPMENT MARKET IN THE CZECH REPUBLIC

The agriculture equipment market as we know it today started to emerge in the 1990's after the change of the political regime in the Czech Republic. However, it is important to mention that even though before 1990's it was practically impossible to meet western agriculture machinery, there was one brand which was in a way privileged. John Deere was allowed to import machines several times into the Czech Republic's best performing agriculture cooperatives. This fact was an incredible help for its establishment as a market leader on the current market. Together with the earliest entry in the market after the fall of iron curtain the brand managed to build fast an indeed extremely strong brand image.

Concerning the market in the Czech Republic on the following pages first the market itself is defined in respect to Garnea activities. Therefore many clearly agricultural equipment submarkets are on purpose not included (as cowshed equipment and other equipment directed at breeding). Later, market development and the trends are described. Subsequently, the main part, five forces analysis of the market, is provided followed by main customer segments and short list of competitors.

7.1 Market definition, development, fact & figures

The agricultural equipment market, although it is mainly directed at agricultural sector, finds its use also in other sectors. These are especially areas where landscape maintenance is required or the conditions are too hard for standard equipment, but require the usage flexibility which is not achievable by specialized machines and vehicles. In this cases the agricultural equipment is either directly used in its standard configuration or in a slightly modified one.

Market definition:

Agricultural equipment market can be subdivided into several segments:

Table 7: Market segments and equipment usage

Market Segment	Agricultural equipment used
Farming	Tractors of all categories, harvesters, sprayers, ploughs, rippers, tillers, planting and seeding equipment, mowers, rakes, balers, cutters, shredders, feeding equipment, landscape maintenance, material handling and other farming equipment
Forestry	Tractors with forestry equipment, tillers, manipulating equipment, mowers, cutters
Gardening	Small and special tractors, diverse specialized tillage implements, shredders, mowers, cutters, diverse specialized planting and seeding equipment
Municipalities	Compact tractors with specialized equipment for road and pavement maintenance, snow ploughs, salt spreaders, mowers, cutter and manipulation equipment
Landscape maintenance	Tractors, mowers, cutters, balers, sprayers, spreaders and manipulating equipment
Road maintenance	Tractors, snow ploughs, salt spreaders, arm mowers, mowers, manipulation equipment

Source: Garnea market selection and target groups 2011

Market development and trends

The development of the Czech agriculture equipment market was heavily marked by decreasing dominance of the traditional local producers and increase in sales of especially western producers. But not exclusively, as has the revived brand Belarus proven over the last 5 years. The decrease mainly hit the traditional Czech producer Zetor, who was once dominating the market. However, its market share has been constantly decreasing. In 2001 the market share of Zetor was 36% but fell to 14% in the first half of 2011 (SDZT – Sdružení Dovozců Zemědělské Techniky).

Concerning the market with agricultural equipment, there has been a big trend towards stronger and more specialized machines. Although it is hard to statistically prove this development, experts as well as press research in professional magazines confirm this development (Zemědělec, Mechanizace, Zemědělský týdeník, 2010 and 2011). As a result, the basic tractor has to become more and more universal and be able to perform more tasks.

And even though the range of activities which is today possible to perform with modern tractors is increasing, it is still not always sufficient. This niche leads to expansion of many new and very specialized products. Nevertheless, these remain reserved only for specialized farms and for companies providing agricultural services.

Concerning the trends, the specialized machines are showing the big trend over the past years – specialization. Farms are becoming more and more specialized in order to be able to cope with the hard market conditions. This requires also the technique they use to be in a way still universal, but specialized. Therefore, the producers today offer a wide range of either specialized models or equipment kits to be mounted additionally on the tractors. Moreover, the signals show that the world will soon suffer from shortage of arable land and specialization is a way how to reach higher productivity. This is a further prove of this trend (Deutz-Fahr presentation, 2011).

Agriculture market fact and figures

Given the fact that agriculture market is not so professional and organized as the car market, there is very few statistical data on the numbers being sold. Concerning Czech Republic, the Association of Agricultural Equipment Importers is the main source of such data. However, this data is only collected on tractors and harvesters. For the remaining equipment, no statistical data is collected at all and therefore the paper has to rely only on very vague information received from the survey among sales people of the Deutz-Fahr dealer network. Although this data covers the whole area of the Czech Republic, it is not sufficient to make any statistically relevant statements. For this reason, the facts and figures numbers will mainly relate to tractors and harvesters which are the two main articles being traded.

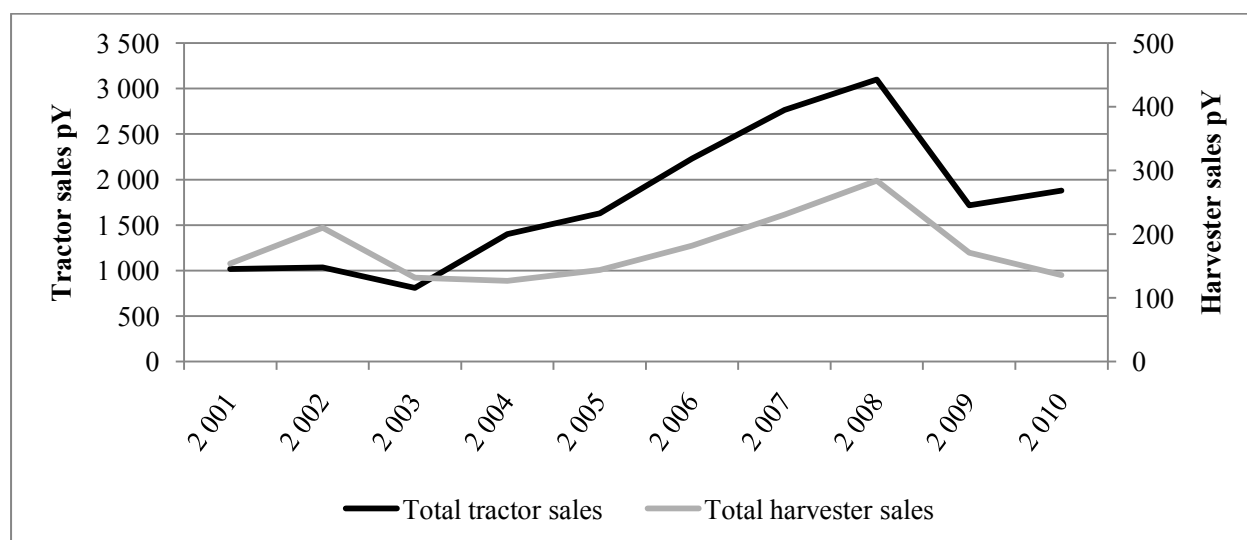
Table 8: Facts and figures: agriculture equipment market

The volume of the market (all equipment investment in 2009 according to the Czech statistical office)	CZK 7.61 billion
Number of tractors sold 2010	1,878
Number of harvesters sold 2010	136
Compound annual growth rate 2001 – 2010	7.05%
Growth type	Extremely volatile – heavily dependent on commodity prices and state/EU subsidies <u>Peak year:</u> 3,098 tractors and 284 harvesters (2008)

	Bottom year: 809 tractors (2003) and 124 harvesters (2004)
Major tractor/harvester brands on the market with the importing company (listed according to their market position)	<ol style="list-style-type: none"> 1. John Deere (Strom Praha a.s.) 2. New Holland (Agrotec a.s.) 3. Zetor (Zetor Trade a.s.) 4. Case (Agri CS a.s.) 5. Class (Agrall Zem. Technika a.s.) 6. Massey Ferguson (Austro Diesel GmbH) 7. Fendt (Agromex s.r.o.) 8. Same, Lamborghini (Some JH s.r.o.) 9. Beleraus (Belarus Traktor CZ s.r.o.) 10. Valtra (Topagri s.r.o.) 11. Deutz-Fahr (Garnea a.s.) 12. McCormick (Moreau Agri spol. s.r.o) 13. Kubota (Bonas Milevsko s.r.o.) 14. Landini (Moreau Agri spol. s.r.o.) 15. Challenger (Phoenix-Zeppelin spol. s.r.o.)
Major implements producers (Top named in the conducted survey – at least by 5 persons)	Agrostroj Pelhřimov, Amazone, Berthoud, He-Va , Class, John Deere, Deutz Fahr, Krone, Kverneland, Kuhn, Lemken, OpallAgri, Pöttinger, Rozmítal, SMS Rokycany, Tecnoma, Väderstad, WTC

Source: Survey; Agroweb.cz; SDZT statistics; Czech statistical office 2011

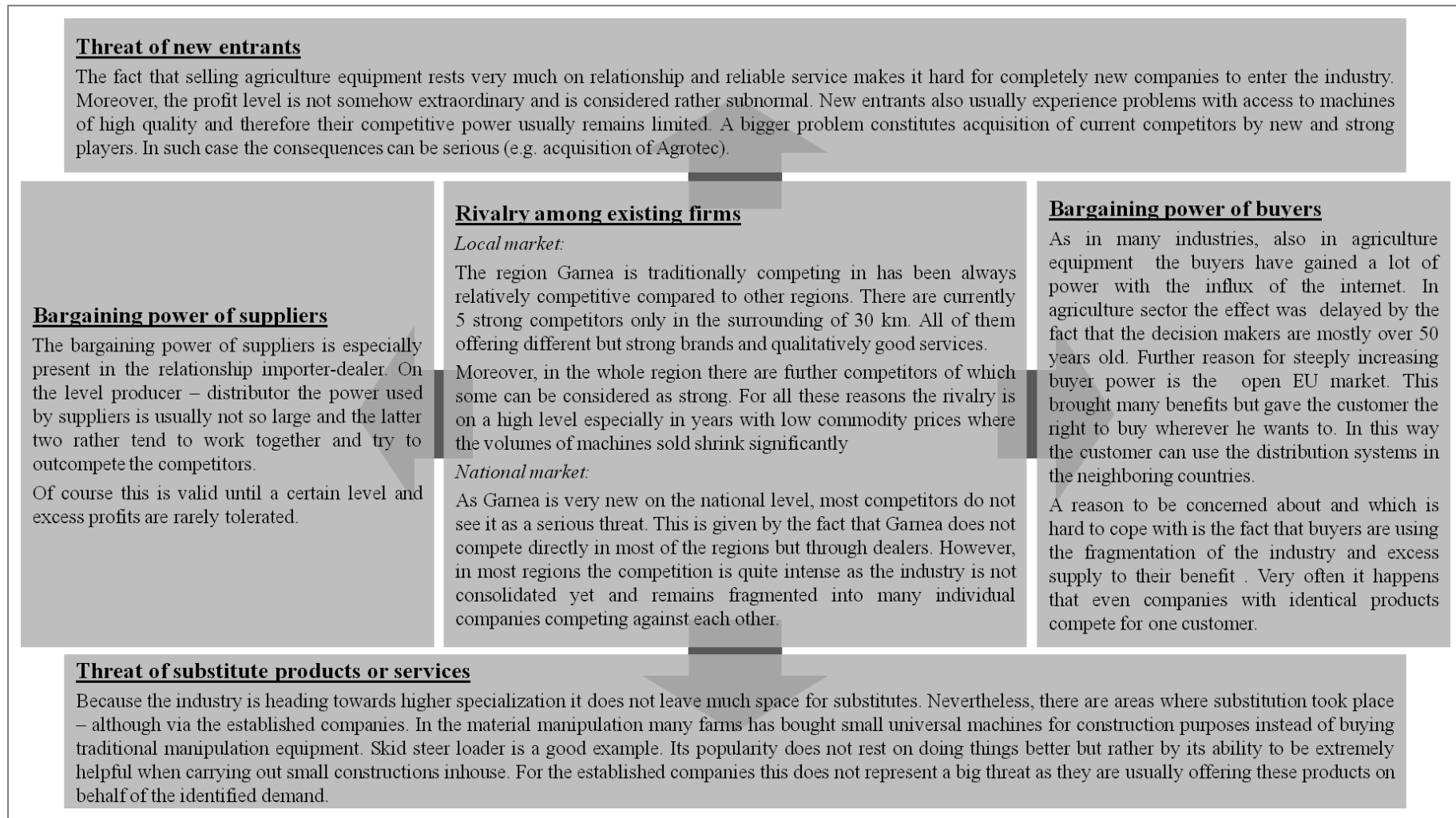
Figure 9: Total tractor and harvester sales development 2001-2011



Source: SDZT 2011

7.2 Five forces analyses

Figure 10: Five competitive forces in the agriculture equipment industry



7.3 Main customer segments

In the market definition chapter I have already introduced the 6 main customer segments which use agricultural equipment. Here the segments will be introduced more in detail together with their needs and key decision factors. All this information relies on conversation with experts and salespeople usually working in the area longer than 15 years and on the internal segmentation of the market created by Garnea.

Farming

The typical segment for which most of the agricultural equipment and machines has been developed. This segment clearly represents the major segment among all and is of biggest importance. In the whole Czech Republic there are 27,642 agricultural subjects of which almost 90% is formed by very small farmers. These usually do not buy new machines or only the very small ones. The remaining 10% form the target group on which Garnea and most of the sellers of agricultural equipment focus in their regions. The majority of farms are of a size between 50 and several thousand hectare. Moreover, many are producing milk or raise cattle along with growing corn. This reflects their needs of agriculture machinery which covers almost the whole portfolio depending on the local conditions and preferences of the farm management.

The main decision factors are the following:

- Price and payment conditions.
- Equipment and brand – brand is usually taken as attribute of quality and reliability.
- Relationship with the supplying company/sales representative.
- Good service and spare parts availability.
- Other services as consulting and financial services.
- Portfolio and ability to provide whole package of machines.

Forestry

This segment consists of firms active in forestry or state owned companies responsible for forest and landscape maintenance. In most cases the tractors are equipped with special equipment for forestry work supplied by specialized companies.

In case of private firms the main focus are machines above 80 hp up to large tractors for demanding work with wood chippers and cultivators. The decision is mostly affected by price, brand and the relationship either with the company or with the salesperson. Sometimes also the producer of additional forestry equipment can play an important role. In case of larger machines, service plays a very important role as well. Large machines are usually continuously in use and every day of not using the machine can be effectively a loss.

The needs of state owned companies are similar. However, most of the time rather smaller tractors between 80 and 200 hp are required. Forestry equipment is a must. Sometimes even reversed driving is required. The selection is almost exclusively done via tenders. Price plays a crucial role. Nevertheless, it is usual that tenders requirements are written in such a way that only selected competitors can participate. By far not all tenders are transparent and not welcomed competitors are often excluded in disputes around diverse technical specifications. However, success usually means that many units are sold at once.

Gardening

Gardening is a very special and rare segment in the Czech Republic. Although the activity in this sector has increased in the last couple of years, it is still concentrated in only a few areas. Except special gardening tools, rather small tractors up to 120 hp are required.

The purchase decision rests on similar factors as in the farming segment. Moreover, customers usually tend to purchase all equipment from one supplier.

Municipalities

Municipalities form a special segment. Especially smaller towns and larger villages are considered as potential customers. The focus is here on compact tractors capable of performing various maintenance tasks like road maintenance, mowing, snow ploughing and material transport. Given the usually tight budget situation the equipment being purchased is usually simple but functional. Only focus goes on comfort as the decision is mainly based on the requirements of the maintenance staff.

Road and landscape maintenance

This segment concerns especially state owned companies responsible for road maintenance and landscape maintenance along large rivers. The main focus is on tractors between 80 and 200 hp equipped with arm mowers, normal mowers, snow ploughs and spreaders aimed at

local winter maintenance. Analogously to state owned forestry also here the decision is made via tenders with similar problems.

Profitability and purchase power

Among the different segments, the one with the highest profitability and purchase power are farms over 1,000 ha. These companies usually need a wide range of machinery and regularly purchase new equipment. Moreover, they are more quality and productivity oriented and require better services. In case of satisfaction repeated purchase is easily reached and without necessity of bargaining.

Second group of profitable customers are small farms in the highland areas which currently profit from the EU subsidy policy. These are willing to buy very well equipped machines and are ready to pay a surplus for these.

The other groups are more price sensitive, although this does not mean good margins are not achievable. However, the usual comparison of several offers makes price an important argument. Good after sales and service is seen as necessary, but not crucial as machines are usually used for easy and not so demanding work.

8. COMPETITOR ANALYSIS

In the previous chapter the market analysis was not performed completely. One important part was missing – competitors. This was done on purpose as they are very important for creation of competitive strategy. A further reason why competitor analysis is done separately is that because of the new position of Garnea a.s. as the sole distributor of Deutz-Fahr to the Czech Republic, it has to take into account also the major distributors of competing brands on the national level.

8.1 *Analysis of the local and national competitors*

There is a big difference between the competitors on the local and national level. Whereas on the local level Garnea belongs among the top performing companies, on the national level the situation is completely different. However, the national comparison is not really representative as Garnea has only recently joined the club of importers.

Major local competitors

Following local competitors are competing on the market together with Garnea:

Agropartner

Local dealer of Case Agriculture machines, hardly hit by the crisis and suffering from the forced buyout of one of the associates. Although the company is currently weak and rumours are indicating its soon bankruptcy, the company keeps selling machines and equipment. Most probably the company will try to finish restructuring and with start a healthy growth anew. However, this will be a hard task to do as other dealers in the region have used this situation to their benefits and many skilful employees has left the company.

Nevertheless, the company can still use its strength in selling cowshed equipment and its three subsidiaries in the whole region. It can be expected that the company will try to regain its market share and customers in the near future.

Agrozet

Very strong John Deere dealer with many subsidies in South Bohemia. Its competitive advantage rests on owing many subsidies and selling wide product portfolio. The main strength does not rest so much on which brand the company is selling, but rather on the extent

of its portfolio and on the spare parts availability. Agrozet has its own warehouse centre with more than 80,000 items on stock – even Garnea purchases some common parts (e.g. screws) from Agrozet (Agrozet České Budějovice a.s., 2011). The company is selling all possible articles for use in agriculture. Whenever farmers need something, they usually find it in Agrozet.

The success it currently has rests on the fact that the company was founded 60 year ago by the state and inherited most of its competitive advantages including several subsidies from the times before 1989. It managed to keep these advantages and expand them which helped it to clearly become the leading company in the region and even a large company in the national comparison.

Arbo Klatovy

Former partner company from the New Holland dealer network. In 2010 the company has been bought by Agrotec (Arbo Klatovy, 2011). The company is very strong especially in the western part of the region. Recently, the company experienced problems after the takeover when several key employees left because of the takeover. Nevertheless the company will most probably stay a strong competitor and for sure it will try to target Garnea's customers in the western part of the South Bohemian region. A problem it could encounter is the increasing resistance of many farmers towards any company in ownership of Mr. Babis, which is widely seen as the cause of lower commodity prices in the Czech Republic.

Daňhel

Second strong John Deere dealer in the region. With different strategy. The company focuses on its main customers and on keeping them. It does not try to somehow expand and rather strengthens its relationship with its current customers (Daňhel Agro a.s., 2011). Still the company was one of the first on the market and has kept its position throughout the years. Therefore, it cannot be expected that the company won't stick to it.

Liva Předslavice

Case dealer in the more western part of the region. Owner managed company which is usually not directly competing with Garnea. The company has a good service and spare parts department and focuses mainly on Case and Krone as its two main revenue sources.

U+M Service

Strong dealer of Claas machines in South Bohemia. The company is very good in harvester sales which make it strong. Harvesters are typically machines where high margins are still possible. Moreover the brand Claas is extremely strong on the Czech market. With the recent expansion of Claas into tractor business, the company has become even stronger. It has a very good service and spare parts availability as all Claas dealers. This makes it a strong competitor who will try to keep its position in the harvester business and significantly expand the tractor business with the new Claas tractors (U+M Servis, 2011).

Some Jindřichuv Hradec:

The most problematic competitor in the region but as well in the whole republic. The problem is not the company itself, which is currently not very well performing and suffering from internal problems. Rather the problem is the tractors which it sells: Same and Lamborghini. Both brands are produced by Same Deutz-Fahr group and the machines are identical to Deutz-Fahr; only the price policy and exterior design are different. Unfortunately for Garnea, Deutz-Fahr is seen as premium and therefore it is also more expensive. The big trouble is that the brand image of Deutz-Fahr in Czech Republic is not present and therefore there is no way how to charge the customer a premium for a machine which differs only by color.

Moreover, Same is well known for its aggressive sales policy and selling with extremely low margins. On the other hand, there is a possibility of nationwide cooperation and merge of the dealer networks, which would put the otherwise struggling brands into a much stronger position against its competitors.

Major national competitors

Agrall

Agrall is the sole distributor of Claas agricultural machines for the Czech market since 1999. It was also one of the first companies in the Czech Republic to start selling agricultural equipment. Since the beginning the company focused on Claas machines, no. 1 in harvesters (Agrall Zemědělská Technika a.s., 2011). Claas has been producing predominantly harvesters until 2003, when it took over the Renault agricultural division and started to produce tractors as well (Claas Group, 2011). Since then also Agrall has been aggressively offering tractors which are constantly getting better.

Concerning the Czech market Agrall has a very good competitive position. It is the third largest importer of agricultural machines in the Czech Republic and by far the most profitable one since Agrotec has stepped down from this exceptional position two years ago. Moreover the company can boast with very good dealer network covering the whole Czech Republic with eight strong companies.

The future goals for the company are consistent with the strategy of the manufacturer. Stay number 1 in harvesters and gain a significant market position in the tractor business.

Agrotec

Agrotec a.s, Garnea's main partner until 2010, is the importer of New Holland and Kuhn agricultural machines for the Czech market. In 2007 the company was taken over by Agrofert Holding a.s. together with the importer of Case Agriculture machines Agri CS (Agrotec Group, 2011). This has been owned by Agrotec. Agrotec is also importer of all constructing machinery produced by CNH – Case New Holland, mother Company of New Holland and Case.

Agrotec used to have a network of strong dealers of New Holland as well as Case machines. However, the new strategy set by Agrofert Holding caused that this dealer network was either taken over by Agrotec/Agrofert or replaced by own companies as was described before.

The main strength of Agrotec is clearly its mother company, Agrofert Holding, and its financial strength behind. This strength is also Agrotec's weakness. Currently there is a large antipathy among farmers and generally in the whole food industry against everything connected with Mr. Babis and Agrofert. Moreover, as Agrotec is the only company selling CNH machines in the Czech Republic, it makes it very strong in respect to its main supplier.

Agrotec's main aim will clearly be staying number 1 in tractor sales with the brands New Holland and Case. Moreover, it will surely try to improve its financial situation as its net profit margin has been very unsatisfying in the last four years. One of the smaller targets will definitely be to make Garnea the life a little bit more complicated. This is already happening with the new subsidiary only 2 km away from Garnea and the constant hiring activity targeting selected employees of Garnea.

Agri CS

The company is distributing Case agriculture machines for the region of the Czech Republic. It also owns a relatively strong dealer network. Case has entered the Czech market relatively late, still it managed to achieve a top position in the market. However, Agrotec always restrained Case from being better than New Holland, as this New Holland is the preferred brand by Agrotec.

The strength of the company is the wide portfolio as Case is manufacturing tractors from 30 hp up to 600 hp (Agri CS, 2011). Although Case machines are technically identical to New Holland, some ranges are produced in Austria and not in Britain as is the case of New Holland. Many consumers are aware of this fact and are buying Case tractors only because of this. A problem for both companies, Agrotec as well as Agri CS is that the technical support department completely stopped existing as all capable people left the two companies. Furthermore, Agrofert has started the same process with private Case dealers as it has done with the New Holland network.

The aim of Agri CS will be maintaining its position in the market right behind Agrotec and keep its market share above 10%. It started alike Agrotec start restructuring its own dealer network.

Agromex

Agromex is importing Fendt agricultural machines. The Porsche among tractors. Although its main focus is not solely on Fendt. The owners of Agromex are partly a German company selling agriculture products in Germany and partly a Czech company. The German co-owner makes the company financially strong and guarantees the company a better access to machines of the German manufacturer Fendt and also of other brands (Agromex, 2011).

On the Czech market Agromex has only recently started to build its own dealer network. However it has already reached a significant part of the market. The company has pursued a very aggressive sales policy selling the very premium tractors at prices which are becoming competitive to premium brands – a problem for Garnea

Surely the main aim of Agromex will be gaining more market share and attack the leading brands on the market. Although this will be hard given the still very high prices, it will

definitely try to reach a significant position and to copy partly the position of Fendt in Germany (the market leader).

Austro Diesel GmbH

The Austrian company is representing Massey Fergusson in the Czech Republic. Especially in the recent couple of years the company has had very good success and currently enjoys being number 5 according to its market share. Massey Fergusson used to be a rather infamous brand. This has instantly changed after the company has merged with Fendt and became known for being the cheaper Fendt. Indeed the company has improved the quality and reliability and integrated many parts which are used or were used by Fendt.

The Austrian company claims to be the seller of Massey Ferguson in 5 countries. Its dealer network is not so well developed in the Czech Republic yet, but this is changing very fast (Austro Diesel GmbH, 2011).

The strategy consists of aggressive sales policy and presentation as the red Fendt. Moreover it is sure that the company will try to attack the top ranks in the statistics. At least its market share is slowly increasing over time.

Moreau Agri

Moreau Agri has experienced a steadily falling turnover over the last 4 years together with shrinking profits. It faces a very complicated situation as the main tractor brands are really marginal not only on the Czech market, but as well in international comparisons. The company remains strong in the manipulating technology where it sells the French Manitou - this is by far the most recognized brand in manipulation technology for agriculture on the Czech market.

Moreau Agri is partly owned by French companies which grant it access to French products of which some are competitive (Manitou) (Moreau Agri, 2011). Although Moreau Agri does have a complete dealer network, this is rather weak.

The probable focus of the company in the future will be on manipulating technology and Joskin which is an excellent French manufacturer of fertilizers and transport technology. Overall it is hard to estimate what will happen with the tractor program and if the company will find a producer of harvesters in order to become a proper full-line seller of agricultural technology.

Some Jindřichův Hradec

Some is the only local as well as national competitor. Most of the characteristics are mentioned in the local competitors section. What can be added here is that Some has a completely own dealer network which it has build up from scratch (Some Jindřichův Hradec, 2011). However this brings lots of problems to Some as it has to pay over 100 people every month – particularly hard in times of decreasing sales. Although there is a problem with the similarity of machines Some and Garnea are selling, in one point Garnea has advantage. The relationship of Garnea and Same Deutz-Fahr seems to be much more positive than the relationship between Some and Same Deutz-Fahr. This could bring potential benefits to Garnea.

Strom Praha a.s.

Strom Praha a.s. is a long term leader on the Czech tractor and generally agriculture machinery market. The company was one of the first to offer John Deere and other agricultural equipment. Moreover it fully used the mentioned advantage that John Deere was one of the few western brands being known in the Czech Republic already before the change of regime. This has helped it to create an extraordinary strong brand image – very much supported by the marketing excellence of John Deere itself.

The company is not only financially strong, but it also has a very dense network of strong dealers. These two combined with excellent spare parts availability, good service and very good products will keep John Deere and Strom on the top of the competitor comparisons in the future (Strom Praha a.s., 2011).

The probable strategy is that John Deere will try to get an even higher market share and further strengthen its brand image. Already today the PR activity of Strom Praha is so high that barely any company can reach this level.

Topagri

The smallest among importers. However, the company rests on the success and experience of its sister company Kverneland Group Czech which is a very successful importer of Kverneland machines to the Czech Republic (small agriculture machines). The company has been founded primarily to represent the tractor brand Valtra in the Czech Republic. This has

been historically very strong brand in the forestry segment. However, it slowly loses its ground in this area and experiences difficulties in getting into the agricultural sector.

Topagri, although being a competitor is also a partner of Garnea. Garnea sells Kuhn machines for Topagri in the Southern Region of the Czech Republic.

Concerning its dealer network, the company still hasn't covered the whole market and probably will not do so in the near future. Nevertheless, its main target will surely be the work on a strong dealer network and strengthening its position with Kuhn, where the company competes with Agrotec.

9. FORMATION OF COMPETITIVE STRATEGY OF GARNEA A.S.

Finally all important information has been gathered and analyzed. Now the actual result of this paper, the competitive strategy of Garnea a.s. will be presented. Analogically to the strategy formation process, the vision will be the first one to be introduced and explained. As second, the main objectives are set together with the respective deadlines and prove of the appropriateness. Subsequently measures and plans are introduced aimed at achieving the individual goals set via the objectives. The implementation process with is outlined together with an effective feedback system.

9.1 Garnea's vision – the company in 10 years

The following vision was set in line with Kotter's main characteristics of an effectively worded strategic vision: imaginable, desirable, feasible, focused, flexible, and communicable.

The vision also rests on the core purpose of the company which can be described as follows:

Garnea a.s. was founded out of the need to provide machinery of high quality and reliability with excellent service to the own farm and in this way use this opportunity to help also other farmers. Garnea has always aimed at being here for its customers and not vice versa. The company will always do its maximum to help its cutomers – before and after the sales.

Therefore, the vision for the upcoming 10 years is:

- The company Garnea a.s. will seek to confirm and strengthen its new position as an importer of the third largest producer of Agricultural machinery in the world, Deutz-Fahr. In this respect the company will strive to create a strong dealer network and to reach a market share which would equal the company's position on the western European markets.
- The traditional focus on excellent service and spare parts availability should continue to be a core competitive advantage and will be pursued throughout the whole dealer network to create an image of top after sales customer service.
- Moreover, the comapany will seek to become clearly the most competitive company in the region of South Bohemia. Further, focus will be put on offering additional high

quality agricultural equipment as part of the continuous effort to give our customers the best quality products and services for a reasonable price.

- Finally, the company will strive to achieve above average profitability in order to be able to finance new projects and possibly expand to some other European markets

All these efforts could be summarized in one slogan:

“To offer our customers only high quality products and to provide an excellent service in all matters around agricultural equipment – to be a real partner.”

9.2 Core objectives – what goals need to be achieved

The core objectives are aimed at the stated vision and at giving it a real shape and credibility. This is done by linking it with appropriate objectives and, which will result in reaching the status pictured by the vision. To really serve this purpose, all objectives need to be measureable, quantifiable and with firm deadlines.

As it is proposed by Thomson, Strickland and Gamble (2007), the objectives are divided into two main categories depending if they are aimed at reaching strategic or financial targets. Further, the objectives are divided according to their deadline

Table 9: Financial and strategic objectives of Garnea a.s..

Financial objectives	Deadline	Evaluation
Reach a turnover of CZK 500 million/year	2021	Revenues from all company activities, at least 80% from merchandise
Reach a turnover of CZK 250 million/year	2012	Revenues from all company activities
Increase the net profit margin to 5% or higher and remain above this level	2015	Net profit margin after inclusion of all costs and revenues
Increase the Gross sales margin to 12% and keep it stable	2013	Gross margin from merchandise
Stay profitable for the year current year	2011	Positive after-tax profit
Strategic objectives	Deadline	Evaluation
Increase market share to 10%	2011 – 4%; 2013 – 7 % ;	Tractor market share

and stay above this level	2018 – 10%	according to SDZT
Start selling Deutz-Fahr telescopic loaders	2012	5 units/year sold
Start actively selling Deutz-Fahr combines	2013	5 units/year sold
Completion of network development stage 1	2013	All dealers sell at least 5 machines/year
Completion of network development stage 2	2015	All dealers sell at least 10 tractors per year and are well established and known
Become a sole distributor of a high quality brand of tractor implements	2015	Find a new brand not present on the Czech market or acquire an existing brand
Increase the spare parts turnover by 10% starting in 2012	continuous	Year on year comparison of spare parts total turnover
Increase the service quality up to 95% repairs without repetitive actions	2013	Measurement of all service activities and number of their subsequent corrections
Increase the service quality up to 95% repairs without repetitive actions within the whole network	2015	Measurement of all service activities and number of their subsequent corrections
Employees turnover rate below 2%	2013	Measure of employee stability in %
Inventory turnover above 5	2013	Sales / inventory
Implementation of customer relationship management	2012	System in place and in active use

The objectives above are set in accordance with the strategic vision and with respect to the company's current resources and abilities. They also largely reflect the strategic considerations of the top management and owners about the possible and desirable direction of the company. The financial objectives are set in order to really cause a difference and become a respected company among the distributors. However, most importantly they do form an important condition for a sustainable success of the company. Without reasonable profits the company will lack resources to further development and would not be able to

reach the strategic targets set. In the following paragraphs a short reasoning of the set objectives is provided.

Financial objectives

Most of the objectives are set in order to mean a reasonable improvement and to secure the long-term stability of the company. In the long run especially the turnover is being considered. However, such a turnover can only be reached with sufficient profitability. It is by no means possible to do so without achieving the set levels of profitability. Although they seem to be high, they are by far not too high and does are based on the company's performance from the past as well as on the performance of the well performing competitors. The turnover target for the year 2012 has to be reached. Otherwise company's obligations towards its partners in terms of volume will not be fulfilled. Also banks would start looking at Garnea more carefully possibly causing problems with stock financing.

Strategic objectives

The strategic objectives are focused predominantly on the market performance and relationships toward customers. However, they do not leave out important activities as service, spare parts and inventory of which all can significantly affect not only the revenue, but in case of the first two also the customer satisfaction. The market share targets were set according to Garnea's agreements with Deutz-Fahr for the upcoming 3 years and also to Garnea's internal targets. The inclusion of Deutz-Fahr telescopic loaders and harvesters into Garnea's portfolio is scheduled as mentioned resulting from the fact that both products are supplied via separate organizations and require further financial resources. These can be only achieved, when we deliver what we have promised in 2011 and 2012. Moreover, without reaching the market share the company will hardly be able to fulfil the first financial target of reaching a turnover of CZK 500 million.

The fact that Garnea and Deutz-Fahr does not have a proper dealer network yet is indeed a big challenge. Without creating a better dealer network consisting out of stable and recognized regional partners, it will be impossible not only to reach aimed market share, but as well other targets. Hereby the service excellence is meant. Garnea already possess a good service which is currently even improving. However, the majority of its dealers either is unable to reach such a level or needs to invest heavily to reach it.

Last group of targets concerns HR and Inventory. In the beginning of this part, the strategic challenges of Garnea are described. Inventory turnover rate is indeed worsening and the company has to watch its inventory level very carefully. Otherwise, it will suffer increased stock financing costs. In terms of HR, the situation has worsened especially throughout the last year where the company was searching for new and motivated employees but either it has made a wrong selection or was unable to exploit the potential of the new employees. This is a big challenge for the future as only motivated and stable employees will enable the company to reach the set targets.

9.3 Strategy execution – the plan how to reach the goals set

In contrary to the previous chapter, the plan of how to reach the set targets starts with strategic goals as these will affect the financial performance of the company in the future. First the basic objectives will be solved because they form the basis for reaching the subsequent targets

Inventory turnover

Inventory has never seemed to be an issue at Garnea, However in the last 3 years the situation continuously worsened even slipping under 4. As it was mentioned earlier there are several causes for the decreasing turnover rate. Firstly, a block of machines stayed on stock for a longer period of time. The reasons were clear. All of the machines for a total of CZK 11 million were purchased right before the big price slump of agriculture and constructing machines, which has occurred in the beginning of 2009. Moreover, the specifications of the machines were not somehow attractive. And the third reason was the long-lasting effort of selling these machines with large profit margin, which in the end resulted in a loss instead. Further problem is in spare parts department. Here, the control mechanisms have failed as well as the spare parts management.

The strategic implication has to focus on early identification of problematic stock and take active approach to sell this stock even with very low or no profit. It is important to realize, that holding the machine on stock only consumes even more money. So the machine is getting effectively more expensive. For this reason, each machine on stock should be appreciated by the price of financing and all other costs which it has caused – continuously. In this way individual sales managers will be forced to see the otherwise hidden and

increasing costs of the machines on stock. The longer a machine takes to sell the more expensive it gets.

However, in order not to make the machines internally too expensive with a negative effect on price, a certain “safe-zone” should be established. The length of this zone would have to be calculated. However, it should be at least 3 months. During this time the internal price of machine would remain constant and sales managers could earn extra percentage points on higher margin (not decreased by financing and other cost). This should force the managers to focus on stock machines and try to sell them as soon as possible. Ideally before the machines has been produced. There is also the possibility to rent the machines to potential customers. Renting machines could help to solve the problem with old inventory and at least to repay partly the cost which is caused by having the machine on stock. The problem is that it is not possible to use the machine fully as long as it is not completely owned by the company. However, once a machine stays on stock longer than 9 months when Garnea has to pay the whole price, renting becomes a possibility how to create at least some value. Moreover, renting the machines makes eventual sale more probable.

Employee turnover

A strategy can only be pursued, if it is understood and backed up by the employees of the company. Unfortunately, there are several places in the company, where there are no employees which would actively support strategy of change, partly started during the first half of the year. Why is employee turnover mentioned? The key is currently not to get rid of people who have the skills but to find leaders who would keep these people working according to the way the management has set. A very significant problem concerns the spare parts department. Several measures have been tried to help the staff – without success. Therefore, the only way how to reach the strategic objective is to employ a qualified person to lead the department and to do the strategically important tasks. Currently, the two employees are doing only simple execution. They are not developing anything. However, if the company wants to increase the spare parts sales, a dedicated and motivated person needs to take care of spare parts and pursue active purchasing and sales policy, create new innovative ways of delivering parts and adding new products into the portfolio.

The management has tried to do all this already. Unfortunately, without a person directly from spare parts that will be willing to participate, no such measure has a chance of success. The strategic implication is to find a person who would be skilful and willing to work on this

situation and try to use the potential and strengths the spare parts business surely has. However, this has to become very soon, otherwise the company will completely lose its ground in this area.

The company needs to find and keep skilled, motivated and willing employees which would stay and form a basement for the new strategy. High turnover of people will not only cause this basement to erode, but it would make the company look bad in customers' view. It cannot be forgotten that relationships play key role in the agriculture.

Service excellence

Service excellence clearly belongs to one of the main strategic targets. Not only can the company in this respect build on its competitive advantage, but as well it can use the resources in form of new workshop, experienced mechanics and other relevant strengths it possesses in this area

Service excellence is where first measures have already been taken to improve the situation. Newly established technical support department helping to solve most of the complicated issues and new service department manager has unquestionably brought improvement. However, in order to reach the set target, more has to be done. Especially better work with the historical data could increase not only the speed of repair but as well prevent repeated mistakes. An analogy of customer relationship management has to be set in place and keep a close track on each customer and his machines. Otherwise, the service won't be able to improve its quality and customer satisfaction.

To achieve service excellence at Garnea's service department will not be so problematic. Achieving the same quality throughout the whole sales network is more complicated. Therefore Garnea has already created a training center and is regularly providing trainings to dealers' mechanics. Furthermore, Garnea's technical support is operating in the whole area of the Czech Republic. What needs to be implemented is an evaluation system among the dealers. An important part has to be customer satisfaction survey. Moreover, evaluation of the equipment of the individual workshops will play an important role as well. The implication of this process should be some motivation for example in terms of better spare parts conditions.

Inclusion of Deutz-Fahr harvesters and telescopic loaders into Garnea's portfolio

Although Deutz-Fahr is identical to its sister brands, Same and Lamborghini, there is one big difference between the three. Only Deutz-Fahr is a full-line brand which does offer along with tractors also harvesters, manipulating technology and other products. This rests especially on the historical development but surely it helps the brand to gain a better image of being more premium than the other two brands. Although Garnea isn't currently selling any of these products, it is an unwritten obligation that it will "have to" do so in the very near future. Deutz-Fahr has so far reserved the exclusive distribution of these machines to the Czech market for Garnea. Now, Garnea has to start making steps towards acquiring the control over the complete Deutz-Fahr production program. Already now Same uses the advantage and presents itself as the seller of Deutz-Fahr harvesters using the premium image of the brand to increase the image of Same and Lamborghini it is selling. The sooner will Same stop selling these machines, the easier will it be for Garnea to communicate the premium value of Deutz-Fahr.

The problem with including these two product groups into our portfolio is as follows: the need of extra financial resources as the two products are traded via different organizations. Moreover, the quality of Deutz-Fahr harvesters is unsatisfactory compared to New Holland harvesters being currently offered by Garnea.

Deutz-Fahr market share increase

The most challenging of all targets and the most crucial one on which the long-term relationship with Deutz-Fahr will rest on. Garnea has obliged itself to sell certain amounts of tractors each year. Without reaching these targets, the company will lose its favorable relationship with the producer. Moreover, without increasing the number of units sold the company will not be able to increase its turnover.

There are several measures which need to be implemented in order to increase sales. Firstly it is the Deutz-Fahr image that needs to be boosted. The potential customers need to learn about the new Deutz-Fahr dealer network and about the improvements that has been done in the service area. Moreover, it is important to let the brand appear in the media as much as possible in terms of introducing Deutz-Fahr and its main selling points. A very important part is PR. Farmers are purchasing machines because of experience. If they know some of the well performing farmers in the neighborhood who use Deutz-Fahr tractors, their reluctance to

buy a relatively unknown tractor brand is much lower. Furthermore, there is a strong need to create a pool of demo tractors which would give the customer the chance to test a machine for several days before the purchase decision. This would help to break the reluctance towards the not proven machine. Last marketing measure is participations at the major exhibitions at which Garnea is planning to have an excellent exposition with the whole Deutz-Fahr tractor program already this autumn.

Secondly, the current dealer network needs to be significantly changed. Until the end of the year underperforming dealers has to be replaced and new experienced dealers with good service quality and stable customer base need to be added. The target is that in 2013, most dealers will be selling more than 5 Deutz-Fahr tractors per year and in 2015 this number will be 10. Without establishing a strong dealer network Garnea won't be able to reach its targets. In the future at least 2/3 of the total sales have to be achieved by the dealers. All in all, strong dealer network represents the backbone of the future success of Deutz-Fahr on the Czech market. It is extremely important to have dealers who are well known in their region and have a good service reputation. Only strong dealers can win the brand higher market share. Currently, there is a big chance that several strong dealers of the former New Holland and Case network won't accept the new strategy of Agrotec/AgriCS. Instead they will be looking for a new brand for their portfolio. Garnea has already approached some of them and will continue to do so.

Thirdly, Garnea has to keep favorable purchase conditions. The currently low sales were caused by unfavorable purchase conditions. This has significantly changed in May where the company negotiated new conditions leading to approximately 40 new orders. Generally, it is important to maintain conditions that reflect the common market price. Owing to Garnea's active communication with Deutz-Fahr and other suppliers, the situation improved a lot. In order to maintain such situation, Garnea needs to implement a price control system which will map the prices of competitors and help it negotiate appropriate conditions.

As the last part the company has to introduce an information framework. Information will be shared in the company among all employees. Hereby I specifically mean the customer relationship management which is a good way how to improve communication about customers and also with customers. Eventually, successful implementation will lead to higher sales margins.

Ideally, the combined strength of these measures will lead to increased sales and better image of Deutz-Fahr in the Czech Republic.

Distributorship of high quality tractor implements

There are not many high quality producers of tractor implements. However, there are still some which are not yet broadly present on the Czech market. Moreover there is a big chance that some of the established players will change their distribution system over the next 5 years. Garnea needs to become a direct distributor of these machines. Otherwise this will become its disadvantage. Fortunately, Garnea is no more in a weak position as it was when it tried to reach this target several years ago. Today the company has a dealer network and is a sole distributor of a well known tractor brand. If the company manages to increase its market share, it will surely become a very attractive partner for any producer willing to improve its position. Therefore, once results are reached on the tractor field, the company has to immediately start searching for possible implements producers.

Financial targets

All financial targets are related to the strategic targets. However, separate measures still have to be implemented in order to achieve individual targets. Currently, the most urgent of the target is the profitability of the company this year. The first half of the year has brought negative results as the purchase conditions were not competitive and the dealer network was not working at all. Moreover, on the cost side the company experienced increased costs caused by higher wages for the expanded management and also increased expenditures on marketing.

The hope is that the second half of the year will bring strong results. There are several machines before contract closure. Moreover, in total 18 machines are ordered by dealers and the autumn sales campaign will be launched during the upcoming exhibition. This is expected to deliver good results and hopefully will enable to company to compensate the losses from the first half of 2011.

The gross sales margin, operating margin and net profit margin will be hard to achieve. However, the increasing presence on the market and brand building should start to deliver its result in form of a higher achievable price. Moreover, the company will try to focus on more premium models with variable transmissions. In this segment higher margins are achievable. To underline all these efforts the top management will have to introduce a margin control

system, which will make it rather exceptional that margins will decrease under certain level. Rather competitive advantages, service contracts and other after sales instruments will be used to persuade the customer to purchase a machine even at an acceptable price. Important is that the customer understands the quantifiable benefits of the whole package of services being offered to him and the resulting savings. In this respect also the sales people has to be equipped with throughout calculations and comparisons with competitors. Further, the company will have to start to work more actively with customer information. A simple CRM system needs to be implemented in order to work efficiently with the right customers and in order to spot new sales opportunities early enough. In case active customer management will be reached, not only higher sales, but as well higher margins will be achievable easier.

The turnover target of CZK 500 million in 2021 is a target which is very much supported by the strategic targets I have mentioned before. All targets are fulfilled as planned, than the turnover will have to reach the target. The calculations are as follows:

Table 10: Turnover composition in year 2021

Item	Expected turnover in 2021
DF tractors – regional sales (40 units)	CZK 60 million
DF tractors – national sales 10% market share (160 units)	CZK 240 million
DF harvesters and manipulation technology	CZK 50 million
Spare parts total (10% growth annually)	CZK 50 million
Tractor implements sales – national	CZK 100 million
Other services Service, commodity handling, etc.	CZK 60 million
Total turnover in 2021	CZK 560 million

Only a successful implementation of the proposed strategy will make sure the company can achieve the resulting turnover and profitability level. Therefore, the company should put a special emphasis on the implementation of the proposed measures and the top management has to make sure everybody in the company, especially the middle management, is committed to fulfilling all objectives set.

9.4 Strategy implementation – The realization of the plan

The execution of the proposed strategy has to be carefully prepared. The company very recently experienced problems when it tried to implement certain changes without thinking about the causes. Therefore, careful consideration is always necessary. Moreover, the management has to respect the different abilities of the company's employees and treat them accordingly. Disrespect towards the individual capabilities will only lead to decreased performance and lower motivation.

Respect towards employees' capabilities is one part. The other part is that no matter how skilful the employees are, they have to understand why they are doing certain things. Therefore the previously mentioned "*communicate, communicate, communicate*" has to be repeated at this place. If the management wishes successful implementation, it has to spend enough time in communicating the execution plan so that everybody knows what to do.

Ideally, communication should be supported by motivating the people as well. A proper strategy oriented motivation system will make a clear signal that the management is determined to bring the strategy execution to the end. Garnea has so far developed a motivation system. However, it has brought results only in some areas. Moreover, the motivation system needs to be adapted to the new strategy.

Providing skills and expertise is a further condition for successful strategy execution. As soon as the company signed the contract to become the distributor of Deutz-Fahr in the Czech Republic, it has started to look for skilful and experienced managers which would bring their expertise and capabilities into the company. The first achievement has been technical support and hiring a very experienced person who currently does technical support and trainings not only for Deutz-Fahr but as well for New Holland and Case for which Garnea has guaranteed service. The second experienced person to come was the current manager of Deutz-Fahr Czech Republic. Mr. Halamíček has been working in the industry for the past 25 years and has represented New Holland tractors and later harvesters for the past 15 years. Today he is in charge of Deutz-Fahr which means to him and his career a very big challenge.

Further a young and ambitious sales manager was hired in order check the whole selling process of all machines. Although he does not come from within the industry, he has brought many interesting insights from other areas strengthening so the management team which has

helped the current CEO, Mr. Hrusa, in his very hard job. Unfortunately, nobody was found to become the head of spare parts department which is today a main problem in the company.

Moreover, the company wanted to hire further sales representatives to achieve a better coverage of the region. This proved a very difficult task ending up with three hired people but only one person proving to be the good choice.

In terms of resources, the company has freed sufficient resources for advertising and promotion of the new brand. Special resources were invested into the construction of the new workshop and into rebranding of the whole company to signify a change to everybody – the customers as well as employees.

One of the weaknesses mentioned in the company analysis chapter were the unclear decision rights. This is very dangerous for the company implementation and could possibly result in failure or significant delays. If the management wants to make the implementation fast and trouble free, it has to solve this issue. Everybody in the company has to know exactly what his duty is and for what task he is responsible and accountable. Each manager in the company has to know exactly what his responsibilities are and what the outcome should be. Also the remuneration needs to be adopted accordingly.

The mentioned implementation issues are only the major once the company has to solve. There will be many more which will appear throughout the implementation process. Processes and policies will have to be adapted to the actual conditions and to the reactions of competitors. The management has to keep in mind that the implementation process is very lively and needs to be hold flexible in terms of the way targets are reached, but very uncompromising in terms of the targets only.

9.5 Feedback and correction system of the strategy execution and implementation

Throughout the whole time of strategy implementation, results have to be continually collected and evaluated. It is of extreme importance that middle management communicates with top management so that for example the intended sales measures can be expanded or abandoned at all. Generally, it is important that regular status meetings are held and that progress of every single goal is evaluated. In case of occurring problems a corrective action has to be taken.

At this moment, communication starts to play an important role again. Regular communication channels have to be established, so that no problem can get too large and correction would be impossible. Although it might appear funny that such a small company suffers from communication problems, it is so. Not all people are communicative and establishing regular communication channels like status reports, meetings, and personal feedback sessions are all proposals which can be used without causing any cost.

In spite of advanced information system which Garnea possesses, the company is not able to use its full strength. Thereby, the cause is trivial and correction easy. The problem I am talking about is that Garnea does not have any particular server structure – frankly speaking there is a big mess which needs to be cleaned up. Once there is a formal structure on the server, information can be better sorted and easily made available to most of the employees. Even such a small thing will make implementation and feedback easier and smoother.

CONCLUSION

Summary of the outcomes

The main aim of this document was to create a competitive strategy of the company Garnea a.s. Clearly this target has been reached. In chapter 9, the competitive strategy has been created using the framework of Thompson, Strickland and Gamble (2007). The strategy is based on the information and analyses from the previous four chapters which reflect in the way they are done the main literature on strategy.

The vision of the company has been defined using the considerations of the top management of the company over the last year and the intentions of the owners. In Phase 2, financial and strategic objectives were defined with respect to company's resources and capabilities but as well to the company's obligations. Once the objectives have been set, the execution plans were presented in phase 3 (chapter 9.3). These are based on the company's capabilities and resources and on the fact that in some cases complete change in how things are done is necessary. In chapter 9.4, the implementation of the proposed measures is discussed and several very important conditions are stated. Chapter 9.5 concludes the competitive strategy with proposals on effective feedback system and communication. This leads to trouble free implementation and correction of wrongly defined steps or even objectives in a timely measure.

I firmly believe that throughout chapter 9, the whole scope of the core question is answered. Based on my long-term interaction with the managers of the company and on the participation in internal meetings, all proposed measures should be achievable within the defined time. However, it is important that the current management takes into consideration the implementation guidelines mentioned in chapter 3.4. Clearly, many of these conditions have been already fulfilled. Nevertheless, there are still parts that urgently need to be implemented.

Concerning the subsequent 3 questions, they relate more to the underlying analyses of the company and its environment. Although the answers itself are to be found partly in the competitive strategy chapter as well.

The question on internal causes of the current problems is thoroughly answered in chapter 5 and 6. At the end of chapter 5, the main problems and challenges of the Company are

highlighted. Subsequently, in chapter 6 the internal analysis of the company is carried out. The current strategy was evaluated highlighting its strong and weak points. Moreover, the strengths, weaknesses, opportunities and threats are put together in the company's SWOT analysis. Later on, the company value chain is pictured. All these parts are then combined in defining which of the resulting resources and competencies are either relevant for competitive advantages of the company or of negative influence.

The next question concerning the competitive landscape is answered throughout the chapters 7 and 8. In chapter 7 the industry analysis is elaborated. The main market drivers, developments and trends are identified. Most importantly, the five forces analysis is carried out highlighting the main competitive forces in the industry. In this respect it is important to mention that Garnea's new status of distributor has significantly lowered the bargaining power of its suppliers. Moreover, the currently good relationship with Deutz-Fahr and other suppliers are definitely a great advantage as well. Measures introduced in chapter 9.3 - active sales policy, introduction of customer relationship management, calculation of explicit cost savings resting on Garnea's competitive advantages and other tools - will help the company to achieve a stronger position towards its buyers and rivals.

The last question posed in the introduction is directed at setting appropriate targets which enable Garnea to grow sustainably in the long term. The answer can be found in chapter 9.2. in table 9. All financial and strategic objectives are listed here. Of course, the overall objectives will require further smaller targets. However, these lie out of the scope of this paper. Rather they should be defined precisely during the time Garnea's management will define every activity leading to the defined target in detail. It is important to mention that the process is top-down. Otherwise it is be impossible to guarantee the consistency of the individual goals. Rather goals have to be set in advance by the top management and the middle management should discuss how to achieve these goals most efficiently.

In summary, the thesis has clearly fulfilled its target – to shape a competitive strategy for Garnea a.s. This is based on relevant internal and external analyses as described by the theory and presented through chapters 5-8. Many measures are already planned to become a reality in a very near future. Others are still being discussed. However, I firmly believe that by using some of the arguments of this thesis the management will accept these measures. Nevertheless, strategy is a never ending process and the company might discover, that some of the measures simply do not reflect the reality. In that case a correction or a complete

change will be necessary. Overall, the strategy will find its use and will help the company in its further development.

Risks and limitations

Although I am confident about the ability of this strategy to help the company out of the unpleasant situation, there are several risks and limitations. First of all, the strategy described in chapter 9 provides only the top level of all considerations. Unfortunately, the extent of this paper does not allow such a high level of detail. More work is necessary on the formulation of the department goals and the plans how to achieve these. This is not possible without proper planning and inclusion of the department managers' experience and deep knowledge about the respective areas. Detailed plans and measures have to be worked out by the top management in cooperation with the lower level management or in some cases even with the group leaders.

The internal and external analyses provide only the most relevant information. Again, the scope of this work does not allow including more information. Generally, a lot more time would be necessary to carry out an industry wide research on all competitors and all product groups. Moreover, it was impossible for me to go and ask sales representatives of our competitors to provide their opinion on various competitors and products. Therefore an independent person or agency would probably have more success in this area.

The current economic conditions hide another risk which has not been taken into account so far – another economic crisis. All turnover and profitability targets are only valid in case the industry will not experience any deep recession in the future. Clearly, there are fluctuations between individual years. However, these are rather small or are compensated in the following years. In such case the whole strategy would need significant adjustments to the new economic conditions.

Implementation of a strategy requires many conditions to be fulfilled. Some of them are more important than others. Those mentioned in chapter 9.4 are a must. If the management fails to fulfil all conditions, it will run into a dangerous situation of not achieving the individual targets. In worst case scenario, this could lead to a continued stagnation, which would this time result in financial problems as well.

Deutz-Fahr is a well known brand in Western Europe. Unfortunately for Garnea, in the Czech Republic the brand is rather unknown. There are farms which have all machines from Deutz-Fahr and do not want any other. The rest however is not really persuaded about the quality of the brand. A lot of effort and financial resources will be necessary for reestablishing a good name of the brand. The former distributor was notoriously known for bad service and after sales. This resulted in low sales and continuous underperformance of the brand on the market. Garnea will have to change this. A hard task to do if not impossible with the current dealer network. Garnea needs to find new and reliable dealers which are aware of the fact that good after sales service is necessary. Otherwise all national efforts to make Deutz-Fahr a respected brand will be worthless.

Important consideration about the thesis

Already the decision to work on a strategy for the company I was working for was a difficult one. The main problem based on the fact that I was not sure about having access to sufficient amount of information on the industry and on the company. In the end the second one was completely trouble free, compared to the industry and competitor data, which was very difficult to obtain. A further problem is that there is no real source of statistical information on the industry. Therefore, many parts of the underlying analyses rest on the experience and opinions of people working in the industry.

From the beginning the main aim was to find a way how to get out of the difficult situation the company is currently facing. Thereby it was clear that the most important factors are relations with customers and time. Time indeed plays a very crucial role. Agriculture is an area where tradition and experience plays a huge role. For this reason, even products which are really cheap and good will not become successful as long as this is not proved. Not by the company selling the products but by the experience of some at least somehow respected members of the buyers' community. Without proving the real value of the product that it is large enough to break the tradition, any product will experience a hard start.

Proposals for further research

Although it is hardly imaginable that somebody could do more research on a competitive strategy, there is a lot of space in mapping more in detail the competitive environment of the agricultural equipment market. Generally, there is only few data available on agricultural industry and further analyses especially in respect to the current needs of farmers could help.

All companies would be glad to better understand these needs and to provide services which are tailored to the specific groups of farmers specialized on the individual activities.

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