

University of Economics, Prague

Bachelor Thesis

University of Economics, Prague

Faculty of business administration

Study program: Corporate Finance and Managements



Title of the Bachelor's thesis:

Strategic analysis of Dr. Popov company

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D e c l a r a t i o n o f A u t h e n t i c i t y

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

Prague, 9 May 2016

Signature

Acknowledgements

I would like to express my deep gratitude to my supervisor of this bachelor thesis Ing. Ladislav Tyll, MBA, Ph. D. for his guidance and carefree approach that help me shape my thesis in to its final form.

Název bakalářské práce:

Strategická analýza firmy Dr. Popov

Abstrakt:

Cílem této práce je definování základních metod, které slouží k tvorbě strategie podniku, a následné aplikování zmíněných metod v reálné situaci. V teoretické části jsou popsány jednotlivé postupy externích a interních analýz podniku. V praktické části jsou poté aplikovány jednotlivé metody, jako například PEST, VRIO, Porterův model pěti sil, hodnotový řetězec za účelem zajištění konkurenční výhody firmy Dr. Popov. V závěru celé práce dochází ke zhodnocení celé situace a vytvoření plánu z části praktické a současně navrnutí příležitostí pro možný rozvoj podniku. Poznatky z jednotlivých závěrů mé bakalářské práce jsou v tuto chvíli užitečné pro další fungování tohoto podniku.

Klíčová slova:

Strategie, Strategická analýza, PEST, Porterův model pěti sil, VRIO, Hodnotový řetězec, BCG matice, Matice růstu

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Abstract:

The aim of this bachelor thesis is to define basic methods, which are used for the preparation of a business strategy and to use those methods in a real situation. The theoretical part describes the methodology of an external and internal analysis. The practical part then applies single methods such as PEST, VRIO, Porter's five forces and value chain in order to define competitive advantage of Dr. Popov company. At the end of the Bachelor thesis will be assessment of the current situation and suggestion for the future growth of the company. The findings, resulting from the individual conclusions of my bachelor's thesis, are today useful for further company function.

Key words:

Strategy, Strategic analysis, PEST, Porter's five forces analysis, VRIO, Value chain, BCG Matrix, Growth matrix

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Introduction

The subject of my bachelor thesis is to create the strategic analysis of Dr. Popov company. The company focus mostly on production of herbal teas, herbal ointments and food supplements. The company become limited liability company in 2005 and in my point of view the company is stable and profitable, however, there are still many things to improve. The company operates on the market for more then 20 years. The aim of my Bachelor thesis is to analyze and describe company's internal and external environment, applied some suitable strategic tools. The analysis then helps me to define source of sustainable competitive advantage, problems and its causes. At the end of my bachelor's theses, I will provide suggestions for future growth opportunities. Creation of suitable strategic analysis requires to understand individual factors that influence the company (externally or internally). I will start with the theoretical part, where will be all methods generally explained. In practical part will be all analysis applied to Dr. Popov company.

Theoretical part

1. Strategy of the company (Mission, Vision, Goals)

Basic strategy is the process of developing the company and is based on organizational priorities. The main purpose of strategy is to keep secret advantages from competitors. Advantages lead to the success of the company. A successful strategy should protect the organization from the possible problems. Managers, or anyone creating strategic plans, should first define the target group of the company. (Sedláčková, 2006)

At of the present time, organizations face many changeable conditions. An organization that wants to survive and make a profit, must be able to react quickly to change. Having a suitable strategy helps analyze both internal and external environments. We can describe the definition of the strategy as: *“A company’s strategy is management’s action plan for running the business and conducting operations.”* (Thompson, 2008, p. 3) Strategy focuses primarily on threats and opportunities and then on resources. These main factors ensure that the company will survive and at the same time maximize the use of all opportunities. Strategy also deals with goals and the methods to fulfill those goals.

1.1 Mission statement

The mission usually refers to the basic purpose of the organization. What does an organization deal with or Why was the organization established? A general definition is: *“A mission is a general expression of the overall purpose of the organization, which, ideally, is in line with values and expectations of major stakeholders and concerned with the scope and boundaries of the organization.”* (Johnson, Scholes, 2002, p. 239). The mission statement is usually a very simply stated purpose or slogan of the product or service. We ask a very simple question when creating a mission: “What is our business?” If there are more stakeholders within the company, they must discuss and agree on the mission, otherwise it may cause difficulties.

1.2 Vision statement

Vision usually derives from mission, but there is one big difference. Vision is set for long-term periods and expresses a future direction for the company or the concept the owner wants to achieve. A well formulated vision may help employees and the company’s management as well. The definition is: *“The vision is the desired future state of the organization. It is aspiration around which a strategist, perhaps a chief executive, might seek to focus the attention and energies of members of the organization.”* (Johnson, Scholes 2002, p. 13) The vision is created to motivate and inspire everyone, especially the management of the company. Vision could be perceived as a challenge for those who want to connect its skills and knowledge.

1.3 Strategic goals

Strategic goals derive from mission and vision. Organizations usual strategic goals are mostly economic, such as maximizing profit and market share. However, a company`s strategic goal may be also include improving the working atmosphere or increasing employee satisfaction. (Sedláčková, 2006)

1.4 Strategic analysis

The purpose of strategic analysis is to get accurate results. The analyses are usually divided into two parts. The first deals with the internal environment and the second with the external environment. Both should be related, but an organization must distinguish between long-term and short-term periods. The aim is to find an interconnection between internal and external environments. The main task of strategic analysis is to find out, assess and analyze all factors that have or may have an influence on choice of strategy. (Sedláčková, 2006).

2. Strategic analysis of the environment

Environmental analysis is considered as the process that deals with all internal and external elements. Those elements can easily influence the performance of the company. The environment of an organization is very wide and changeable. Several new problems may develop and the company must act as quickly as possible. When managers make a strategic analysis, there must be a formula covering how wide, how deep and how long the analysis will take. All those decisions are up to managers and that is why each company from the same industry may have very different strategic analyses.

An organization must always take environmental conditions into account. When certain changes occur, an organization must react and modify its goals. Analysis of internal and external environments are required when the company wants to know better the factors that influence the company the most. Organizations should constantly analyze and react on the situation. (Sedláčková, 2006)

3. Analysis of Macro environment

3.1 PEST analysis

A very common and much used analysis of company environments is PEST analysis. The analysis examines macro environments in detail. According to that information, the organization is able to determine whether the business will survive in the future. This analysis also identifies key trends and influences that may affect the company. Managers sometimes want more detailed information on political, economical, social, technological, legal and ecological factors. In this case, managers can use enhanced version of the analysis - PESTEL analysis. For our purposes will be sufficient usage of PEST analysis. PEST analysis is comprised of four letters and each letter refers to a particular factor that may influence the external environment of the company. They may be influenced directly or indirectly.

Letters in PEST means:

P = Political factors

E = Economic factors

S = Social factors

T = Technological factors

Now I will define all parts of PESTAL analysis:

Political factors

Political factors are based on a particular state and its current situation. Political factors very significantly influence the decisions of managers. Political decisions are defined as import and export regulation, government stability, taxation policy and tariff and global political conditions. Some laws or regulations directly regulate entrepreneurship. This naturally affects manager decisions.

Economic factors

Economic factors are closely connected to the economic situation of the region. Thanks to strategic analysis, we can determine the future direction of the economy and we adapt strategies for those changes. Economic indicators are: economic growth, the interest rate, the inflation rate, unemployment rates, the foreign exchange rate, monetary and fiscal policies and disposable income of buyers.

Social factors

Social factors play important roles when a company is creating a strategic analysis. The factors may create threats and opportunities at the same time. Each country is unique and so are its habits and traditions. These factors may strongly affect the sales of the product and services. Social factors are, for example, levels of education, life styles, distribution of wealth, GNP trends, consumption and some literature also advises to include demographic factors such as the age of inhabitants or proportion of genders.

Technological factors

Technological factors have higher influence on companies from the field of science that have a need for continuous development and innovation. Good technological factors may create competitive advantages. On the other hand, backwardness of the business and limited innovation may lead to harm of the company. The example of technological factors includes new discoveries, rates of technological obsolescence and absence, government spending on research and innovative technological platforms. (Sedláčková, 2006) (Johnson, Scholes 2002)

4. Analysis of Micro-economics environment

The main idea of internal analysis is to subjectively assess the current position of the company. It is important to identify what the company's strengths are and compare them with competitors to find the company's advantages and weaknesses that must be improved. A micro-economic environment is an environment where the managers perform their management function (Donnelly, 1997). The internal analysis is described as such factors as specific advantages, rare resources, value chain, human resources, marketing and distribution function (Dedouchová, 2001). The environment is always influenced by management or by the owner of the company. I will define some basic analysis that are going to be used in these papers.

4.1 Porter's five forces

This model was named after professor Michael Porter of Harvard university, who provided a practical analysis of competitive strategy that includes analysis of the environment. Porter said that profitability in the field is not just a function of product design, but whether there was high or low technology used. Profitability is a function of structure in the particular field (Košťan, 2002)

Porter's five forces is a model that helps us with the issue of competitiveness and possibility to gain advantage over competitors. The analysis enables us to analyze industry or sector and its possible risks. The model is divided into five parts (five forces). The five parts of the model should be described in order to be able to understand how the description can be useful in the future. It is essential to understand the connection between competitive forces and structural drives. We must have in mind that between an individual forces is dependence.

Now I would like to briefly explain all five forces:

Rivalry among existing competitors

The rivalry among the existing companies naturally lowers profit. Rival companies are not perfect and having a competitive advantage against competitors puts the particular company in front. Rivalry is very different among the industries and it is a matter of strategic analysts to find those differences connected with the company. A large number of companies, slow market growth, fixed cost at a high level, high storage costs, high existing barriers, etc..

Bargaining power of buyers

Bargaining power of buyers means the influence caused by consumers in the particular field. In other words, when the buyers have strong power in the industry than it is a situation of monopsony - where only one subject exists on the side of demand and more than one subject on the side of supply - it is the situation of bargaining power of buyers.

Bargaining power of suppliers

The companies within the industry demanding raw material. This leads to a relationship between buyers and suppliers. Companies that provide raw materials basically sell them to suppliers that use it for manufacture. If the suppliers are strong enough it can influence the buyers. For example, by selling raw materials at a high price, the company would have lower profit.

Threat of substitute products or services

“Substitution reduces demand for a particular ‘class’ of products as customers switch to the alternatives” (Johnson, Whittington, 2012). The demand is influenced because of price changing. The main matter is to search for different ways to substitute our service or product. We should try to substitute product mostly when we can make a similar product at a different cost. The price becomes more elastic if consumers have more options from which to choose. The threat of substitution affects price competition within the industry.

Threat of new entrants

This threat especially depends upon extent to which, in the particular field, there are barriers to entry. If competitors want to enter successfully they must overcome these barriers. Very common barriers are, for example, economies of scale, the capital requirements of entry, access to distribution channels, experience, expected retaliation, legislation or government action and differentiation. (Johnson, Whittington, 2012)

4.2 Benchmark

Benchmarking is a strategy tool that compares companies within the industry. The aim is to define standards among other competitors. Benchmarking usually makes comparison with the most successful company's performance. A benchmark's task is to find out position of the company. Managers use this analysis to improve performance and learn from successful competitors. The Benchmark analysis does not define reasons for a company's good or bad performance. (Johnson, Scholes, 2002)

5. *Analysis of internal resources*

5.1 *VRIO analysis*

VRIO analysis is a technique that assess organizational resources and compares them with competitor's resources. The analysis assesses each type of resources for its own organization and also for competitors. We call the analysis VRIO, because

V=value: What is the value of the product? Is it easy to access the product on the market?

R=rareness: Is the product rare? Is there any limitation of the product on the market?

I=imitation: Is it possible to imitate the product?

O=organization: Is there support from the side of organization to use the resources?

The following table summarizes the conclusion of the analysis. Individual categories of resources were identified based on the theoretical part. In each factor, it is shown whether it meets criteria of VRIO analysis. VRIO is divided into four parts: financial resources, human resources, material resources and nonmaterial resources. VRIO is an analytical technique that uses four dimensions (Value, Rareness, Imitability, Organizations) for all resources. An assessment defines Competitive advantages, competitive equity, Temporary competitive advantage, unused competitive advantage and Long-term competitive advantage. The analysis is then use for decision making process. (Tyll, 2014)

Table 1: Assessment of resources - VRIO

Is valuable	Is rare	Is difficult to imitate	Is an organization organized around it?	What is the result
No				Competitive disadvantage
Yes	No			Competitive equity/parity
Yes	Yes	No		Temporary competitive advantage
Yes	Yes	Yes	No	Unused competitive advantage
Yes	Yes	Yes	Yes	Long-term competitive advantage

Source: Tyll 2014

5.2 *Value chain*

The value chain could be described as an activity that is in or out of the company and creates a product or service. The concept of value chain helps understand what value is, how we can create value and how we can lose value (Johnson, Scholes, 2002). The value chain system is basically about examining the usefulness of outputs and, at the same time, possible improvement and better utility by the development of a business strategy. All companies perform their activities in different ways. Different strategy and approach of implementation of a new concept (Porter, 1998). The Value chain is a concept that consists of a variety of sub-systems, each responsible for a different activity (design, produce, market, deliver and support) and creating company's outputs (Williamson, 2004). The concept is focused on a particular industry. Companies within the same industry have almost the same chain, however, the value chain of competitors is often completely different.

When we talk about value in terms of competition, value is the amount of money that buyers are able to pay for a product/service. A company can only be profitable if the value is more than the cost needed to manufacture the product. The concept shows total value and is comprised of value activity and margin. Activities are split into two parts, physical and technological, according to the company's performance.

There are two types of value activities - primary and support activity. Primary activity is the activity that is involved in the physical creation of the product, its sale and transfer. Primary activity includes five categories - inbound logistics, operations, outbound logistics, marketing and sales, service that are used when competing within the industry. Support or secondary value activity basically supports primary value activity. Support activity consist of four categories - firm infrastructure, human resources management, technology development and procurement (Porter, 1998)

6. *SWOT analysis*

SWOT analysis is an instrument that helps strategic analysts to formulate a strategy. The main purpose of analysis is to determine the position of the company among its competitors. The company is judged and compared with its most significant competitors (Wöhe, 2007). The analysis consists of strengths, weaknesses, opportunities and threats. SWOT analysis analyzes internal and external environments at the same time and describes positive and negative factors of the company. The analysis helps corporations focus on opportunity, avoiding weaknesses, keeping their strengths and being aware of threats.

Information from SWOT analysis may be gained by analysis that was mentioned before - comparison with competitors, interviews or discussions with experts. SWOT analysis brings many other advantages, such as maintaining the factors in a environment that may influence the company. The analysis is also very subjective and analysts must pay attention and assess each part of their analysis according to certain relevant materials. SWOT analysis should be done as the last part of a strategic analysis.

The example of *strengths* are good will, good finance resources, leading position on the market, formulated strategy, new technology, unique products/services

The example of *weaknesses* are surviving without strategic plan, worst and worst strategic position, good will, no progress in innovation, inability to finance strategic changes

The example of opportunities are new market of consumers, faster growth of market, new technologies on the market

The example of threats are entrance of new competition within the industry, growing prices of raw material, growing pressure of competitors. (Tyll, 2014)

7. Strategy of product portfolio

7.1 Growth matrix

The growth matrix is showing to the existing companies the possible strategic development of the company. Growth matrix expresses alternative options for future growth and development. In the growth stage of the company, the company should stabilize the output and at the same time create suitable conditions for the alternatives for further growth of the company.

A quadrant is the beginning of all companies – in other words, introduction on the market. After a certain period of time, there is a number of ways how to develop the company. The company is then deciding to choose a particular alternative of the company's growth. The first option is to stay operating in the first quadrant A and offer always the same product portfolio to the same customers. Such company tries to maintain the market share or, ideally, increase the market share. The second option is the diversification on both lines. It means widening of the product portfolio to the quadrant B or entering new markets with the same products. The ideal is a development of the company on both lines. To produce new products or offer new services to different segments on the highest level for most organisations. We call the situation conglomerate diversification – quadrant D. (Tyll, 2014)

7.2 BCG matrix

If a company wants to find out more about the portfolio, this is a method to analyze the relationship of the products/services between market share and market growth. We call the analysis the Boston Consulting Group Matrix (BCG). The matrix is divided into four parts - star, question mark, cash cow and dogs. BCG matrix is used within the organisations that classified the separate Strategic Business Unit (SBU). Each SBU focuses on a different field of the company in terms of product portfolio. BCG matrix has four stages that assess the attractiveness and balance of the product portfolio according to the market share and the growth of the market. The size of the circles expresses the size of the SBUs. (Tyll, 2014)

I will explain each part.

Star

The star is basically a business unit that has the highest market share and its market is growing. The products/services that are on this side of the matrix must use large amounts of money. On the other hand, those products/services generate great amounts of cash. The products/services are constantly on a stable net cash flow.

Cash cows

Products/services that are situated in this part of the matrix are described as products that have high market share, but market growth is very slow. The profit and revenues are usually quite high, but as long as the products do not grow quickly, a company does not have to invest into

the production of the products. We can say that the cash cows are the foundation of the company.

Dogs

Dog products have low market growth and at the same time low market share. The aim of a company is to minimize dogs within the company. The options are liquidation of the dog products or investment into those products. Investment may help to recover the products.

Question mark

The products labeled as a question mark have high growth within the market, but market share is very low. Those products have the worst profit of all, due to high demand and at the same time low turnover because of the low market share. Companies must pay attention to the products on this side and make certain changes in order to increase market share, otherwise question mark-products will be transferred to the status of dogs.

Companies must keep in mind that the BCG matrix also has some limitations. - Products that have high market share may be very successful, but that is not only factor that ensures success.

- High market growth does not mean that the market is attractive
- Dogs may be more successful and reach greater profit than cash cows (Johnson, Scholes, 2002)
-

Practical part

8. Description of the company

According to the Commercial Register the company deals with this activities:

- Mediation of activities
- Advertising and marketing
- Persuading goods for resale
- Cosmetics production
- Food products production

8.1 History of company

Dr. Popov s. r. o. is one of the Czech producers of natural products – cosmetics and food made of herbal. The company has long lasting family tradition. Owner's grandfather was a doctor for many years in French colonies in Africa, second half of his life he was doctor in the Czech Republic. He used only herbals to cure his patients. Than owner's father contributed into family tradition, he knew a lot about herbs, he was famous healer and people use to come to his flat for the advices. Current owner of the company - grandson RNDr. Pavel Popov decided to continue with this tradition and develop company called Dr. Popov. Dr. Popov Company was developed in 1993. Now a day, the company act on Czech, German and Slovakia market. Dr. Popov offers wide range of products (around 200). The goal of the company is to help or heal as many customers as possible. Company's mission is not just selling the products to customers, but also recommendation of solution for particular health problem. (1)

8.2 Portfolio

Psyllium

Psyllium is high-quality product, which is originally from India. Dr. Popov has been imported Psyllium for many years from India. Dr. Popov s.r.o. was the first seller of Psyllium on the Czech market and that is why is Psyllium produced by Dr. Popov perceived as traditional and high quality product. Psyllium is unique food supplement that increase daily consumption of fiber. Consumption of the product is recommended to people on diets, because it is inducing satiety. The product maintains a balanced level of cholesterol, remotes the metabolism of fat and at the same time is sugar free. The product have several modifications, such as Psyllium capsules and Psyllicol.

Herbal teas

Herbal teas are mixture of herbs, without preservatives and dyes. The herbs are all tested according to the specific requirements. Herbal teas are generally perceived as ideal beverage. Herbal teas produced by Dr. Popov s. r. o. have for costumers an advantage – consumers can choose between two types of teas all of them are in loose form and some of them are offered in tea bags.

Herbal ointments

The base of the all herbal ointments is high-quality lard, which is an excellent carrier of all health ingredients contained in herbs. Lard is usually use for curing various dermatitis. There are no knowing of allergy to it, especially because the lard is very similar to human fat and is very easily absorbed into human skin. Herbal ointments produced by Dr. Popov s. r. o. are well-tested in order to produce the ointments with high quality. Dr. Popov s. r. o. operate on the Czech market with the biggest amount of herbal ointments.

Cosmetics

Company Dr. Popov has to have separate manufacture for producing cosmetics product. Cosmetics products are for example – Stimulan massage oil, several kinds of soup, Panthenol (spray, cream), Mumio (day and night cream, skin tonic), ice gel, akneroll...

Herbal drops (tincture)

Herbal drops are produce based on original receipt. The process of manufacturing the product means maceration of selected herbs in the high quality fine food alcohol. The concentration of the active substance is very high (40%). The drops are produce as an extract of one particular herb or as a mixture of herbs. The drops can be used to solve several problems concerning human health.

Tea Tree Oil

Tea tree is a clear essential oil with specific smell. The extract is gain from the leafs of *Melaleuca altemifolia* than is planted in Australia. The oil has excellent properties when is using in the medicine as well as in cosmetics. Tea Tree Oil produced by Dr. Popov has very high proportion of the extract and is combined with other excellent properties that react positively on facial skin (Vitamin E, Panthenol, natural herbal extracts and essential oil).

Diet supplements – Healthy nutrition

Those are products that are not produced in the company. Diet supplements could be added into a healthy diet. Dr. Popov produce Aloe Vera gels with many different flavors, Fytostevin (drops, tablets..), Glukafit, Goji, Greenfit, Chia Vita, Lecitin, Mumio, raw bars, Senior-in,

Vital mix, Zelený jíl..

Herbs

Several kinds of dried herbs are sold in Dr. Popov package. Consumers with particular health problem usually mix particular herbs and drink it in form of tea to cure their health in natural way.

Aromatherapy

In form of air freshener and essential oils. Aromatherapy is used as a scent. (1)

9. Mantra, Sets of goals, Vision and Mission

9.1 Mantra

“Being HEALTHY in a natural way”

9.2 Sets of goals

- Increase market share abroad
- Increase sales on e-shop Dr. Popov and create Dr. Popov shops
- Find the way to increase market share on the Czech market

9.3 Vision statement

“To be leader in production of herbal products on the Czech market”

9.4 Mission statement

“Being perceived as traditional Czech producer with high quality products that helps to our society”

10. Macro analysis of the company

I decided to use PEST analysis that helps to understand the functioning of macro-environment. PEST analysis consists of four parts that focus on political and legislative factor, economic factor, social factor and technological factor.

10.1 PEST Analysis

Political and legislative factor

The company called Dr. Popov is operating for more than 20 years on the Czech market. Dr. Popov s.r.o is dependent on and at the same time negatively influenced by the legal environment of the Czech Republic. Moreover, the conditions and changes in the environment are very unclear. The political factor affects the company probably the most, because, from the position of small company, it is hard to fight against it. All existing companies in the Czech Republic have to follow the laws and regulations. For the company Dr. Popov it is very hard to understand all individual laws, norms and regulations. The company therefore employs a person, that searches for news in the legal realm of the state. The political system in the Czech Republic is very unstable, which does not create the appropriate conditions for further development of companies. In this environment, it is almost impossible to create long-term plans.

The biggest threat for the company is currently probably the prohibition of sale of certain products. In 2013, for instance, drops called GREPAVIT were banned, because a high amount of pesticides was discovered in the supplier's extract. The company Dr. Popov subsequently had to stop selling these drops for approximately 3 months, which decreased the sales for the year 2013. In addition, the company subsequently had to undergo multiple checks of each batch from the supplier. After securing a new supplier, the product was placed back on the market.

In addition, to my astonishment, I accidentally found a letter/complaint (annex 1) on the Internet, which was written by a competitor of Dr. Popov. The letter was from the year 2014. The letter was addressed to the Czech agricultural and food inspection. Competing company complained about a ban of selling of a product from their portfolio, specifically a food supplement Caigua, referring to the fact that the company Dr. Popov has not been banned from selling the same product under the same name. Competing company was banned from selling the product due to the new classification of herbs from which is the product manufactured. The European Commission has included this herb on the new list of herbs, and it is true that therefore the sale of the product should have been banned on the whole Czech market. Till today, the company Dr. Popov did not receive a command to stop the sale of this food supplement. However, this prohibition of sale can come soon.

The problem of a similar type is associated with the sale of Tea Tree Oil 100%. Tea Tree Oil

is currently registered as a cosmetic product. For the company, this product represents one of the most popular and most sold products. However, the Ministry of agriculture and Ministry of health are discussing that the TTO meets the parameters for pharmaceuticals, rather than for cosmetics. Therefore, it is possible that in the future the TTO will be included in the category of pharmaceuticals. Inclusion of the product in the category of pharmaceuticals would negatively affect the revenues of the company. For the manufacture of medicinal products, it would be necessary to create a special environment as the laboratory and many more different facilities than are not required for the production of cosmetics. Continuing sale of the TTO as a pharmaceutical would, for the company, represent a very high cost for the construction of laboratories and other needs necessary for the production of pharmaceuticals.

Great opportunity for companies operating on the Czech market nowadays is a public contract. Public contracts have become a significant trend in 2015, when a large number of public contracts was issued. Public order means that state institutions need a specific product or service and try to choose the most suitable company to obtain the products or services in sufficient quality. Only entities that meet the set criteria can apply for the so-called competition. The most appropriate candidate is then selected and becomes the supplier or service provider for the state institutions. For the Dr. Popov company, it may be very progressive to consider application into the competition for a public order. Currently there are public contracts published in a large proportion. Clients – state institutions, for example - demand various kinds of portioned teas. It may be opportunity for Dr. Popov s. r. o. (2)

In case the company needs to raise funds in order to purchase a new technology, there is a possibility to draw subsidies from the European Union. For the years from 2014 to 2020, there are subsidies amounting to 20.5 billion euros. Subsidies are being used to offset the economic differences between the EU Member States. However, applying for a grant from the EU is a very complicated process due to a need for a very difficult bureaucracy, which many companies rejected and lose the possibility of using subsidies. The company Dr. Popov could use subsidy for the purchase of new machine that would pack the products into luxurious and well designed packaging. (3)

Economic

As long as Czech companies are mainly importers and purchase material in many cases from foreign suppliers, there is a long chain of economic factors that can negatively affect the companies operating on the Czech market. Dr. Popov s.r.o. purchase about 95% of material from foreign suppliers, subsequently manufacturing and selling products mainly in the Czech Republic. The intervention of the Czech National bank hits a large number of domestic firms through weakening of the Crown, supporting Czech exporters at the same time. Moreover, changes in exchange rates are related to the fluctuation of inflation. If the Czech Crown is weak and the inflation in foreign country, where the supplier is situated, is high, it is again negatively influencing the costs of Czech purchaser. The inflation on the Czech market was recently relatively stable. However, the inflation in Russia and India, where the main suppliers of Dr. Popov company are situated, is alarming at the moment.

High inflation has been recorded in Russia; in September 2015, the inflation was 15.3%. Inflation in Russia is very volatile right now. For instance, in January 2016 the value of inflation was significantly lower, only 9.8%. Unstable inflation in Russia affects the company when purchasing material such as Mumio, which is subsequently used to produce creams and tablets. It is not yet possible to buy Mumio anywhere else, only in Russia. (4)

A far greater threat for the company is purchasing Psyllium from India. Psyllium is purchased in much larger quantities, and at the same time, it is not possible to store Psyllium for longer than six months. The company is therefore forced to shop at certain intervals. The cost for purchasing Psyllium is significantly high for the company, because India is currently struggling with high inflation. In January the value of inflation in India was 5,69%. The Indian rupee is the currency of the State of India, but the firm Dr. Popov pays for Psyllium in dollars. High inflation in India and the high value of dollar in comparison to the Czech currency represents a huge cost for the firm. The company simply buys the expensive materials and produces the product. Dr. Popov company tries to keep prices of the products in the Czech Republic at the same price level as long as possible. However, this product does not produce nearly the same profit, but a significantly lower one. The company cannot afford to cope with this situation in the long term. Subsequently, the company is forced to raise the prices, which negatively affects sales. (5)

The usage of investment loan is currently very favourable. In case of potential investments the company can take an advantage of the current low rate of interest.

Social

The social factor is influenced by trends and innovations, in particular between the populations. On the basis of the statistics, I have found that the products of the company Dr. Popov are bought by more women at the age of 25-50 years. The company's target is to expand the target audience and gain greater support among the younger generation of both women and men. For 15-35 years old people it is very common to "keep up with the times" or "be in". In this group of the population, people influence each other by the simplest (in my point of view) tool – word of mouth. Internet and especially social networks also have a great effect on this group.

The company warmly welcomed the trend of healthy lifestyle, fitness, detoxification of the organism, strengthening of immunity, and others. These trends are a novelty in the Czech Republic over the last few years. The company is trying to make the most out of this situation. During the last year, the company Dr. Popov began to deliver products such as herbal drops, detox tea, stevia, psyllium and ointments to the fitness center called Sandow in Mariánské Lázně. The sales of the Dr. Popov products in the gyms may become very successful trend. The company is planning to focus on the distribution and promotion of products in other fitness centers in the Czech Republic. This trend may be a great opportunity for expansion of the target groups of customers.

Newly discovered herbs are another big trend, which also influences mainly the younger

generation. The newly discovered herbs are first examined, in order to identify the positive and negative effects of the herbs. Subsequently, the new herb is, in most cases, presented on social networks. Trends of these herbs usually captivates the young generation. The trend arises when people, influenced by the internet, want to be the ones that use the new herb. In past years it was for example Chia or Goji. The company Dr. Popov should be constantly vigilant and try to search for new items on the market, in order to participate in the competition and be a company that is the first to introduce new products made from the new herb on the market.

Organic foods are becoming the next new trend that is promoted by several media. The company Dr. Popov currently supplied the Czech market with Organic Psyllium. The company is seeking to satisfy the customers who care about the origin of the herbs. However, in this respect Dr. Popov company is far from being unique. Currently a large number of suppliers selling organic Psyllium operates on the Czech market. Dr. Popov plans to expand the portfolio of other organic products.

Technological

Innovation and new technologies does not influence Dr. Popov company. The company has number of necessary cosmetic technologies, without which the creams and ointments could not be produced. The technologies that are use today have been used almost from the beginning of the production of cosmetics. The company is not obliged to follow the latest news in technology. Innovation in cosmetics is rather in the changes and development of recipes.

The most expensive technology for the company was a machine for portioned teas and packing boxes. The machine for portioned teas was bought due to a decreasing trend of consumption of loose teas, therefore the competition required producing portioned teas. There is still room for improvement of technologies; however, the company does not plan to invest in new technology.

11. Micro-analysis of environment

11.1 Porter`s five forces

The threat of entry

Generally, the threat of entry depends on the extent to which there are barriers on the market. New potential competitors have to be ready to face the barriers to become successful company. Those barriers are not insurmountable. However, the barriers usually cause delay in entering the market.

Dr. Popov company has wide range of production or resale products. Dr. Popov s.r.o. currently produces over 150 products that are manufacture in the company. The quantity has been increasing since 1994, when Dr. Popov entered market. Newly entering producer of natural product would not be able to produce 150 products at once and with lower production, there are higher costs per unit due to fixed costs. From the position of a new competitor, it takes a long time to reach the level of competitors that act on the market for many years.

Many competitors that have long-lasting tradition and strong brand name are currently on the market. From this perspective there would be a strong barrier to enter the market with the same product portfolio. Naturally, the consumers would stay with the traditional and well-known products that have their trust. Newcomer would have to create a modification of an existing product, or product with completely new features. Creation of a new product may be beneficial and is likely to attract consumers, even though the company is new and untested. Moreover, existing companies have access to the best suppliers and at the same time understand the material and its quality. In this field, the quality of the product is easily recognisable by customers.

The new entrant would also have to invest in some machines; however, the investment would not be so significant and at the beginning, there is possibility to not invest into expensive pieces of equipment, but buy the cheaper ones. Capital to invest is, therefore, not a very strong barrier.

In addition, profitable existing company are able to lead price war by switching the cost based on the situation on the market. Existing companies with certain financial base are even able to operate at their own expense. The new entrants may not survive the war.

Another strong barrier for newly entering is the absence of established distribution network. Existing companies are operating on the market for a long time, therefore the distribution channel is well structured and only concern is to gain new customers. Newly entering companies may have difficulties with making the distributors and other shops to trust the new and untested products.

Barriers are also created by a political situation in the particular state. The new potential competitors should be able to adapt to the laws and regulations.

All those barriers are strongly disadvantageous for the new potential competitor. Therefore, it is crucial to rethink the existence on the market. Maintaining the business right after the entering the market is very costly.

The threat of substitutes

Substitution decreases the demand for a different category of a product. Customers basically switch to alternative product. It depends on benefits and values that the substitute product provides in comparison to the primary product.

The option of substitute product is a “product-for-product substitution”, that means stop using our favourite product and start using an alternative. This type of substitution exists in the field of producing natural products, for example herbal tea or herbal drops. Herbal tea is traditional, but not everybody likes hot teas during the summer and the preparation of the tea is not possible everywhere. On the other hand, herbal drops are easy to use anywhere and anytime. Dr. Popov company has many substitute products in product portfolio, because each consumer is different and therefore prefers different way of healing. As long as the products from Dr. Popov are not expensive and therefore accessible for any customers, there is no threat of replacement of Dr. Popov products by cheaper products. Moreover, customers of Dr. Popov will naturally prefer to support Dr. Popov products instead of products from a foreign company or a new, untested company.

The threat of substitution for natural products industry, such as herbal teas, herbal drops, psyllium and mumio, is pharmaceutical industry that produce chemical pills and drops. A large number of products have a similar final effect as the products from Dr. Popov portfolio that are made from natural substances. The difference is that chemical pills work immediately. Herbal teas have to be used for a long period of time. Pharmaceutical industry has an advantage, because it is allowed to openly write about the effect of the products on the product's labels. For instance, herbal drops produced by Dr. Popov can be used in certain health problems, but the recent ban in EU legislation prohibits writing any effect of the food on its label. This legislation affects company's sales. The prices of chemical pills are usually accessible, but definitely natural products have lower prices in all respects. However, mass media are daily influencing consumers through many channels and naturally, high proportion of customers believes that what is in media is surely true.

The power of buyers

A buyer is anyone who purchase from Dr. Popov company – not only the final customer. The company Dr. Popov, s. r. o. has three groups of buyers. However, only one of them, the e-shop, sends products directly to the final consumer. Wholesalers and private shops take larger proportions of the products and distribute them further. The company is currently operating in almost all towns and cities in the Czech Republic. The future plan of the company is to introduce a network of Dr. Popov shops that include the whole portfolio of Dr. Popov products with its accompanying side sales. These are the three buyers:

a) Pharmacy wholesalers

This group accounts for the largest sales. Two wholesalers are located in Slovakia and another four in the Czech Republic. Slovak wholesalers are the only two distributors of the Dr. Popov

products in Slovakia. Wholesalers mostly supply smaller businesses that do not have such power. The total proportion of sales to this group of customers is 61%. However, these sales have the longest due date and pose a risk of loss. Huge losses may occur when wholesalers go bankrupt before paying all their debts to the Dr. Popov company.

b) Private shops (healthy food, herbalists, gift shops, pharmacy chains)

Private entrepreneurs who buy products from Dr. Popov company as a wholesaler and sell it further in private shops. This group is not very risky because the private shops do not represent a large number of products. In case a shop goes bankrupt, Dr. Popov s. r. o. will lose money, but not significantly. The total proportion of sales to this group is 36%.

Pharmacy chains are another important private buyer. Those pharmacies are selling products produced by Dr. Popov; however, distribution to those shops is very disadvantageous. On the other hand, ending cooperation with these chains means to stop selling products in 150 stores in the Czech Republic. Small business needs to supply the pharmacy chains, because of their powerful position. As sellers, pharmacy chains do not generate high profit, because of related costs such as fees for the location of the products in the shelves - to place the products in the position of eyes in the store is obviously the most expensive.

c) E-shop

This group of consumers provides Dr. Popov company the smallest proportion of sales, only 3%. Customers shop online in E-shops. Those customers usually buy products only for themselves and their families. This group is the smallest; however, the value added to the goods is the highest. Private buyers are not a risky group because they must pay when they order a product and following that, their order is delivered within a few

The power of the buyers is high, because in the field there is a high concentration of buyers. The production of natural products is currently very popular, and therefore, there is a large concentration of buyers or potential buyers. The buyers in this field have some options about where to purchase, but in this field there is not a high concentration of producers of such products.

The low cost switching is in some cases not costly, however, thanks to the uniqueness of each competitor; it is not very easy to exchange our products for competitor's, because some customers require products from Dr. Popov.

The buyers do not have a possibility to obtain the products anywhere else. Dr. Popov s. r. o. provides unique assets due to manufacturing process. Therefore, the vertical integration does not play any role for the Dr. Popov company.

The power of suppliers

The number of suppliers in this sector is quite large, which means that bargaining power of suppliers is not too high. Dr. Popov s. r. o. in most cases does not have permanent vendors.

Dr. Popov evaluates the best supplier during each purchase of easily accessible material, especially with regard to the price and quality. Bargaining power of suppliers is stronger only when the climatic condition is insufficient. After a bad season, insufficient amount of herbs or Psyllium is usually planted. Generally, when demand is higher than supply, prices rise.

When we do not think about negative natural influences, there is a constant risk of temporary failure of the current supplier – the only option in this case is to use an alternate supplier. However, when problem occurs, it is very hard to find a new vendor quickly. The sale of the particular product must be, in most cases, suspended for a certain period of time. Therefore, it is important to act preventively in order to prevent this undesirable situation, mainly in material that has limited amount of suppliers. The situation could be avoided if the company tentatively selects potential suppliers. In some cases, these potential vendors are willing to offer more favorable business conditions to get the company on their side. The company Dr. Popov currently cooperates with 15 vendors, which is roughly 40% of the suppliers. The other 60% of the suppliers are selected before each purchase. Basically, the company does not maintain friendly relationships with 60% of suppliers. Dr. Popov company imports material mainly from India, Russia, Germany...

Dr. Popov has possibility to change its suppliers at any time, without additional cost. However, in some cases the company is keeping good relationships due to limited amount of suppliers on the market. Those suppliers have high bargaining power (Grepavit drops).

Vertical integration is again, not possible. The uniqueness of the products is a strong advantage.

Competitive rivalry

Competition on the Czech market is high. On the Czech market, foreign as well as domestic competitors are active. I chose three main competitors that operate on the Czech market and have similar portfolios to Dr. Popov s. r. o.. Later on, I decided to add pharmacy chains as another significant competitor of the company. The following analysis benchmarks will consist of more detailed data and financial statements of those three competitors.

a) Megafyt pharma s. r. o.

Megafit pharma s. r. o. was launched in 1990 in Vrané nad Vltavou. Megafyl Pharma s. r. o. is, as a majority of these companies are, active in the pharmaceutical environment. In 1992, the company became a limited liability company – Megafyt-R spol s.r.o.. The following year the company was sold to one of the biggest international companies, MARTIN BAUER GMBH, SRN and company of the nature network. In 2012, there was a change of the name to Megafyt Pharma s.r.o. because, in their point of view, it had better connections to the pharmaceutical market. The company is also one of the largest sellers of herbs. The company has many international partners and currently produces more than 100 products that are based on traditional recipes. (8)

b) GREŠÍK Valdemar – Natura

The Valdemar Grešík's company Natura was developed in 1990 and is today one of the leaders on the Czech market. Valdemar Grešík – Natura is the most similar to the Dr. Popov company. Both companies have similar portfolio and tradition on the Czech market. Valdemar Grešík – Natura produces herbal teas, fruit teas, extracts, ointments, herbal products and food supplements. Their largest advantage is a wide portfolio with acceptable prices and a high level of quality. Aside from this, the company distributes a wide portfolio of domestic and international products. Valdemar Grešík – Natura is originally a Czech company and all products are manufactured within the Czech Republic. A high proportion of herbs are grown in the Czech Republic as well. This company, therefore, supports domestic growers and herb-collectors, even though import is in most cases cheaper. The company develops their own macrobiotics and features an analytic laboratory where all experiments are conducted and new products devised. Everything is on a high hygienic level. The availability of Valdemar Grešík – Natura products in the Czech Republic is very good. (6)

c) Dr. Muller Pharma

Dr. Muller Pharma is significant producer of natural products, cosmetics and food supplements. Dr. Muller offers wide range of product portfolio. Dr. Muller is the most famous producer of Tea Tree products. Portfolio of Dr. Muller company is the most similar to the Dr. Popov company portfolio. (7)

Competition on the market is in balance. Even though the competition on the Czech market does not have significantly dominant competitor that have significantly higher proportion of market share. On the market of production of natural products, there are not a lot of competitors and each competitor somehow differs from others. In other words, the competitors do not have the same portfolios, only some items are the same. Being different than competitors ensures a competitive advantage that makes a company profitable.

High fixed costs that are present in this field due to production machines are forcing the companies to produce mostly in large quantities in order to have an effective production. However, production of greater amount of products demands increased supply. Excess supply then brings price war. Price war naturally increases the competition.

On the market of production of natural products, there is at the same time a strong barrier to exit the industry, because once the company entered the market, it is difficult to exit market due to high investments into technologies. To exit the market would be, therefore, very costly.

11.2 Benchmarking

To find out more information about the position of the company in comparison to their competitors I decided to use Benchmarking. Benchmarking is the analysis, that compare costs, turnover and earnings with the external subjects (competitors).

Table 2: Benchmarking of Dr. Popov company

Year 2014 (In thousands)

	Megafyt Pharma	V. Grešík Natura	Dr. Muller Pharma	Dr. Popov
Revenues	77 916	37 854+98 509= 136 363	215 103+212= 215 315	55 364
Earnings before taxation	-4 532	21 658	21 070	10 088
Number of employees	68	73	111	21
Personal costs	28 136	23 313	47 319	8 638
Total assets	97 131	109 425	643 194	54 500
Bank loans	22 671		19 993	

Revenues per employee	1145,823529	1867,986301	1939,774775	2636,380952
The economic result per employee	-66,64705882	296,6849315	189,8198198	480,3809524
Assets per employee	1428,397059	1498,972603	5794,540541	2595,238095
Personal cost per employee	413,7647059	319,3561644	426,2972973	411,3333333
Total costs	82 448	114 705	194 245	45 276
Total costs per employee	1 212	1 571	1 750	2 156
Earnings per employee	-67	297	190	480
Earnings per whole company in %	-5,496797982	18,88147858	10,84712605	22,28112024

Source: Author

Available from: <http://portal.justice.cz/Justice2/Uvod/uvod.aspx>

The main competitors of Dr. Popov company are Megafyt Pharma, Valdemar Grešík Natura and Dr. Muller Pharma. Megafyt Pharma is German company owned by holdings. Valdemar Grešík Natura company has pure Czech origin with one owner. Dr. Muller Pharma is also Czech company with two owners. Dr. Popov s. r. o. is own by two owners and is Czech company as well. Based on the Benchmark table 2, I can define the effectivity of those companies.

The turnover of the companies defines sales of the products. Valdemar Grešík Natura and Dr. Muller Pharma have the side business of selling products as wholesaler. Therefore, I mentioned two figures and sum them up. The earnings before taxation represent the economic result for the whole year (negative or positive) of the companies. Based on the table only Megafyt Pharma got negative result. It means, that the costs exceed the revenues. Personal costs are the costs needed for paying the employee's wages. The highest personal costs have Dr. Muller Pharma company, due to high number of employees. The lowest personal costs have Dr. Popov company, which employs only 21 employees. Total assets are an indicator of the richness of the companies. According to the table, the bank loans are additional costs for the companies – Megafit Pharma and Dr. Muller Pharma. From the figures in table 2, I recounted each figure per one employee.

The second part of table 2 shows, that revenues per one employee is the highest in Dr. Popov company. The table 2 also shows, that the lowest total costs have Dr. Popov company. In contrast, the total costs per employee shows, that Dr. Popov has the highest cost, which is caused by low number of the employees working in the company. Dr. Popov has also the highest earnings per employee. The percentage of earnings per whole company is the highest in Dr. Popov as well. From those facts I can conclude, that Dr. Popov have the cheapest labor force and out of those competitors is the most effective on the Czech market.

The table 3 shows the strengths and weaknesses of the competitors in the industry

Table 3: Strengths and Weaknesses of the competitors Benchmark

	Megafit Pharma	V. Grešík Natura	Dr. Muller Pharma	Dr. Popov
Strengths	<ul style="list-style-type: none"> Owned by holdings International company 	<ul style="list-style-type: none"> Profitable wholesaler Low personal cost High profitability 	<ul style="list-style-type: none"> High assets High profitability 	<ul style="list-style-type: none"> Low number of employees High profitability
Weaknesses	<ul style="list-style-type: none"> Negative economic result High personal costs Loan 	<ul style="list-style-type: none"> A lot of employees 	<ul style="list-style-type: none"> A lot of employees High personal costs Loan 	<ul style="list-style-type: none"> Low revenues

Source: Author

Megafyt's advantage is, that is owned by German holdings, and therefore the company can use capital of its mother company, which is profitable in Germany. Megafyt's disadvantage is that the company had in 2014 negative economic result. Another disadvantage is quite high personal costs, that is probably caused by the location of the company. The worker's wages are much higher in Prague and in locations close to the Prague. Moreover, the company is international. Another disadvantage is the obligation to repay the loan.

Valdemar Grešík Natura's advantage is its side business (wholesaling) that represents about 28% of its revenues. Another advantage is their low personal costs per employees and high percentage of profitability. The only disadvantage is that the company employs a lot of employees.

The advantages of Dr. Muller pharma are high assets and high profitability. Disadvantages are a lot of employees and very high personal costs. The company's disadvantage is also the obligation to repay the loan.

Dr. Popov's advantage is a low number of employees, however, the low number of employees may be considered also as disadvantage. Advantage is that due to low number of employees the company have high revenues per employees and quite low personal costs. The advantage is also high profitability of the company. The disadvantage is also low revenues.

12. Analysis of internal resources

To analyse internal resources within the company, I decided to use VRIO analysis.

12.1 VRIO

The following table will define internal resources of the company, that will be further asses.

Table 4: VRIO of Dr. Popov company

Relationships with suppliers	-	-	-	-	Comp. disadvantage
Fast service	Yes	-	-	Yes	Temp. comp. advantage
Affordable prices	Yes	-	-	Yes	Temp. comp. advantage
Flexibility of production	Yes	-	-	Yes	Temp. comp. advantage
Uncluttered web pages	Yes	Yes	-	-	Temp. comp. advantage
Constant innovations on the E-shop	Yes	Yes	Yes	-	Unused comp. advantage
Wide products portfolio	Yes	-	Yes	Yes	Unused comp. advantage
Qualification of managers	Yes	-	Yes	Yes	Unused comp. advantage
Communication with consumers	Yes	Yes	-	Yes	Unused comp. advantage
Accessibility of products	Yes	-	Yes	Yes	Unused comp. advantage
Goodwill and tradition	Yes	Yes	Yes	Yes	LT comp. advantage
Know how	Yes	Yes	Yes	Yes	LT comp. advantage
Low fluctuation of employees	Yes	Yes	Yes	Yes	LT comp. advantage
Team of management	Yes	Yes	Yes	Yes	LT comp. advantage

Source: Author

Communication with consumers, Affordable prices,

The company has to constantly use some tools to attract people, because the competition is very high. Prices of the products are on an affordable level; therefore, the customers often try new products from the Dr. Popov portfolio. The supporters of the company usually use multiple products. The advantages over the competitors are definitely communication and relationships with customers. All customers are welcomed to ask any question via email or Facebook. Dr. Popov company is aiming not only to sell useful product of high quality, but also to provide customers with helpful advice or solution for customer's health problem. Some customers are calling directly to the company. In case there is a trouble with a product and customers are complaining about that, the company always reacts quickly and solves the situation to satisfied customer's requirements. However, the marketing is limited, due to financial budget. Limited marketing causes low awareness of the company.

On the other hand, relationship with suppliers is a competitive disadvantage. Having good relationship with individual suppliers is, in my point of view, key factor of success. Dr. Popov company has less than 20% of stable suppliers. Unstable suppliers may be considered a

competitive disadvantage of the company. Evaluation of a new supplier every time when purchasing is quite time consuming and not reliable. On the other hand, having only one stable supplier for material is also not sufficient.

Company's temporary advantage is a fast service; however, nowadays most of the companies try to provide customers with fast service and delivery as well. Even though being fast is quite difficult. The company is at the same time very flexible in production. The products that are manufactured within the company can be produced very quickly. Customer does not have to order the products in advance. When customer calls the company directly, skilled and experienced employees try to fulfil customer needs and satisfy his requirements. The company is even able to modify some products when customer requires it.

The company constantly works on webpage and on the e-shop to ensure easy and understandable purchases for the customers via the e-shop. Innovations in the e-shop and uncluttered webpage are also unused competitive advantage. In case customers cannot obtain their favourite product in a store, there is a quite comfortable option to order any product from the e-shop.

Wide product portfolio is another unused competitive advantage. For instance, customer that likes Dr. Popov company and its products has a unique possibility to use any product out of 200 products. As long as the portfolio is very wide, many consumers of cosmetics or herbal teas will hit on Dr. Popov products in the pharmacies or in the stores. Another unused competitive advantage is the accessibility of the products on the Czech market. This advantage is strengthened by the fact that all customers from the company's target group meet the product frequently in the stores. The company has very positive feedback and reviews and at the same time people trust the company because of the long existence on the market. Goodwill and tradition is therefore a long-term competitive advantage for the company.

The main and the strongest long-term competitive advantage is knowhow. Dr. Popov acts on the market as a loyal and reliable company with high quality products. The company tries to get along well with all customers and for this reason it is necessary to have qualified and well trained employees. We can say that employees of the company are part of its knowhow. Company's pride is well educated managers who are required to maintain their subordinate. Low fluctuation of employees is a long term competitive advantage. The company is aiming to select employees that will be beneficial for the team. Owner of the company wants to ensure good working conditions as well as peaceful atmosphere within the company. Board of employees mostly consists of experienced workers that are interested in the company's core business. The employees provide company with enthusiasm and with efforts to further develop the company. The owner of the company employs people that are able to act in stressful situation and able to make decision based on their long experience. Board of managers is an asset for the company. Relationships between workers are friendly and on personal basis.

12.2 Value chain

Value chain analysis will help me to deeply analyse the company's value in delivering the products to customers. The analysis specifies if the value is created or lost by delivering products. The analysis may help organizations to achieve a competitive advantage.

The value chain defines primary and secondary activities. The analysis is usually applied to manufacturing businesses.

Primary activities

Inbound logistic

Inbound logistics defines how the company obtains the material. Dr. Popov company has several suppliers – stable as well as unstable. Good examples of material purchased from randomly chosen suppliers are Psyllium or Mumio. For the product Psyllium, the company usually send request to 7-8 companies in India before purchase. Each company has to have certification of the quality that was required (98% or 95%). Companies send back the price offer and the cheapest supplier with required quality sends a sample. The sample is tested again in Dr. Popov company; if the quality is sufficient, the supplier sends the consignment from India to Hamburg where the courier picks the consignment up and deliver it to the Czech Republic to the company. The sample of the consignment is tested one more time, because of the EU regulation that has to be met. The products are always manufactured from high quality material.

Operations

After the delivery of the material to the company, the operation workers are taking action. The whole container of material is then tested one more time, if the quality is sufficient. The material is then stored in a warehouse and later manufactured and packaged based on the orders. The manufacture requirements depend on the product. In case of herbal teas, separate herbs are basically mixed and distributed to the packaging material. The herbal drops and cosmetics are completely cooked and prepared for distribution of the substances to packages.

Outbound logistics

The storage of final goods is in the Planá, where is the manufacture. The products have to be sold at least six months before expiration date. Dr. Popov s. r. o. operates in three countries – Czech Republic, Slovakia and Germany. The Czech Republic is a home country for the

company, and this is the reason why the Czech Republic represents the biggest market share. Slovakia is the second largest market, Germany sales are represented by a small amount of the products in a few specialized stores and pharmacies. The company is planning to widen the production. The company sells products to wholesalers, retailers and through e-shop. Products are sold in number of retailers' stores, for example zdravá výživa, in pharmacy, some products are sold in supermarkets such as Globus, Penny and so on. Products are sold also in some Fitness centers. The distribution of the final goods that goes directly to the customer is only via e-shop.

Marketing and sales

Dr. Popov s.r.o. relies mostly on marketing in media (Blesk, Vlasta, Zdraví...). Company also uses advertisements in highly frequented places and on social events, mostly in Pilsen region. Another means of marketing is through Facebook, Twitter, Instagram and other social networks. Dr. Popov s. r. o. also recently established Dr. Popov club for the fans of the company. The members of the club have a possibility to buy products with a discount and to be a part of special promotions, such as 3+1. The information about Dr. Popov club is provided mostly on the webpage and on the Facebook fun page. Communication is another way of marketing, the cheapest but the most effective. The sales department basically calls to the powerful customers in case of new establishment of a product. The sale department also calls to new shops that have a potential to sell Dr. Popov products.

Service

The company does its best to fulfill consumers' needs and compensate the complaints. In case of complaints the company responds very quickly and send back a compensation in the form of money or required goods to the damaged customer. Dr. Popov company also provides fast delivery of the ordered goods. The company is at the same time very flexible; in case of huge orders of wholesalers or huge stores, the company is able to manufacture product very fast. The delivery is then very fast and reliable. The company is counting on good service and therefore, highly experienced employees are important.

Secondary activity (Support activity)

Infrastructure

The company is planning the purchases of material through money S5 system that precisely shows the number of products left in stock. Based on the money S5 system, manufacturing process is directed. The infrastructure includes all managers such as sale manager, finance manager, IT manager, managers of production that supervise operational workers in dust production (tea, psyllium...) and operational workers in cosmetics production – those places

have to be in separate buildings (cosmetics production is situated in Tachov and the dust production is situated in Planá). The infrastructure and those in managerial positions are well trained and therefore, they are able to work without trouble. Each manager makes decisions based on his experiences. Employees on the managerial positions are precisely selected to ensure well organized infrastructure of the company.

Human resources

Based on a little research I have found out that most of the employees are satisfied with the working environment. Workers on managerial positions are well motivated by bonuses in form of percentage from profit. The company is ensuring personal development to all employees on managerial positions (paying the fees for university degrees). All employees get bonuses in form of money if the requirements from the supervisor are met. The company is taking care of its employees and this is perhaps the reason for a low fluctuation of employees. All employees get 13th salary each year. The human resources management is directed by the owner of the company. The recruitment process is not complex, the company in most cases recruits only operational workers, or support to call center via interviews of potential employees. The company's managers are strictly evaluated. The owner of the company recruits to managerial position in most cases known people, or good employees that are being promoted.

Technology

Technology development activities are all activities that bring value. To the company, those development activities are for example knowhow, design, R&D, product development and material improvement. The company is creating the recipes for the products. The company's assets are employees on managerial positions that are well trained and able to work in manufacturing process and supervise the operational workers. The products design is considered as weakness of the company. In comparison with design of competitor products, the design of Dr. Popov products is unattractive, as trade representative said. Obtaining and purchasing material is also disorganized and the suppliers are, in most purchases of raw material, unstructured. Great asset of the company are employees that deal with service and communication with the customers. The quality testing is precise and each delivery is tested to see whether the material meets the criteria. The testing is made in the laboratory of the company, by a well trained and qualified employee. The same employee also takes care of quality testing of final product.

Procurement

The company procures a raw material that is further manufactured to obtain final product (herbs, essential oils, pork lard...). The owner of the company travels, for instance, to India for procurement of Psyllium that is packaged as a final product; for manufacturing Psyllicol, flavor is added. Based on the cost and quality evaluation of Psyllium (that is 95% or 98%),

one partner delivers the container of the Psyllium. A delivery of the whole container is usually every three months. Each delivery is usually delivered by a different supplier. It means that every three months there is a selection of the best supplier, especially because of the fluctuation of the prices. The purchase of Mumio has similar sequence. Mumio is purchased from Russia and Dr. Popov does not have a stable supplier, therefore evaluating a new supplier every time. Mumio is a material that can be stored in stock for more than 2 years, therefore the company usually buys large bunch less frequently. The company supplies from many suppliers. About 40% suppliers are stable and with those suppliers the company is maintaining good relations. The negotiation with the suppliers is not very developed in the company. Therefore, the suppliers do not provide Dr. Popov company with any special promotions or discounts. In addition, each purchase has its specifics and company must adapt to all specifics of single purchase. The employees that are dealing with purchasing process are always monitoring the market of material to be able to analyze the fluctuation of prices and availability of material. Dr. Popov company does centralized purchasing. It means that a few employees are dealing with the purchasing of material for the whole product portfolio. The material and processes are different in dust production and in cosmetics production. The stock of the company is in the same building as dust production; therefore, after finishing the production of cosmetic product, it is delivered to the stock. The company has also its own laboratory where qualified employees examine the formula, taste and effect of newly created products.

13. SWOT analysis

I have already done the internal and external analysis that influences the company. The analytical tool that assesses and tries to find relations between those two environments is SWOT analysis. SWOT analysis assesses Strengths and Weaknesses that are related to the internal environment and could be influenced by the management and analysis of external environment that may give us a positive direction as Opportunities and negative limitation as Threats. The analysis should help to the companies to minimise the Weaknesses and Threats by usage of Strengths and Opportunities.

SWOT analysis is related to the overall analysis that I have already made. Table 5 combine all the information.

Table 5: SWOT analysis of Dr. Popov company

<u>Strengths</u> a) Quality and well known brand name b) Wide product portfolio c) Huge distribution channel d) Fast and flexible service e) Low fluctuation of employees	<u>Weaknesses</u> f) Dependence on suppliers g) Slow adaptability to new trends h) Ineffective planning i) Slow development and innovation
<u>Opportunities</u> 1) Establishment of store chain with Dr. Popov products 2) Creation of set structure of suppliers (negotiation of prices) 3) Focus on expansion to foreign market 4) Improvement of control of legislative mechanism	<u>Threats</u> 5) Foreign inflation and exchange rate 6) Strong power of pharmacy chains 7) Changes of consumption habits 8) High pricing of material

Source: Author

Table 6: Assessment of SWOT analysis of Dr. Popov company

	Opportunities & Threats									
	1	2	3	4	5	6	7	8	$\Sigma +$	$\Sigma -$
Strengths										
Quality and well known brand name	+5	+3	+1	0	0	+2	+1	+1	+13	0
Wide product portfolio	+5	0	+2	0	-1	+1	+2	0	+10	-1
Huge distribution channel	+1	0	+2	0	0	+2	+3	0	+8	0
Fast and flexible service	+2	0	+2	0	0	+1	0	0	+5	0
Low fluctuation of employees	+4	0	+2	+3	+1	0	0	0	+10	0
Weaknesses										
Dependence on suppliers	-1	+2	-1	0	0	-2	0	-5	+2	-9
Slow adaptability to new trends	-2	0	-4	-1	-1	-3	-5	0	0	-16
Ineffective planning	-4	-2	-3	0	-2	-3	-4	-2	0	-20
Slow development and innovation	-3	0	-4	0	0	-4	-5	0	0	-16
The impact										
$\Sigma +$	+17	+5	+9	+3	+1	+6	+6	+1		
$\Sigma -$	-10	-2	-12	-1	-4	-12	-14	-7		

Source: Author

To deeply define the interconnections between the internal and external analysis, I used the table 6 that assesses each factor and at the same time shows how important is the factor for the company. I assess the factor in range of -5 to 5. The positive assessment means that the strengths may help to use the Opportunities or decrease the negative impact of Threats. The negative value means that the Threats and Weaknesses are extending the Strengths and Opportunity.

The table 6 shows the current situation of the Dr. Popov company. Strengths are related to the product portfolio=> “Quality and well known brand name” and “Wide product portfolio”. “Low fluctuation of employees” is another positive factor for the company.

The Weaknesses within the company are “Ineffective planning” and “Slow adaptability to new trends”; those factors are related to the organisation of the activities within the company. The Opportunities that may increase the output of the company are “Establishment of store chain with Dr. Popov products” and “Focus on expansion to the foreign market”. Expansion of products mainly to Germany and Poland.

The main Threats are “Strong power of pharmacy chains” and “Changes of consumption habits”.

14. Organization-wide strategy and business life

14.1 Growth Matrix

To analyse growth potential of Dr. Popov company, I decided to apply growth matrix.

Table 7: Growth matrix of Dr. Popov company

	Products and services		
		Present	New
		A) <u>Market Penetration</u>	B) <u>New products & services</u>
Market	Present	<ul style="list-style-type: none"> • Production of sweet herbal syrups • Wider production of herbal drops and herbal teas • Modifying the formula for ointments (start production from a plant base) 	<ul style="list-style-type: none"> • Produce food such as muesli sweet bars, oatmeal and drinks such as herbal ice tea, • Provide professional consultations about customer's health problems with offer of solution by using principles of alternative medicine
	New	C) <u>Market developments</u> <ul style="list-style-type: none"> • Expand to foreign countries within the European Union • Production of fitness supplements (proteins, sports drinks, proteins bars) • Entrance to gastronomic market with teas (restaurants, bars) 	D) <u>Diversification (conglomeration)</u> <ul style="list-style-type: none"> • Start production of pharmaceutical products (pills, chemical drops...) • Production of alcoholic herbal liquors

Source: Author

Dr. Popov company may use the market penetration for production of sweet herbal syrups that are modification of herbal drops, therefore the factory would not need any new special equipment. Dr. Popov company may also widen the production of herbal drops that are currently very popular. The herbal drops portfolio would be widened for more flavours with different effects. Another option for the company is a modification of the ointment formula. Currently, the ointments are produced from pork lard, in other words from animal foundation.

However, some customers may refuse to use product produced from the animal foundation, and therefore, it may be reasonable to start also production of herbal ointments but with a plant base in order to satisfy all customers.

In case the company would aim to differ from the competitors with the new products and services, there may be an option to start a production of healthy diet. Healthy lifestyle is currently very popular and this may be a possibility for Dr. Popov company to start production of food such as muesli bars, oatmeal or herbal ice teas. Dr. Popov would also have a possibility to provide customers with a professional consultation about their health and suggestion of healing procedures with usage of alternative medicine. To do those consultations with the Label of Dr. Popov company may attract the customers that are fond of the company.

To further develop the new market, Dr. Popov can expand the products abroad. The company would like to start with the countries of the European Union. Another possibility is to start with the production of fitness supplements such as proteins, sports drinks and protein bars. Such production has the same regulation as other food, therefore it would not be difficult to start the production. Entering a new market of gastronomy is another possibility for the company. The company can start to sell teas to restaurants or bars. Entering such market would increase the public awareness of the products.

The last stage of diversification that means starting a production of a new product or service on the new market. This stage is usually independent from the previous production. Once the production of natural product does not make profit, there is a possibility to change both – the product portfolio and the target group (segment). In this quadrant the opportunity for Dr. Popov is to start to produce pharmaceutical products to solve customer's health problems, however, not in a natural way. Another nice possibility may be a production of alcoholic beverages – herbal liquors; that would fulfil the requirements of completely different segment.

14.2 Portfolio strategy

Companies with a wide product portfolio have to have the portfolio in balance in order to fulfil the customers' needs and to achieve the organisation's goals. BCG matrix will help me to precisely analyse Dr. Popov portfolio.

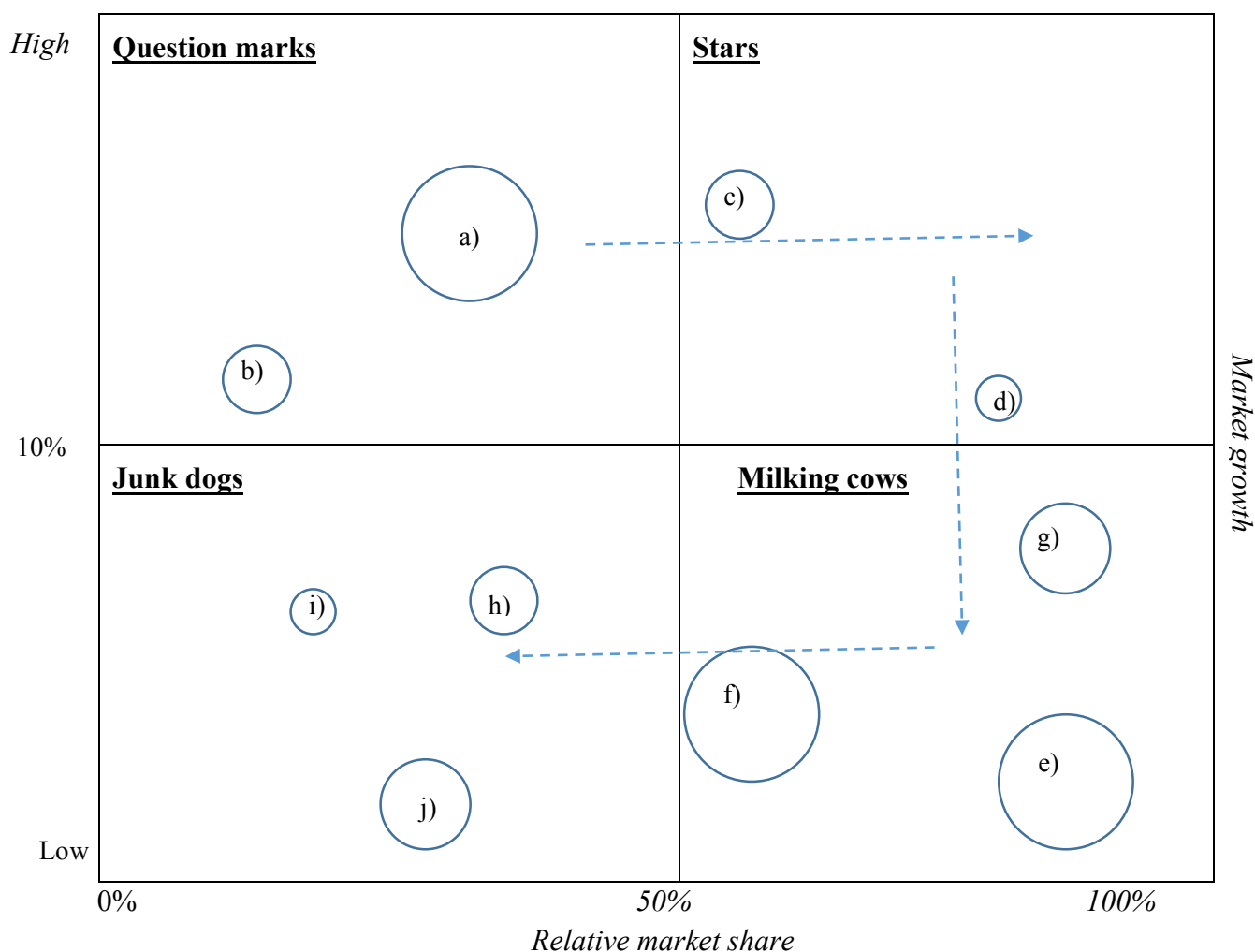
BCG matrix (Boston Consulting Group Matrix)

BCG matrix further classified SBUs of the company.

I am going to classify those SBUs.:

- 1) Question marks – a) herbal tea (tea bags), b) diet supplements
- 2) Stars – c) herbal drops, d) mumio
- 3) Milking cows – e) psyllium, f) herbal ointments, g) tea tree oil products
- 4) Junk dogs – h) herbal tea (loose tea), i) aromatherapy, j) herbs

Table 8: BCG matrix of Dr. Popov company



Source: Author

Question marks represent the products that are in the phase of growth; however, the market share is not on a high level. There is a need for high investment into the processes and technologies in order to transfer a question mark into the star category. Dr. Popov company recognizes the question marks herbal teas (teas bags) and diet supplements. Those products are profitable, but not as much as necessary to cover all the costs of investments. The company should focus on further development of those products, because those products represent potential of future growth.

From Question mark, we are getting to the Star stage. The Star category represent relatively high market share and operates on a growing market. The Star position requires high investments in order to maintain the products at this level. However, the products that are classified as Stars are reaching positive revenues and therefore the products are able to gain a financial base that cover their future investment.

Milking cows are products that have relatively high market share and that are currently in maturity stage. Those products generate revenues that are required for the products in Question mark stage. Milking cow in Dr. Popov portfolio is psyllium SBU – that includes

psyllicol with different flavours and many kinds of psyllium capsules. Then many kinds of herbal ointments, that have a healing formula that is traditional and effective. Products from Tea Tree oil are also Milking cows with a high market share and with stable revenues. Products that have a position in this stage represent profitable products with no need for additional investment.

Junk dogs are products with low rate of growth. These products are in the stage of decline and at the same time do not have a sufficient market share. The best option is to stop marketing those products. Dr. Popov classify herbal teas (loose teas), aromatherapy and herbs as Junk dogs. Herbal teas (loose tea) are presently very unpopular and therefore are situated in the decline stage. Aromatherapy consists of essential oils that are produced for many years, but some customers do not know about such products and the costs compared to revenue are not sufficient. Herbs are used for customers that have received recipe for a tea from a doctor and have to mix the tea on their own. However, this trend is not popular anymore.

Suggestions

Based on the analysis applied in the practical part, I would like to make some suggestions, that may be useful for the company's future growth.

The first suggestion is to widen product portfolio, according to current trends in consumption. In my point of view, production of fitness supplement with organic and non-milk base may be opportunity for the company. The production of ointments with plant base, instead of animal foundation is also great opportunity. On the other hand, I would stop production of product that does not make profit, such as aromatherapy or herbs.

Another important opportunity is to create structure of supplier in order to lower costs of the raw material and save time by evaluating the new suppliers, all the time. Such measures may ensure discounts, because Dr. Popov company purchase usually large amounts of material. At the same time, it is much more reliable to have set structure of suppliers (at least 2 for one material, in case, that one of them have some problems).

Another opportunity is to expand abroad with the same product portfolio. At the beginning, it is sufficient to find wholesalers in the countries of European Union, that will distribute the product to other countries, that have very similar consumption habits. In this way, Dr. Popov will only increase the volume of output. Dr. Popov company can basically apply the same concept, that were applied during the distribution of the products to Slovakia.

The product portfolio of Dr. Popov is currently very wide and awareness of the products, in the Czech Republic, is quite high, therefore the opportunity and next step of the company should be the development of network shops with Dr. Popov products. Such concept may firstly start in the Czech Republic.

Dr. Popov company should also improve planning and adaptability on external environment, that is changeable. Such measures may enable to partly avoid unpleasant situations, that are happening, due to external environment.

The threat of competitors is not significant, however, the networks of pharmacies are causing problems, because of their strong power and set conditions for supplier, who wants to supply to their shops. Creation of network shops may solve this threat.

Conclusion

The main aim of this bachelor thesis was to analyze internal and external environment of the company, and based on that analysis create the strategy. In the theoretical part I described generally, how should be individual analysis created. In the practical part was individual analysis applied, according to the methodology mentioned in the theoretical part. At the end, I tried to define sustainable competitive advantages, problems and its causes.

I started with the PEST analysis. PEST analysis covered the threats such as prohibition of particular products or changeable exchange rates and inflations in foreign countries. On the other hand, the opportunities are for the company are public contracts. Porter's five forces then defined several threat related to the competition on the market that influence the company. The main threat is definitely the threat of substitution of natural products by pharmaceutical industry. Then, I went through the Benchmark analysis that deeply compare the competitors on the market. Based on the Benchmark analysis, I found out that Dr. Popov company have the most effective management, mostly due to the low number of employees. After analyzing the macro-environment, I examine the analysis of internal resources of the company. For those proposes, I used VRIO analysis. In this part of my bachelor thesis, I found out, that the management and low fluctuation of the employees is an asset for the company as well as know how, goodwill and tradition. Next analysis was the value chain. The value chain defined primarily and secondary activities of the company, in order to find a room for an improvement of those processes. Planning of purchasing and relationships with the suppliers may be improved in order to achieve lower costs of row material. Following analysis was SWOT, that combine strengths and weaknesses of the internal environment and threats and opportunities of the external environment. Growth matrix then express the possibilities of future development of the company - on the present or new market with present or new product portfolio or services. The last analysis was BCG matrix that represents the size and potential of individual SBUs within the company. Based on this summary I got to the most important part that was suggestion for the future development.

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Annex 1

Státní zemědělská a potravinářská inspekce
Květná 15,
603 00 Brno



SZPI4102A2891

SZPI	
Ústřední inspektorát	
Došlo dne:	
16-07-2014	
Poř. č.:	44472
Č.j.:	
listů/příloh	2 / 0

Žádost o poskytnutí informací

V souladu se zákonem č. 106/1999 Sb., o svobodném přístupu k informacím, ve znění pozdějších předpisů, žádám o poskytnutí níže specifikovaných informací.

Požadované informace se vztahují k zařazení doplňku stravy CAIGUA (*Cyclanthera pedata*), a plodů SACHA INCHI (*Plukenetia volubilis*) mezi potraviny nového typu.

V naší provozovně byla dne [redacted] provedena kontrola inspektorem SZPI [redacted], se zaměřením na uvádění do oběhu doplňků stravy CAIGUA (*Cyclanthera pedata*), YACON (*Smallanthus sonchifolius*) a plodů SACHA INCHI (*Plukenetia volubilis*). Z opatření, které bylo při kontrole uloženo, vyplynul zákaz jejich dalšího prodeje, z důvodu zařazení těchto rostlin komisí EU do seznamu potravin nového typu. Současně bylo uloženo opatření nařizující odstranění těchto produktů z našeho e-shopu a poskytnutí informací o předchozí distribuci. Toto opatření jsme beze zbytku a ve stanovené lhůtě 5 dnů splnili.

K našemu údivu je však doplněk stravy CAIGUA pod stejným názvem do dnešního dne nabízen volně k prodeji společnostmi dr.Popov s.r.o. a společností Oro Verde s.r.o. a v celé jejich distribuční síti. Tím došlo ke značnému znevýhodnění naší společnosti v hospodářské soutěži, odlivu zákazníků a ve finálním efektu i ke zhoršení našeho hospodářského výsledku. V neposlední řadě došlo též ke ztrátě důvěry zákazníků v naši společnost, neboť vyslovení zákazu distribuce pouze jedné společnosti evokuje podezření ze zjištění nedostatků v jakosti. Domníváme se, že pokud byla tato rostlina skutečně zařazena na seznam EU, měl by se zákaz její distribuce týkat všech subjektů trhu a nikoli jen nás. Domníváme se také, že od února 2014 již byl dostatek času na provedení opatření i v námi uvedených společnostech, zvláště že přímí dovozci tohoto plodu byli na území ČR podle našich zjištění pouze 4.

Konkrétně žádám o poskytnutí

- 1) informace o zařazení CAIGUA (*Cyclanthera pedata*), YACON (*Smallanthus sonchifolius*) a plodů SACHA INCHI (*Plukenetia volubilis*) do seznamu EU potravin nového typu
- 2) kopie výpisu z registru potravin nového typu EU kde jsou tyto rostliny uvedeny