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# **Master's Thesis**

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Title of the Master's Thesis:

# **Market Entry Strategy of Casamundo GmbH to the Czech Market**

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## Declaration of Authenticity

I hereby declare I have written the master's thesis "Market Entry Strategy of Casamundo GmbH to the Czech Market" individually and I listed all sources in the list of references.

Prague, August ....., 2014

.....

Signature

**Title of the Master's Thesis:**

Market Entry Strategy of Casamundo GmbH to the Czech Market

**Abstract:**

The objective of this thesis is to select the most suitable market entry mode and create a marketing strategy for accommodation rental company Casamundo GmbH. Suggested strategy will be based on characteristics of the Czech market and consumers and will help the company to establish itself in the market. The thesis is divided into three parts. Theoretical part summarizes main concepts and frameworks focused on foreign market entry and marketing strategy creation. It is followed by introduction of Casamundo GmbH and analysis of external and internal environment that will serve as a base for evaluation of company's strengths and weaknesses. Last part summarizes results of survey conducted among Czech consumers. Based on all collected data market entry mode is then suggested and the marketing strategy including adjustment to marketing mix is proposed.

**Key words:**

Market Entry Strategy, Market Analysis, International Expansion, E-commerce

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## Table of Contents

List of Figures.....	6
List of Tables .....	6
List of Abbreviations .....	7
Introduction.....	8
<b>1. International marketing theoretical framework .....</b>	<b>10</b>
<b>1.1 International marketing.....</b>	<b>10</b>
<b>1.2 Analysis of company's environment .....</b>	<b>11</b>
1.2.1 International marketing environment (macro environment) .....	12
1.2.2 Micro environment.....	13
1.2.3 SWOT analysis.....	14
1.2.4 Marketing research .....	16
<b>1.3 Strategic planning and international market entry strategy.....</b>	<b>19</b>
1.3.1 Motives to enter foreign markets.....	19
1.3.2 Marketing strategy planning process.....	20
1.3.3 Market entry modes.....	21
1.3.4 E-commerce marketing practices .....	22
<b>1.4 International marketing strategy and marketing mix decisions .....</b>	<b>25</b>
1.4.1 Segmentation, targeting, positioning.....	25
1.4.2 Marketing mix .....	29
<b>2. Introduction of Casamundo GmbH.....</b>	<b>36</b>
<b>2.1 About Casamundo .....</b>	<b>36</b>
<b>2.2 Core values .....</b>	<b>37</b>
<b>2.3 Company structure.....</b>	<b>37</b>
<b>2.4 Internationalization strategy and motives for expansion.....</b>	<b>38</b>
<b>2.5 Analysis of the Czech macro environment .....</b>	<b>40</b>
2.5.1 Political and legal environment.....	40
2.5.2 Economic environment.....	41
2.5.3 Social and cultural environment.....	42
2.5.4 Technological environment.....	44
<b>2.6 Micro environment in the Czech Republic.....</b>	<b>45</b>
2.6.1 Competition analysis .....	45
2.6.2 Porter's five competitive forces .....	47
<b>2.7 General information about Czech consumers.....</b>	<b>49</b>
<b>2.8 SWOT analysis of Casamundo's expansion to the Czech market .....</b>	<b>56</b>
<b>3. Market entry strategy proposal.....</b>	<b>60</b>
<b>3.1 Survey results evaluation .....</b>	<b>60</b>
<b>3.2 Recommendations.....</b>	<b>69</b>
3.2.1 Market entry mode .....	70
3.2.2 Marketing mix .....	71
<b>Conclusion .....</b>	<b>78</b>
<b>List of references .....</b>	<b>81</b>
<b>List of appendices.....</b>	<b>86</b>
<b>Appendix.....</b>	<b>87</b>

## List of Figures

Figure 1: Porter's five competitive forces .....	13
Figure 2: SWOT matrix .....	15
Figure 3: The marketing research process .....	16
Figure 4: Three levels of product.....	30
Figure 5: Structure of Casamundo GmbH .....	<b>Error! Bookmark not defined.</b>
Figure 6: Development of Casamundo's business activities .....	39
Figure 7: Development of total population in the Czech Republic .....	43
Figure 8: Population pyramid of the Czech Republic.....	43
Figure 9: Households and information technology (% of households) .....	45
Figure 10: Demographic characteristics (% of individuals in given age group) .....	50
Figure 11: Goods and services purchased online in 2013.....	51
Figure 12: Positives and fears of online shopping in case of Czech consumers.....	51
Figure 13: Long, Short and Business trips of Czech residents abroad by country .....	54
Figure 14: Average length of vacation in the Czech Republic (2013) .....	55
Figure 15: Breakdown of holiday trips by mode of transport (2011).....	55
Figure 16: Most frequent payment methods of Czech consumers.....	56
Figure 17: Gender and age distribution .....	60
Figure 18: Education and occupation characteristics.....	61
Figure 19: Booking schedule and responsibility.....	62
Figure 20: Channels used for searching and booking of accommodation .....	63
Figure 21: Importance of chosen factors on accommodation choice and loyalty.....	64
Figure 22: Unaided recall.....	65
Figure 23: Aided awareness.....	66
Figure 24: Preferred communication channels .....	67
Figure 25: Loyalty program preferences.....	67

## List of Tables

Table 1: Macroeconomic indicators.....	41
Table 2: Technological readiness.....	44
Table 3: Czech Residents - number of trips and average tourism expenditure .....	53
Table 4: Comparison of macroeconomic factors .....	75

## **List of Abbreviations**

CEO	Chief Executive Officer
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNI	Gross National Income
OECD	Organisation for Economic Co-operation and Development
R&D	Research and Development
WTO	World Trade Organisation



## **Introduction**

The international environment and internationalization bring many opportunities to companies active across various industries. Current liberalization of trade across borders prepares favorable conditions for companies that want to engage their activities abroad. Being present in international market might be beneficial for companies because if done well it increases profits and accelerates growth. Even though it seems that the differences between markets are becoming smaller they must be still taken into account by all companies considering a foreign market entry in order to increase their chances of success.

During my studies I focused on international trade and doing business abroad. When I was thinking about the topic of my master's thesis it was clear to me that international marketing strategy would be really interesting and challenging area. Due to interest in travelling and international marketing I found my internship in Germany in a company active in tourism. This work experience in Casamundo GmbH, which is a company offering accommodation rental across Europe and USA, provided me with a chance to look closer into their internationalization processes and internal culture. I think that there is a huge unutilized potential for the company on the Czech market and with an appropriate strategy it would be beneficial to extend their activities abroad.

The objective of this thesis is to suggest a suitable market entry strategy and market entry mode to the Czech market for Casamundo GmbH, with regards to the company's strategic planning and internationalization activities. Furthermore, focus will be given to all parts of marketing mix including segmentation, targeting and positioning and 4P's. Based on analysis recommendations and adjustments will be suggested.

The thesis will be divided into three main chapters. First chapter will be focused on theoretical framework of international marketing and will serve as a basic scope for the remaining chapters of the thesis. Theoretical concepts will be chosen with regard to the international expansion of companies into foreign markets. Therefore international market environment, marketing research, market entry strategy, marketing mix and strategic planning will be described.

The second chapter will introduce Casamundo GmbH and will describe its history, organizational structure, business activities, internationalization motives and core values. PEST and SWOT analysis will be conducted and will serve as background information for later recommendations and suggestions regarding new market entry. Basic characteristics of Czech consumers and their attitudes towards online shopping will be discussed and followed by mapping current competition present on the Czech market.

Last chapter will evaluate results of conducted survey. Survey will be focused on gaining deeper insights of customer's preferences regarding online shopping and motives and drivers influencing online accommodation purchases. Another important part of the survey will examine customer's knowledge of competitors. Survey results will serve as supplementary information for appropriate marketing strategy creation.

In order to gather all necessary information, credible sources and extensive Internet-based research will be used. Theoretical part will be prepared from recommended literature introduced during relevant courses at University of Economics in Prague and Norwegian School of Economics in Bergen. It will be extended by work of well-known authors focusing on marketing and market entry strategies, such as Philip Kotler, Garry Armstrong and Michael E. Porter. Additionally, other sources covering topics such as tourism and marketing management will be used. These sources will be mostly obtained in Staats- and Universitätsbibliothek in Hamburg and in the library of the University of Economics in Prague.

In order to increase the depth of conducted analysis and to ensure that the suggested strategy will be in line with company's business activities, interviews with Casamundo employees will be arranged to discuss the company's values and processes. For the practical part and survey results analysis various databases such as World Bank, Central Intelligence Agency and various governmental institutions will be utilized. The competition analysis in the Czech market will be conducted based on competitor's websites and other accessible information on their strategy.

# 1. International marketing theoretical framework

## 1.1 International marketing

The process of internationalization, globalization and foreign market entry is undoubtedly connected to today's business activities of many companies. Business expansion into new foreign countries is therefore linked to the field of international marketing, which is a very broad field covering various areas and topics. In order to proceed with the scope of the thesis the term international marketing should be defined. There are many definitions from different authors. With regard to the International Marketing class I attended during my studies a definition by Machková, Král, Lhotáková, et al., (2010) is chosen:

*“International marketing is a business philosophy focused on satisfying the needs and wishes of consumers in international markets. The main goal of an international marketing strategy is to create maximum value for stakeholders by optimizing a firm's resources and searching for advantageous business opportunities in foreign market.”*

International marketing can be described as a business philosophy and unique strategy, which a company implements and respects while being active in international markets. Well-established strategy is essential for a successful entry to a new market because it supports company's economic results as well as its competitiveness. In today's world the barriers to entry a new market are rather small and internationalization brings many new opportunities for companies. Because of that the importance of strategic planning and international marketing increased significantly. In the past decades the main focus moved from short-term profit maximization to maximization of all stakeholders value. Furthermore, companies today focus not only on increasing market share and number of customers but aim also for long-term sustainable growth and harmless business activities in line with social responsibility principles. The competitive advantage is sought on international level for the distribution chain as whole (Machková, 2006).

When a company decides to enter a new foreign market it is important to identify its future position with regard to the competition. This position helps to determine the strategy that can be utilized. The reasons that lead to the market entry and size of the company are the most important differentiating factors. By knowing these firm can decide for one of the following positions: market leader, challenger, follower or nicher and adopt an appropriate strategy (Machková, Král, Lhotáková, et al., 2010).

Each of the positions has its own characteristics. Market leader usually accounts for 40 percent of the market and leads the others in price changes, new product introductions and promotional intensity. The main goal of the market leader is to defend its market position or to even increase its market share in the global market. Of course it is not an easy task and remaining market leader in today's fast moving

environment requires continuous innovation, differentiation, distribution effectiveness, customer services and cost cutting (Kotler, et al., 2012).

Market challenger's goal is on the other hand gaining market share or even overtaking the market leader. To achieve this goal challenger must decide whom to attack in the market. There are several strategies that market challengers can implement. The first strategy is attacking the market leader and gaining part of its market share and customers. Attacking the leader and weakening its position is the most costly approach accompanied by high level of risk. Therefore it makes sense only in case the leader is not serving the market well. Secondly, a market challenger can attack small local companies or companies of its own size that are not doing their job that well. Various tools such as effective price policy, intensive communication or introduction of innovation can support such attack (Machková, Král, Lhotáková, et al., 2010).

Third market position is described as follower, which is usually a smaller company using product imitation strategy and holding approximately 20 percent of the market share. Many companies choose this strategy rather than challenging the leader because it is less demanding and proactive. This does not mean that followers lack strategy because it is highly important and difficult for them to keep their loyal customers and maintain customer relationships in order to remain the current market position. To be able to succeed, a follower must offer distinctive advantage to its target market and ensure sufficient level of differentiation (Gilligan & Wilson, 2009).

The last position a company can take in the market is a nicher. As a nicher a firm focuses on micro segments and accounts for approximately 10 percent of the market share. It is an alternative to being a follower in large markets. Even though it is usually associated with small companies it can be also adopted in case large companies active in industries with tough competition (Gilligan & Wilson, 2009). Its main advantage is avoidance of competing with larger firms by targeting smaller segments. These segments would not be enough profitable for bigger firms and therefore they do not interest them.

## **1.2 Analysis of company's environment**

Marketing strategy planning requires narrowing down the best opportunities and developing a strategy that will gain a competitive advantage for a company and provide customers with superior added value. This process should consider important aspects of market environment. There are many various classifications but most authors divide the environments into macro and micro environment. Macro environment includes international marketing environment and factors influencing company's performance in a foreign market. Micro environment on the other hand stands for the industry and competition activities that have impact on company's activities.

### **1.2.1 International marketing environment (macro environment)**

Companies that are active in international markets have to be aware of differences between the home market and new foreign market. They have to assess foreign country's environment and these differences before making any marketing decisions because it can ensure better results and decrease possible risks linked to the market entry. PEST analysis might serve as a basic evaluation tool for the analysis of international environment and consists of the following parts:

- P – Political, legal and regulatory environments;
- E – Economic environment;
- S – Social and cultural environments and
- T – Technological environment.

The political, legal and regulatory environments represent the general conditions for business activities in a foreign country (Machková, Král, Lhotáková, et al., 2010). All these conditions significantly influence company's market entry and risks connected to it because they set the basic rules for doing business in a foreign country and may severely limit business operations abroad. Nowadays international cooperation and integration creates certain limits for the national sovereignty because political environment is likely to be similar among nations that have banded together to have common regional boundaries. Couple years ago each country in Europe had own trade rules and regulations. These differences have been reduced and countries are trying to overcome obstacles by creating unified market with common trade rules. This makes trade less costly and significantly easier for all involved players.

The economic environment refers to macro-economic factors, including national income, economics growth and inflation. All of these factors influence patterns of consumer behavior and business spending. The biggest difficulty of economic environment is that it changes quite rapidly and the rise or fall of an economy can have a significant impact on customer's buying habits. Even a well-defined strategy can fail in case a country goes through a rapid business decline (Perreault, Cannon, McCarthy, 2010). This is the reason why managers must watch economic conditions very carefully because unlike other factors a change requires an immediate change of company's marketing strategy.

There are many variables that create cultural and social environments such as language, education, and religion, eating habits and family (Perreault, Cannon, McCarthy, 2010). It is quite difficult to perfectly define culture but it can be described as a complex set of variables that have impact on everyday life in a society and the way in which this society is organized (Machková, Král, Lhotáková, et al., 2010). Changes in culture and society tend to be rather slow. Therefore a firm cannot easily change these environments and should rather identify current attitudes and work within these limitations.

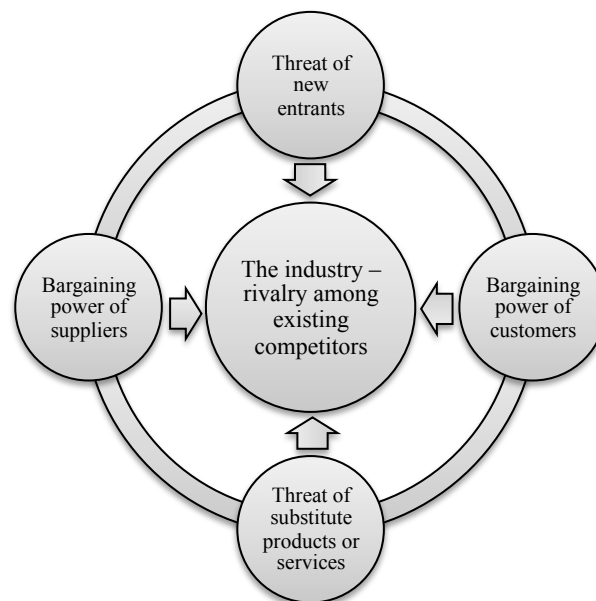
The last dimension is called technological environment. The technological environment refers to the level of technological development in a foreign country and also indicates the level of available infrastructure that can represent limitations for company's activities. It opens many new opportunities for companies but it might be also very challenging at the same time. Analysis of this environment is crucial for understanding whether the modern technologies can be used in the target country because the development levels differ significantly around the world.

### 1.2.2 Micro environment

The micro environment analysis includes specifics of an industry a company works in and factors a company can influence by its activities. The industry is always a crucial element of company's external environment. Therefore situational analysis should be conducted and its results as well as competitor's actions must be taken into account.

Competition intensity may differ among industries but the underlying drives of profitability are usually the same (Porter, 2008). To understand industry competition and profitability, one must analyze industry's structure in terms of five forces governing competition shown in Figure 1.

**Figure 1: Porter's five competitive forces**



Source: Porter (1979), Author's illustration

#### **The threat of entry**

New entrants within an industry aim to gain market share and bring extra production capacity into the market. Such activities result into pressure on pricing, costs and investment for companies already present in the market. The threat of entry depends on combination of entry barriers and reaction expected from the currently present

companies. For example, if entry barriers are low and newcomers expect only little reaction from the current competitors, the threat of entry is high and vice versa.

### **The power of suppliers**

Suppliers provide resources needed by a company to produce its goods or service and have therefore great impact on marketing. Powerful suppliers capture value by charging higher prices and limiting quality of products or services, which can result into decreased profitability of an industry because companies are not able to pass increased costs into their own prices. This powerful position of suppliers can be reached especially in industries with only limited number of suppliers, highly differentiated products or no possible substitutes.

### **The power of buyers**

Buyers are powerful in case they have negotiating leverage to industry participants. Generally speaking, customers compete in the industry by pushing down the price and requiring higher quality of product or services. They also push competitors against each other, especially if their purchases are relatively important compared to company's total sales volume.

### **The threat of substitutes**

The threat of substitutes is rather easy to overlook because substitutes are always present in a market but they may appear to be very different from the actual product. Generally speaking, a substitute performs a similar function as an industry's product by using different means (Porter, 2008). Substitutes limit potential profitability of an industry because they may set a price ceiling that companies within an industry can charge.

### **Rivalry among existing competitors**

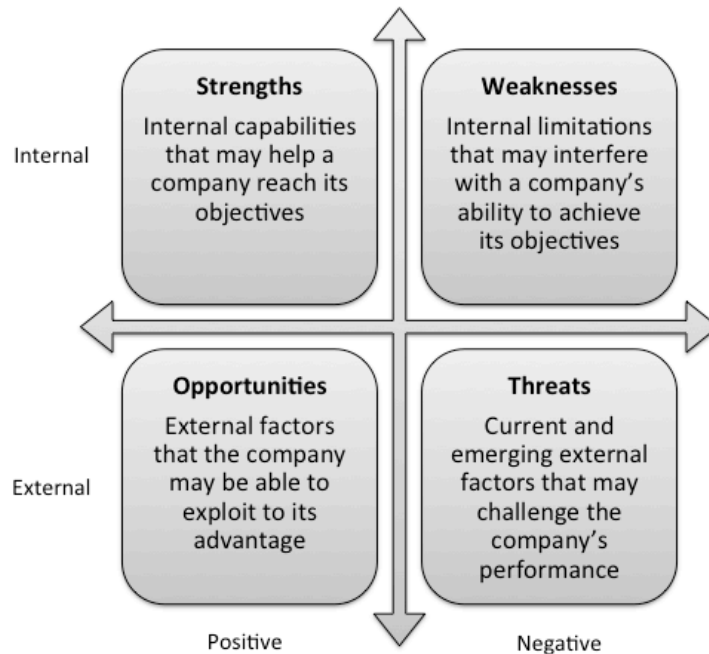
Rivalry refers to a state in the market when competition is trying to gain advantageous position via various marketing activities. Rivalry among competitors can take forms such as price discounting, introduction of new products, advertising campaigns or service improvements. High rivalry within an industry leads to decreased profitability of all present companies. The extent to which rivalry drives down an industry is influenced by two main factors: competition intensity and competition basis. This shows that companies are usually dependent on each other within a given industry and in case competitive actions go too far, it will have negative impact on all of them (Porter, 2008).

### **1.2.3 SWOT analysis**

Overall evaluation of company's strengths, weaknesses, opportunities and threats is called SWOT analysis. It is a useful tool for identifying relevant screening criteria and describing current state of a company. A good SWOT analysis helps a manager to focus on strategy that takes advantage of strengths and opportunities while

avoiding its weaknesses and threats. As it can be seen on Figure 2, SWOT analysis links together internal and external environment as well as positive and negative factors influencing a company.

**Figure 2: SWOT matrix**



Source: Armstrong, et al., 2009, p. 58. Author's illustration

While analyzing external environment a company must evaluate its opportunities and threats. A company must always monitor key macroeconomic and microeconomic factors that affect its activities and profitability. A marketing opportunity can be described as an area of buyers need and interest that a company has a high probability of profitably satisfying. In other words opportunities are favorable conditions that can produce reward for the company and therefore have to be exploited (Ferrell, et al., 2012). There are three main sources of opportunities: development of a new product or service, short supply offer and innovation of current product or services. An environmental threat is on the other hand a challenge posed by unfavorable trend or market development that decreases the profitability of a company (Armstrong, et al., 2009).

Internal environment describes company's ability to take advantage of opportunities in the market. Strengths and weaknesses are internal factors that arise from analyzing company's resources and capabilities (Perreault, Cannon, McCarthy, 2010). Strengths are positive factors that contribute to successful running of business and have great impact on its profitability. The most important strengths are those that increase differentiation of a company and are difficult to copy. Weaknesses include limitations and negative situational factors that avoid the company to fully exploit its capabilities.



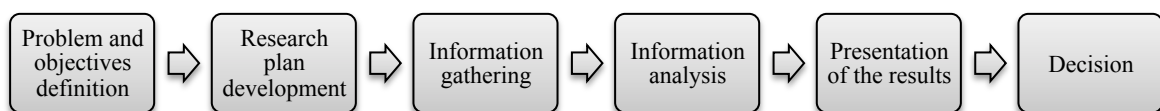
#### 1.2.4 Marketing research

As already discussed above, when a company decides to enter a foreign market it has to deal with different market environments, culture, shopping habits and other local characteristics. Market entry is also connected to high initial investment costs and efforts. Therefore companies need to have sufficient amount of information about the chosen market. In order to gain this information a company must conduct proper marketing research before making the final decisions. Definition of marketing research by Machková, Král, Lhotáková (2010) was chosen:

*“Market research can be defined as the systematic and objective process of generating information to aid in making marketing decisions.”*

The task of a research is to provide accurate and actionable information about consumers that would enable better understanding of their needs and wants. Furthermore, it should also inform a company about competition and their activities and brands. A research should broaden managerial decision alternatives and reduce range of decision errors (Smith & Albaum, 2005). It is clear that a company can never foresee all possible outcomes and consequences but the probability of success rises significantly if it is aware of the market conditions and consumer characteristics in advance. Each marketing research has its specifics but generally the whole process can be divided into two main phases, namely preliminary and executive. An effective marketing research should then consist of following six steps shown in Figure 3 (Foret, 2003).

**Figure 3: The marketing research process**



Source: Kotler, 2012, p.99; Author's illustration

Problem definition is one of the most important steps because it ensures that the examined area will be chosen correctly. In this phase marketers define the problem and the goal of the research. Furthermore, they must estimate the potential value of the information that will be collected for the company.

The second stage of each marketing research is characterized by development of a research plan and selection of data resources. Generally speaking, data used during a marketing research should be relevant, valid, reliable and effective. During the research primary and secondary data may be collected. Secondary data are data that has been collected for another purpose before and are already available in the market. Primary data, on the other hand are freshly gathered for a specific purpose during the research. Researchers usually start to examine secondary data first, to see

whether they provide sufficient amount of information to resolve the problem. In case there is not enough or bad quality secondary data they start to collect primary data. There are five main collection techniques that can be used by marketers: observation, focus groups, surveys, behavioral data and experiments (Kotler, et al., 2012). The method relevant for the practical part of this thesis is a survey, which is usually undertaken by companies to assess people's knowledge, beliefs, preferences and satisfaction. A widely used tool in case of surveys is a questionnaire.

The data collection technology can be divided into desk and field research. Desk research is focused mainly on secondary data. It might be more complicated especially in less developed countries where there is a lack of high-quality and comparable data. In order to receive relevant information marketers should use only credible information sources and should consider the collection methodology because otherwise the data cannot be compared efficiently. Credible sources are usually national statistical institutions or international organizations. Other sources might be newspapers, magazines, research reports or public databases (Machková, Král, Lhotáková, et al., 2010). What is more, it might be advisable for a company to engage a research firm to carry out the marketing research. Local research firms (or big international research firms) know the foreign market better and are less likely to make mistakes based on misunderstandings the language or circumstances of the customers they study (Perreault, Cannon, McCarthy, 2010).

Data collection phase is followed by the data analysis and evaluation. Researchers compute averages and apply various statistical techniques to discover findings. The hypotheses and theories set in the beginning of the research should be tested as well during these phases.

Of course there are some limitations that can influence the results of a research as well as the interpretations. Firstly, the research is usually based on sampling and the results need to be generalized for all customers present in the market. People's imagination must be also taken into account. In case of an innovative ideas and products marketer's intuition will be the decision-making factor even though it might be very risky (Machková, Král, Lhotáková, et al., 2010).

### **Implications for international marketing**

The expansion of business activities abroad entails making decisions that carry greater risk compared to routine decisions on the home market. The environment in the foreign market can significantly differ from the one in domestic market. This means that it is not sufficient to extend the home marketing research abroad but there is a need to conduct further research, which will cover all possible factors influencing the marketing decisions. On a basic level international marketing research is a study designed to support decisions with respect to more than one country and it is carried out simultaneously or sequentially on several foreign markets (Smyczek & Glowik, 2011).

As mentioned above an international marketing research is not only an extension of a domestic research but should provide information that will enable solving international marketing problems. On the other hand it is also not completely indifferent from the domestic marketing research. The basic differences arise especially from various macro- and microeconomic conditions in the foreign country and also from the necessity to evaluate and consider all these factors before decision-making. The basic areas of the international marketing research might be following (Smyczek & Glowik, 2011):

- Research into international conditions of business activities (macroeconomic and competitive environment);
- Research into corporate instruments, strategy testing and their effect on the international market and
- Research into business performance results in the international market

Research on market conditions and competition should provide information about the foreign market potential and its future development. Furthermore it focuses on the political and legal environments, cultural and social specifics and demographic and economic factors. All this information might be useful when deciding on market entry mode and strategy.

The strategy testing research is used to find out whether the home market strategy can be extended to the foreign market or if it has to be adjusted. It can include price tests, product tests, packaging tests or test of communication strategy (Machková, Král, Lhotáková, et al., 2010). Business performance results provide better insight on company's future performance figures and profits. It is a crucial method to estimate the company's future sales and development over time. It supports financial planning and provides data on estimation of returns on investment.

### **Questionnaire preparation**

A questionnaire is a basic tool for most of the research methods and it is an instrument used to collect primary data. It consists of a set of questions presented to the respondent and needs to be developed carefully in order to ensure high quality outcome because its composition might influence the results. While developing a questionnaire various rules regarding question structure and composition must be followed because wording and sequence can influence responses. In order to ensure the best possible outcome a questionnaire should fulfill following criteria: general impression, question formulation and typology, manipulation with the questionnaire (Foret, 2003). There is no unified perfect layout for a questionnaire and therefore it must be always adapted to company's needs and given circumstances. General impression stands for impression that a questionnaire makes at the interviewee, in terms of layout, paper quality and color. All these attributes must attract the interviewee to fill in the questionnaire with joy and enthusiasm. The first page is the most important step because it must wake interviewee's interest and ensure that

the whole questionnaire will be completed. The maximum length should not take more than approximately twenty minutes and the questionnaire should not include more than 50 questions (Foret, 2003).

There are two main types of questions that can be utilized: close-end and open-end questions. Close-end questions specify precisely all possible answers and respondents are asked to choose the best matching answer. They are also easier to interpret and tabulate. Close-end questions can be either multiple-choice or dichotomous. Multiple-choice questions offer three or more possible answer. Dichotomous questions on the other hand provide the respondent only with two possible answers. Open-end questions allow the respondents to answer with their own words and often reveal much more details and background of an answer. In order to test respondent's general attitude towards a criteria a rating scale can be implemented. What is more, questions must be formulated carefully and should not be biased and lead the respondent to an answer. The composition is also crucial for the credible outcome. At the beginning it is advisable to ask interesting questions that should be followed by the really important ones, which require high concentration level. At the end less important and general questions can be asked.

Manipulation with the questionnaire involves distribution of the questionnaire and its returns. The questionnaire can be distributed personally, via post or online. Nowadays the most convenient way is spreading the questionnaire via email or a website because it saves time for both sites and enables easy evaluation and interpretation. After the questionnaire is completed it is usually tested on a small sample of respondents. It helps to further develop the questions and makes sure that the respondents understand all questions and the outcomes will be valuable for the company.

### **1.3 Strategic planning and international market entry strategy**

#### **1.3.1 Motives to enter foreign markets**

In today's globalized world, extending business activities abroad is usually a common practice implemented to keep or increase profitability of company's business. For many companies the home market might be large enough to generate sufficient profits so they are willing to keep their business on local level especially because it creates fewer risks. Nevertheless, international expansion might become an option in following cases (Kotler, 2007):

- Home market is saturated and competition offers better quality or cheaper products,
- Foreign markets offer higher profitability,
- Home market remains still or becomes smaller,
- Company want to benefit from economies of scale,
- Company wants to decrease risks and dependence on one country,
- Company has excess capacities and want to increase its sales,

- Customers travel abroad and require products or services of the company.

Before going abroad a company must also weight the risks and obstacles it is facing. Because of the difficulties of entering a foreign market, most companies do not act until some situation or event forces them (Armstrong, et al., 2009). The obstacles can be internal or external, depending on whether they are influenced by the company itself or whether they result from external environment actions. The most common obstacles are high costs, missing financial sources, existing laws, insufficient quality of products or services or insufficient quality or amount of labor.

### **1.3.2 Marketing strategy planning process**

Planning is a systematized way of relating to the future. Its main goal is managing the effects of external, uncontrollable factors on the firm's strengths, weaknesses and goals to attain the desired outcome. Furthermore, it allows a company to define a clear mission, set internationalization objectives and coordinate international activities. Planning also supports company's growth of the international function, rapidly changing markets and increasing competition of different international markets (Cateora, et al., 2011). Planning is related to the formulation of goals and methods of accomplishing them as well as to the process of developing and maintaining the strategic fit between company's goals and capabilities in the international environment. Strategic planning has a great impact on company's success in international markets because it helps to frame and implement a long-term strategy of company's growth.

A marketing strategy specifies a target market and a related marketing mix (Perreault, Cannon, McCarthy, 2010). When a company suggests a marketing strategy it must decide what activities it will develop and which markets it will enter. Furthermore, international marketing provides guiding for the strategy establishment because it suggests how to serve international customer with respect to the cultural differences. The planning process itself usually consists of following phases (Cateora, et al., 2011):

1. Preliminary analysis and screening
2. Defining market segments and adapting marketing mix
3. Developing a marketing plan
4. Implementation and control

Regardless from the previous international activities, evaluation of potential markets is always the first step in the planning process. Company's strengths, weaknesses, philosophy and objectives must be matched with foreign market potential and characteristics. This phase also includes creation of screening criteria and marketing research. Information generated during the evaluation phase is then used for more detailed examinations in the next steps. Once target markets are selected the marketing mix must be evaluated and adapted to country's characteristics.

Incorrect decisions made during this phase may result into very costly mistakes in pricing and promotion that are difficult to change. In the next stage marketing plan must be developed for the target market. It begins with situational analysis and results into market entry mode choice and preparation of specific action plan for the market. Once all these phases are completed the marketing plan and decisions are implemented. It is also very important to control and monitor the marketing plan and results. Utilizing a planning process enables the decision maker to consider all possible information and variables that affect success of the foreign market entry. Furthermore, it provides overview of all possible opportunities in the international markets.

### **1.3.3 Market entry modes**

Once a company has decided to sell in a foreign market, it must determine the best mode of entry. It can choose from three main groups: exporting and importing, non-equity based cooperations and foreign capital investment (Machková, Král, Lhotáková, et al., 2010). Each group involves different level of commitment and risk, but also different level of control and potential profits. It is usual that companies often begin with modest export involvement and with growing sales extend their activities abroad. Final choice of the mode of entry is based on many factors such as product characteristics, trade policy barriers, costs and risks.

The simplest way to enter a foreign market is through exporting. A company may just export its production surplus from time to time or it may make a commitment to export to a foreign market on regular basis. This strategy is suitable for companies that are just starting their internationalization or do not want to engage too much resources into the new market entry. Exporting can be either direct or indirect. With direct exporting companies sell products or services to the end customers in a foreign country. In contrast, indirect exporting usually means working through independent international intermediaries, such as importer or distributor (Cateora, et al., 2011). When using indirect exporting a company can choose between following export modes: intermediary, exclusive distributorship, agency, piggybacking, export alliance or direct export.

Secondly, different kinds of non-equity based cooperation (joint venturing) refer to joining with foreign companies to produce or market products or services. In other words a company willing to enter the foreign market forms an associations with a company already present abroad. There are four different forms of joint venturing: licensing, franchising, contract manufacturing and management contracts (Armstrong, et al., 2009). All these modes are based on mutual agreements with various levels of cooperation, rights and know-how sharing. Usually the company allowed to use other company's possessions has to pay appropriate fees for it. Partners can benefit from different cost levels as well as lower risk levels while entering a foreign market. Non-equity based cooperation also provide opportunities such as accessibility to material resources, qualified personnel or financial means that would not be

available in the home country. There are of course also potential disadvantages, especially, less control over the foreign activities and possible misuse of provided information. Licensing is one of the easiest ways to enter a foreign market without large capital outlays. A company enters into an agreement with a licensee, who is then allowed to use company's technological manufacturing processes, trade mark rights or patents etc. (Cateora, et al., 2011). Franchising is a contractual agreement that includes more rights for the franchisees than a license. A company that receives a franchise is allowed to exploit company's trade name, brand name, method of operation and know-how (Cateora, et al., 2011). It also receives sales support and further assistance if needed. Another option is contract manufacturing – a company contracts with manufacturers in the international markets to produce its product or services abroad. The last option is management contracts that stand for provision of management services, human resources and know-how to a foreign company on contractual basis.

The last foreign country entry mode is foreign capital investment (direct investment) and it comes with the biggest involvement in a foreign market. It involves development of foreign-based assembly or manufacturing facilities. Direct investment is usually typical for financially strong companies with adequate export experience that want to control international activities (Machková, 2006). The main modes of foreign capital investment are: wholly owned subsidiaries, cross-border mergers and acquisitions, green field investments and strategic alliances (Machková, Král, Lhotáková, et al., 2010). There are several reasons why companies choose this mode of entry. It may be lower production or labor costs or foreign government incentives favorable for production. A company may also improve its image in a foreign country because it creates jobs and develops relationships with local public. The main disadvantage on the other hand is a high level of risk a company must undertake.

#### **1.3.4 E-commerce marketing practices**

Marketing strategy and overall environment has changed extremely during last couple decades. Deregulation, demographic shift or new technologies are only couple factors that contributed to these changes. The Internet is an extremely important technology and it is no surprise that it has received attention from companies, entrepreneurs and investors.

Dramatic increase of Internet usage and coverage has a huge impact on customers and their buying behavior and maybe even bigger effect on sellers and their strategy. It provides much wider choice of products, services and prices for customers and allows them to select and purchase items more readily (Chaffey, 2009). In order to succeed companies must reassess current strategies and adjust them to new circumstances in the market. Online business and retail has exploded in recent years, especially because it offers very convenient, informative and customized experience to different customers and segments (Kotler, et al., 2012).

Before moving on the term e-commerce has to be defined. According to Chaffey (2009), electronic commerce (e-commerce) refers to financial or informational electronically mediated transactions. What is more, e-commerce involves not only management of online sales transactions but also non-financial transactions such as customer service queries or email broadcasts.

E-commerce business model enables a company to conduct business over an electronic network, typically the Internet. It gives a company an opportunity to enter a foreign market in a less costly way while providing more efficient and cheaper distribution solutions. Such company does not possess or operate any physical stores in the foreign country but sells its products and services exclusively via the Internet. The Internet is one of the most affordable and easiest communication tools and it helps companies to decrease trade barriers while entering a new foreign market. The biggest advantage of e-commerce can be seen in overcoming the environmental differences in a foreign country. On the other hand, these barriers have not disappeared and must be still taken into account by exporting companies to avoid failure. The Internet made them only less daunting because problematic issues can be addressed in the virtual world without even leaving the office instead of going personally over the world (Burgess & Bothma, 2007).

Companies conducting e-commerce can be divided into two main groups: pure-click and brick-and-click companies (Fandel, 2004). Pure click companies are those companies that have launched the website without prior existence of a company. Brick-and-click companies on the other hand are existing companies that have added a website for information and e-commerce purposes. There are many types on pure-click companies such as search engines, commerce sites, transaction sites or content sites. Commerce sites sell all types of products and services available in the market. The crucial part of the e-commerce business can be seen in the service provided to customers. A company can increase the conversion rate (percentage of visits on a website that leads to sales) when it offers a simple, fast and user-friendly website (Daniel, 2011). Furthermore, e-commerce decreases costs and increases operational efficiency and speed of the business.

What is more, e-commerce yields many advantages for selling companies. Firstly, it is a great marketing tool for building customer relationships because it is based on reciprocal interaction. It is a fact that the Internet connects the whole world, which means that an e-commerce company can reach many more customers within couple seconds. It is also a great channel for communication with customers in order to find out more about their preferences and requirements. With today's technology it is easy to provide customers with individualized offer tailored according to their needs and wishes. With this information a company can improve the offer and create higher added value. This continuous improvement increases customer's loyalty, which is crucial for the sales and long-term profits (Chaffey, 2009).



Furthermore, e-commerce brings advantages especially for consumers because they can easily compare offers of different sellers and can shop in private without being disturbed by shopping assistants. It also means high time flexibility because the website do not have any opening hours. Usually online stores offer broader offer and easier access to products because sellers are not limited by rented space of stores. Consumers are also provided with wide range of supportive information and he is able to compare it easily with the competition. On the other hand there are also disadvantages arising for consumers because without physical check it is difficult to buy some kinds of goods and services. The Internet allows fraudulent behavior of companies and individuals that will not deliver orders that have been already paid. Sometimes it is also inconvenient and expensive to return goods (BBC, 2014).

The possibility to reach more customers also brings various problems. Even though the Internet is spread around the world and each connected consumer has the possibility to shop online, shopping behavior still differs significantly among nations. Even when developed infrastructure is in place cultural factors influence preferences for online shopping. Another problematic factors behind e-commerce are lack of personal experience, social interaction and consultation with the shopping assistant. In order to decrease the impact companies can implement online chat or blogs and online videos.

E-commerce and online business also brings some disadvantages. The first and also inseparable one is increased competition that is not limited by the physical presence in the given area. Fast development and growth are connected to trust. Indeed, the lack of trust is one of the crucial factors contributing to customer's hesitance to conduct online transactions and purchases (Muhd Rosydi & Marjan, 2013). Another area that must be overviewed more into detail are the legal and ethical issues that are arising. In the highly competitive environment of e-commerce only minority of companies can succeed continuously because the Internet offers vast amount of information and websites (Kotler, 2007). This makes consumer's orientation rather difficult and it can lead to information overload. Companies are trying to overcome this problem via usage of online marketing that ensures that a company is visible on the Internet. What is more, the Internet offers only limited possibility to influence consumer's behavior and even though online marketing is quickly expanding it cannot cover all segments of potential consumers efficiently. Consumers are also forced to plan ahead when placing an order because they have to wait for the delivery. Information available on the Internet cannot replace the physical experience that is sometimes required to test the product. All these features show that online selling is more suitable for areas such as financial service, travelling agencies or IT.

The legal and ethical issues connected to e-commerce are of course the main problem of each company using this business model. Consumers are providing sensitive data while making a purchase online and therefore it is necessary for the companies to handle this data with respect to consumer's privacy and protect them. Many

consumers are also afraid of the security of online transactions because it is possible that someone will hack into the website's database to steal the stored information and misuse it. In order to decrease this threat governments can regulate the data usage and set the rules of storing and utilizing them.

Already in the early stage of Internet boom it was quite clear that entering international market via the Internet is very different to the traditional market entry methods. Even Michael Porter (2008) discusses in his papers the consequences of Internet on competitive environment and strategy. E-commerce operates within a market-space, in other words within a virtual world, so the company can be heavily involved in international business without actually leaving the country of origin. But it is necessary to also realize that the Internet does not change the fundamentals of the international marketing but it only provides a new channel for companies to reach their customers. On the other hand it definitely requires usage of a different marketing strategy. It is clear that e-commerce and online marketing model are not a suitable strategy for every company. For the majority of companies it will remain a part of their activities but it will never be the only focus. What is more, in order to succeed in the market companies must implement Internet technologies to be able to remain competitive because the Internet is a set of tools that can be utilized in almost every strategy (Porter, 2008).

Taking into account all above-mentioned factors it is clear that companies must often reconsider and adapt their online marketing strategies. The Internet has changed the way of information sharing and therefore had a significant impact on marketing. To keep up companies have to be aware of various trends applicable for the online industry. It is also necessary to realize that what is true today does not have to be true tomorrow, which makes it even difficult to succeed.

## **1.4 International marketing strategy and marketing mix decisions**

Formulation of a marketing strategy and appropriate marketing mix is a crucial decision for every company because it supports its success in the market. Every strategy should be unique because every company has different goals and objectives. Matching company's strengths to customer's needs is what forecasts company's future and profitability. Essential factor is knowledge of the customer, competition and external environment, which can be turned into differentiation advantage and increased market share.

### **1.4.1 Segmentation, targeting, positioning**

Companies cannot attract all customers in large, broad and diverse markets but they are able to divide these markets into smaller segments and groups of consumers with distinct needs and wants. Once groups are defined a company needs to identify, which segments it can serve effectively. This decision is based on deep understanding of consumer behavior and careful strategic analysis. To compete more effectively

many companies are focusing on those consumers they have the greatest chance of satisfying.

## **Segmentation**

Segmentation is the first step of target customer identification process. Market segmentation divides a market into well-defined parts. Precisely a market segment is a group of customers who share a similar set of needs and wants. The task of a marketer is then to identify the number and nature of segments present in the market and decide which to target. There are two different groups of variables that might be used when segmenting a consumer market: descriptive characteristics (geographic, demographic and psychographic) and behavioral considerations (such as responses to benefits, usage occasion or brands (Kotler, et al., 2012)).

The segmentation process is usually divided into following phases (Machková, 2006):

1. Definition of appropriate segmentation criteria and analysis of segments
2. Targeting – choice of appropriate market
3. Segmentation strategy definition

Suitable criteria for the consumer market segmentation can be divided according to the market characteristics (geographical, demographic, socioeconomic and psychographic) and consumer behavior (behavioral (Machková, 2006)). Geographical segmentation divides the market into geographical units, which may include nations, states, countries or cities. A company can focus on few or on all units but it should be aware of the local variations. Only in that way it is possible to tailor the marketing campaign to the local needs and wants of the potential consumers. This type of segmentation is usually applied during planning of the marketing mix of the description and basic identification of the market segment (Machková, Král, Lhotáková, et al., 2010).

In demographic segmentation, the market is divided on variables such as age, family size, gender, income and education. Demographic segmentation is quite popular among marketers because demographic information is easily accessible and widely available, which makes it relatively easy to measure (Ferrell & Hartline, 2013). Demographic segmentation is also commonly used as a tool for basic identification and description of segments. Usage of the demographic segmentation might be sometimes tricky because some kind of needs and wants are not directly driven or connected to demographic characteristics and therefore marketers always have to use another segmentation tool to be able to understand consumer behavior and expectations correctly.

Socioeconomic segmentation helps marketers to define consumer's purchasing power and cost structure. The criteria suitable for this segmentation type are education level, profession or income and cost structure. Last type of segmentation based in the market characteristics is using psychology and demographics to provide better

understanding of consumers. Psychographic segmentation divides consumers into different groups on the basis values, lifestyle and personality traits (Machková, Král, Lhotáková, et al., 2010). One of the most popular tools available for psychographic segmentation is Value and Lifestyle (VALS) framework. VALS segments customers based on personality traits that drive consumer behavior. This framework classifies U.S. adults into eight segments based on the responses to a questionnaire including 4 demographic and 35 attitudinal questions. The system is continually updated with new data in order to ensure that the changes in society are reflected (Reid & Bojanic, 2010).

Companies sometimes segment people according to their expected consumer and purchase behavior. Criteria focusing on behavioral segmentation allow companies to better adjust their offer to consumer's needs and wants. The key behavioral bases for segmentation are benefits, purchase occasions and usage, usage, perceptions, beliefs and values (Jobber, 2004).

### **Targeting**

Once a company has identified its market-segment opportunities, it has to decide how many and which segments to target. In order to succeed in chosen market the market segments must favorably rate on five criteria and must be (Ferrell, et al., 2012):

1. Measurable – the size, purchasing power and characteristics can be measured
2. Substantial – the segments are large and profitable enough to serve
3. Accessible – the segments can be effectively reached and served
4. Differentiable – the segments are conceptually distinguishable
5. Actionable – effective strategies can be formed for attracting these segments

What is more, in evaluating market segments the company should consider two factors: the segment's overall attractiveness and company's objectives and resources. Targeting of appropriate segments is also strongly influenced by the concept of international marketing used by the company. In case of global marketing a firm would focus globally on identical segments and use the same positioning and marketing mix strategy. Intercultural marketing on the other hand means that a company is trying to attract segments according to the country specifics and adjusts both marketing mix and positioning. By export marketing the company enters the markets sequentially and therefore adjusts the marketing mix and positioning for each segment (Machková, 2006).

To cover a segment a company must choose a segmentation strategy, which can be differentiated, undifferentiated or concentration strategy. In undifferentiated strategy (mass marketing) segment differences are ignored and a company goes after the whole market with one offer. This type of marketing is appropriate when all consumers have roughly same preferences and there are no natural market segments. It can be supported by mass communications and distribution. Differentiated strategy

on the other hand applies when consumers have different needs and wants and multiple segments can be defined. In case of differentiated marketing a company sells different products to different market segments and it can usually better design, price, adjust and deliver the product to the consumers. The last strategy, which should be mentioned, is the concentration strategy, which focuses on a niche market segment. These segments are usually not interesting for big companies and require specific marketing communication. Companies targeting niche segments are able to perfectly understand their consumers and offer highly differentiated services.

## **Positioning**

Another step of the segmentation process is market positioning. It refers to the position of the brand between other brands in the market. Positioning of a brand is a complex strategic decision, which affects the whole brand and company. In order to succeed it is crucial that the positioning is clear and unique. It is a long-term brand strategy that allows adjustments on local market level. People tend to choose products that bring the biggest benefits, therefore the higher competitive advantage a company has the more consumers it can attract (Kotler, 2007). Nowadays companies need to be really flexible to respond to the rapidly changing market environment and competition. It is true that competition is able to quickly copy any market positioning and gaining competitive advantage might therefore become quite problematic (Porter, 1996). Still the position of a brand in consumer's minds is crucial for the success and an appropriate positioning strategy therefore requires extensive market research focused on brand, consumer and competition. Positioning usually starts with a differentiation of company's offer that brings higher added value for consumers. It is not always easy for a company to differentiate the offer, for example in mass product industry there is only small chance for companies to differentiate but every advantage creates extra opportunities. Specialized industries on the other hand offer many chances for differentiation.

Furthermore a company can only outperform its competitors if it manages to maintain and preserve its competitive advantage in the long-term run. As mentioned above it must deliver greater value to consumers or create comparable value at lower cost. Delivering higher added value allows the company to charge premium price and greater efficiency results into lower average unit costs (Porter, 1996). The differentiation originates from company's activities and its performance. In case a company performs better than its rivals it is building competitive advantage via operational effectiveness. This shows that competitive strategy is in fact about being different. The key of success is in this case appropriate choice of different set of activities to deliver a unique mix of value to consumers. Porter suggests three positioning sources: variety-based, needs-base and access-based positioning (Porter, 1996). Variety-based positioning can be based on producing an industry's subset products or services and therefore is based on the choice of products rather than consumer segments. Secondly, needs-base positioning arises when there are groups of consumer with different needs in the market. In this case the best strategy to attract

these segments is a tailored set of activities. The third basis for positioning is based on consumer accessibility. Although their needs might be similar the ideal access ways and tools might be different. Nevertheless, in all three cases effective positioning requires a tailored set of activities.

To be able to maintain the chosen position a company needs to have a well-defined positioning strategy in place. There are three main strategies a company can implement: global, international or local positioning. Global positioning is suitable for large multinational companies because they are able to target a large global segment and offer the same benefit to all consumers. This strategy brings advantages in form of lower cost for marketing and product development. Disadvantages on the other hand are lack of local adaptation. Not all companies are of course large enough to use global positioning strategy. They can decide to position their brand on different markets differently. In this case international positioning strategy is used and it means that the brand is perceived differently in different international markets (Machková, Král, Lhotáková, et al., 2010). Lastly, a local positioning strategy is targeted on one local market and a specific market segment.

#### **1.4.2 Marketing mix**

Marketing mix is a set of controllable tools that allow company to tailor its offer to customer's wishes (Perreault, Cannon, McCarthy, 2010). There are many possible ways how to satisfy the needs of consumers. With that many changing variables it is convenient to simplify the selection of marketing mix and reduce the variables to four basic ones: product, place, promotion and price (4P's). For a successful strategy product is developed to satisfy customer and place is the way to reach them. Furthermore, promotion is used to tell the customers about the product and price is set after estimation of customer reaction to the offering and the costs of getting it to them (Perreault, Cannon, McCarthy, 2010). For services the 4P's model is usually enlarged to 7P's, in which people, physical evidence and processes are the new elements (Janečková, 2001).

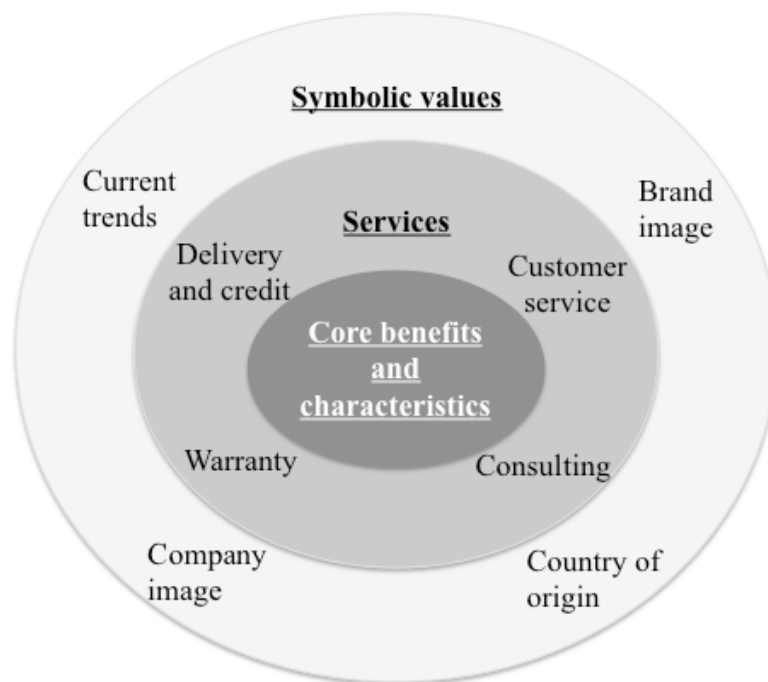
#### **Product**

A product is anything that can be offered to the market to satisfy a need or want of a consumer. The definition of a product is really broad and it is not necessarily a tangible good. A product is any object of personal or entrepreneurial activity that can be bought or sold and can have many different forms (good, service, license, etc. (Boučková, 2003)). Services are a form of product and consist of activities, benefits or satisfactions offered for sale. They are generally intangible and do not result into ownership (Armstrong, et al., 2009). Marketing planning usually begins with formulating an offering that meets consumer's needs and wants and brings added value. This offering then becomes the basis upon which a company builds relationship with customers. A company's offer usually includes both product and services and

each component could be either minor or major part of the offering. There are also extremes whose offer may consist only of pure tangible good or pure services.

The success of a product on the international market depends on its features, services, added value and the way it is perceived by the customers (Machková, 2006). Consumers see the product as a complex set of benefits that satisfy their need. When developing such product marketers must first identify the core customer needs the product will satisfy. They must then design the actual product and find ways to enlarge the benefits offer it in order to provide the most satisfying customer experience (Armstrong, et al., 2009). Therefore in planning an offering product planners and designers must address three levels of product and services: core benefit and characteristics, services and symbolic values. These levels can be seen on Figure 4.

**Figure 4: Three levels of product**



Source: Machková, 2006, p. 112-113, Author's illustration

Firstly, the level called core benefit and characteristics addresses the questions, what is the buyer really buying (Armstrong, et al., 2009). When designing a core, marketers must define the problem-solving benefits or services that customers really seek. It also includes physical and technical characteristics of the product, for example features such as structure, durability and quality. The second level involves packaging and all services connected to the actual product. It may include various warranties, customer service and payment and delivery conditions. The third dimension includes symbolic value connected to the product. It is closely linked to brand and it therefore includes features such as brand name, product name and image of the country of origin (Machková, 2006).

In context of international marketing every product dimension can be adapted to the specifics and characteristics of the foreign market. Of course companies want to have standardized products globally because any adaptation creates extra costs. Adaptations of the core are very costly and companies therefore prefer to adapt the two remaining levels (Machková, Král, Lhotáková, et al., 2010). The reasons for product adaptation can be usually found after conducting a market analysis (such as PEST analysis). Adaptation of services in the international environment is less costly than adaptation of the other product's layers. The most important fact is that they have to comply with the legal requirements of the target market to ensure protection of customers (Machková, Král, Lhotáková, et al., 2010). They must also meet the expectations of customers on the foreign market. Usually customers in developed markets require higher amount of high quality service than customers in developing countries. In order to succeed in foreign market marketers must carefully observe the conditions on the target market and adapt the marketing strategy when it is needed.

In regard to the topic of this thesis special attention must be given to the description of services. When designing marketing strategies for services companies must consider special characteristics of services: intangibility, inseparability, variability and perishability (Kasper, et al., 2006). Intangibility means that services cannot be seen, tasted or felt before they are bought. To reduce uncertainty customers usually look for signals of quality and draw conclusions from the place, people and communications connected with the service. Service inseparability implies that services cannot be separated from their providers because they are first sold to the customer and after that consumed. Service variability means that the quality of the service depends on who provide them and when and where they are provided. Last but not least service perishability entails that services cannot be stored for later use.

The main areas in which services can be differentiated are: ordering ease, delivery, installation, customer training, customer consulting and maintenance and repair (Kotler, et al., 2012). Ordering ease stands refers to how easy it is for a customer to place the order. The most suitable criteria for this thesis are the first two from the list. Nowadays companies have a huge amount of tools that can be utilized online to develop a user-friendly environment and simplify the whole process of ordering. Delivery stands for how well the service is brought to the customer. Today's customers are expecting high quality and fast delivery. Therefore it is necessary for companies to focus on this feature and provide the best possible service.

## **Price**

Pricing decisions are difficult and complex and marketers must take into account many factors before making them. They must be consistent with company's marketing strategy as well as with its positioning. While price setting marketers must consider the kind of competition and the cost of the whole marketing mix (Perreault,



Cannon, McCarthy, 2010). In addition marketers should be aware of the current practice regarding sales, discount and offer on the target market because if customers won't accept the price, all planning effort was only a waste of resources. What is more, price is directly tied to company's earnings and profit because it is what a customer must give up to get the benefits offered by the company. Generally price can be considered a flexible tool, because price changes can be realized quickly according to the market situation (Machková, Král, Lhotáková, et al., 2010).

Companies operating in international market have to decide what prices to charge in different markets. Pricing strategy can be either standardized or differentiated. Standardized pricing is linked to usage of global positioning strategy and it is quite difficult to maintain across the markets because of different competition and highly changing environment. Differentiated strategy on the other hand suggests individualized pricing for each market. The price a company should charge in a specific country depends on many factors that can be divided into two main groups: internal (e.g. costs and marketing objectives) and external factors (foreign country environment, exchange rate risk, competition, customer preferences, etc. (Machková, 2006)). Especially external factors require an extensive marketing research before setting the price because they can highly influence and fluctuate the price level. Furthermore companies are nowadays more and more forced to harmonize their pricing strategy because differentiated pricing isn't perceived well by customers that have access to foreign markets via Internet and can compare the offers.

Regardless from the basic pricing strategy, international price setting is determined by three basic factors: costs, demand and competition (Machková, Král, Lhotáková, et al., 2010). According to the dominant pricing factors companies can choose from various approaches: cost-based, demand-based or competition-based pricing. Cost-based approach is very common because product costs set the floor for prices. If a company prices its product below its costs it will hurt its profits. The simplest cost-based method is called cost-plus pricing. The company derives a price from the total cost and target profit. Another method is break-even pricing. In this case company prepares a chart showing different price and profits on different sales levels. A price is then determined from the level where the return on investment will be reached (Machková, 2006). What is more, another pricing strategy that can be implemented is called value-based pricing. This method uses customer's perception of value as the key to pricing and it is especially convenient for pricing of services. But it can be of course also used in case of any other type of goods. When using value-based pricing the price needs to be set before designing the product or service (Armstrong, et al., 2009).

## **Place**

The term place stands for delivery of the product or service to customers, in other words distribution. Place is concerned with all decisions involved in getting the product or service to the target customer because a product isn't much good

to customers if it isn't available for them. A product or service reaches customer through a channel of distribution. Such channel can be any series of firms that participate in the flow of products from producer to the end user (Armstrong, et al., 2009). Choosing these distribution partners can be a matter of long-term contracts that cannot be easily changed. This fact makes place the least flexible tool from the marketing mix.

International marketers face a wide range of channel alternatives in international markets. Therefore knowledge of customer characteristics and target market is important before establishing distribution channels. Cultural and economic environment determines consumer and purchasing behavior and distribution channels must be in line with the habits. Some markets are fragmented and inefficient so a company is able to reach only a very small part of the target market. Other markets on the other hand might have very complex distribution system that is hard to penetrate. All this makes designing an efficient and effective channel systems a difficult challenge for marketers.

No all products and services need the same exposure to customers. According to the type of product or service marketers can choose among three distribution strategies: intensive, selective and exclusive distribution. Intensive distribution refers to selling a product through all suitable channels and it is typical for FMCG because customers want such products nearby. Selective distribution focuses only on intermediaries who will give special attention to the product. It is suitable especially for branded goods and products with longer life cycle. The last strategy is exclusive distribution and it means giving the distribution right only to limited number of intermediaries in the given geographic area.

The Internet makes distribution nowadays much easier. Web site-based business gives many companies direct access to customers that were not reachable couple years ago. Even small and specialized companies are able to establish a web page and reach people from all over the world. It is also possible to visualize services because customers can check them online. For example when ordering accommodation a customer can see on the website the position and layout of the hotel so it is easier to compare various offers and make decision (Janečková, 2001).

## **Promotion**

Promotion or marketing communication mix is concerned with telling the target customers about the product. It is the most visible tool of marketing mix and it is highly influenced by cultural differences among foreign markets. Depending on the current position of the company and situation in the market the main goals of promotion can be for example creation of wanted brand perception or gaining new customers and retaining current customer base.

Promotion consists of five basic tools that a company uses to communicate value and build customer relationship (Vašítková, 2009):

- Advertising is any paid form of presentation or promotion of products or services by an identified sponsor (Armstrong, et al., 2009).
- Direct marketing stands for direct connection with carefully targeted individual in order to obtain immediate reaction and maintain customer relationship.
- Public relations refer to building good relationship with company's publics, including obtaining favorable publicity, building corporate image or handling of rumors and stories.
- Sales promotion refers to those promotion activities, which can be described as short-term incentives to encourage purchase of products or services.
- Personal selling involves personal presentation of products or services by company's representative for the purpose of making a sale.

Within a foreign market companies must make various decision regarding promotion. The communication mix and financial budget must be determined in order to create an efficient communication strategy. These decisions are based on situational analysis in the market. While creating the strategy legal and cultural differences must be taken into account as well as other market characteristics.

### **Services – people, physical evidence and processes**

Because of the specialty of services marketing mix must be extended to consider all the characteristics. The extra 3P's added to the mix are people (customer or personnel), physical evidence (environment) and processes (method of production, delivery and usage of services (Janečková, 2001)).

Physical evidence is one of the crucial factors of services marketing mix. The image and environment in the place where services are sold has a great impact on customer's perception of the company. Because of the intangibility of services customer's expectations is derived from the physical evidence. Office, atmosphere, design and building highly influence customer's mood and behavior. It is also connected to the Internet era, because a customer-friendly and fast web page has greater probability of success.

Furthermore, people as a factor must be taken into account because production of services is inseparable from customer. There are three basic forms of people's engagement in services. Firstly, production of services usually requires participation of employees. It can be either direct or indirect according to the nature of services. Secondly, many services require participation of the customer, who becomes therefore a part of the production process.

The third form is based on the fact that customers, their families and friends are part of the reference circle because they create image of a company via word of mouth and information sharing with others. The last extra P stands for processes connected to services. Because of the inseparability and perishability of services closer look must be taken on processes and way of service supply (Janečková, 2001).

## **2. Introduction of Casamundo GmbH**

This chapter describes company's history and structure, international activities, strategies and values. It also provides analysis of the current market situation and maps the competitors present on the Czech market. In order to suggest an appropriate strategy, internal and external environment analysis will be conducted and the results will be presented.

### **2.1 About Casamundo**

Casamundo GmbH (herein referred to as Casamundo) was founded in 2003 in Hamburg. At the beginning there was only one full-time employee and offer including 50 000 holiday homes. It is an e-commerce company providing high-quality accommodation across Europe and USA (for more detailed description of countries in offer see Appendix 1). As it can be seen in Figure 5, Casamundo's offer increased significantly within the first years of its existence and today it belongs to the top and biggest market players with more than 300 000 holiday homes, including various apartments, villas and cottages. This is confirmed by more than one million search queries<sup>1</sup> made on the German website every month (Casamundo, 2014). All offered objects are under contract with partners. Those can be either on behalf of other well-established accommodation-rental portals or private holiday home owners.

In order to avoid misunderstanding more detailed description of offered services is necessary. Casamundo is not a typical travel agency offering the whole vacation package or tour. It specializes only on accommodation rentals. Therefore customer must secure transport, meals and insurance on their own. This distinguishes Casamundo from typical vacation providers and also broadens target clientele. To be able to satisfy as many customers as possible Casamundo's offer also includes hotels suitable for business travelling and more demanding customers.

Company's main goal is to fulfill any requirement for accommodation and to satisfy customers with various needs and budgets. Therefore the offer is very differentiated covering luxury apartments, unusual types of houses as well as convenient places for family vacation. Offered services are individualized allowing every customer to find the perfect place to stay. The offer is accessible on multi-language websites with extensive objects descriptions and pictures. These websites are developed based on 10-year experience in the market and provide customers with user-friendly environment, customer ratings and easy filtering possibilities. This is all supported by well-trained customer service that provides further assistance.

The quality of Casamundo's services has been officially tested several times. Casamundo has been awarded with mark GOOD from TÜV Saarland<sup>2</sup> in 2010. In 2012

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<sup>1</sup> Approximate number of queries for <http://www.casamundo.de>

<sup>2</sup> For more information see: <http://www.tuev-saar.net/de/startseite>

it improved the evaluation to VERY GOOD for outstanding services and obtained a certificate. What is more, in 2011 Casamundo ranked 1<sup>st</sup> in test conducted by getestet.de<sup>3</sup> among the five biggest rental portals in the German market.

## **2.2 Core values**

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## **2.3 Company structure**

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<sup>3</sup> For more information see: <http://www.getestet.de/>

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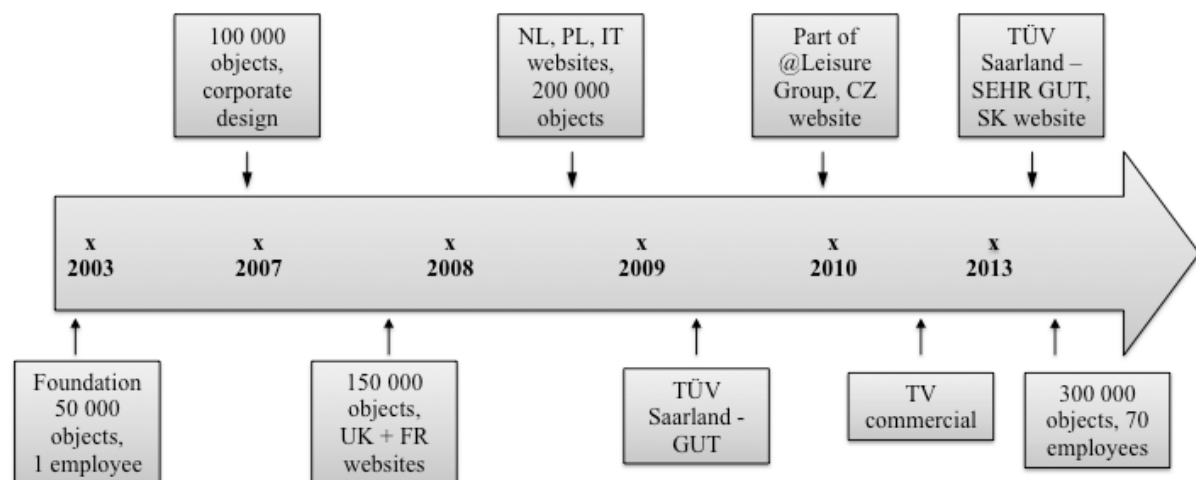
## **2.4 Internationalization strategy and motives for expansion**

The Internet gives companies possibility to explore international markets easier than before. Quick way of reaching customers abroad is preparing a website in their language. This is also part of Casamundo's internationalization strategy. During its existence Casamundo started to receive unsolicited orders from abroad and therefore decided to extend its activities. As it can be seen on Figure 6 after acquiring a top position in the German market Casamundo started to build network of websites.

It chose the waterfall strategy and entered one market at a time. Nowadays customers from Austria, Great Britain, France, Poland, Italy, the Czech Republic<sup>4</sup>, Hungary, Spain, the Netherlands and Slovakia can submit their orders and queries. It not only offers holiday homes in many European countries but also provides its services abroad.

In order to satisfy customer needs and wants websites are of course adjusted to market specifics. Offer on the other hand remains almost unchanged. International customer service team that ensures highest quality services and resolves customer's problems supports all websites.

**Figure 5: Development of Casamundo's business activities**



Source: Author

Furthermore, since 2013 Casamundo also belongs to the @Leisure Group that ranks among the largest players in the European market for accommodation rentals. Mission of this group is to serve as an optimal online link between holiday accommodation and holidaymakers (@Leisure, 2014). The @Leisure group has approximately 20 000 holiday homes directly under contract. These are offered through rental portals such as Belvilla, EuroRelais or Jules Villas.

After Casamundo established stable position on the German market and gained targeted market share it decided to consider entering foreign markets. The reasons for such expansion can be seen in saturated home market as well as potential growth and sales increase. The experience with foreign business partners also supported the foreign market entry decisions. Because of the business nature Casamundo received orders from abroad already before being present in the foreign markets. The tourism industry is changing rapidly and therefore companies must adapt their strategies quickly in order to succeed. Being present in the foreign market enables

<sup>4</sup> Current Casamundo's business activities in the Czech Republic are very limited and not too successful. Therefore a new strategy is required in order to gain higher market share and win more customers.



Casamundo to build relationship with customers as well as strong positive brand image, which is very important in this field.

## **2.5 Analysis of the Czech macro environment**

Analysis of Czech macro environment will serve for deeper understanding of the situation in the market and conditions for running business. The information gathered will be utilized for SWOT analysis as well as for suggestions and recommendations in the market entry strategy. In order to assess factors that may influence company's business activities, PEST analysis has been conducted and its results will be presented in following paragraphs. As usual PEST provides insights to political, economic, social and technological environment.

### **2.5.1 Political and legal environment**

The Czech Republic is member of many international organizations, namely European Union (05/2004), World Trade Organization and United Nations. The historical relationship with Germany is good and stable. According to the Czech embassy in Munich (2014) bilateral relationship and cooperation belongs to priorities of national foreign policies. Because of the geographical proximity business relationship has a long history and significant meaning for the bilateral trade exchange.

Since both the Czech Republic and Germany are members of the European Union any business party or company benefits from a free trade and no-custom and no-quotas zone. These regulations significantly simplify conditions for business cooperation. Commercial code and other special laws such as Digital signature act no. 227/2000 and Consumer protection act no. 634/1992 regulate e-commerce business relationships. Because of the complexity of the Internet there are also many international initiatives to regulate e-commerce trading globally. It is a fast changing environment, which requires permanent attention.

Applicable taxes are very similar to other developed economies. The main important taxes that must be taken into account when doing business in the Czech Republic are Income tax, Profit tax, Value added tax, Social, health and unemployment contributions and Customs duties. Corporate income tax is in the Czech Republic 19%, which is slightly below the EU average 23,5% (BusinessInfo, 2013). Value added tax is divided into two VAT rates: 21% for most goods and services and 15% for some selected goods and services (food products, books, pharmaceuticals and special healthcare products).

According to the Global Competitiveness Report<sup>5</sup> (2013), yearly-published document by World Economic Forum, the most problematic issues influencing doing business

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<sup>5</sup> Global Competitiveness Report ranks countries based on Global Competitiveness Index. It assesses the competitiveness landscape of 148 economies and provides

in the Czech Republic are corruption, inefficient government bureaucracy, tax rates and regulations and restrictive labor regulations. Alarming is especially public trust in politicians ranked extremely low 146<sup>th</sup>, which goes hand in hand with concerns about quality of public institutions. The mistrust in politicians as well as public institutions can be derived from the current political situation. A governmental crisis was followed by early elections, in which many newly established political parties took part. Looking at Corruption perceptions index<sup>6</sup>, the Czech Republic was ranked 57<sup>th</sup> cleanest of 177 evaluated countries. Corruption can be therefore seen as a real threat to the business activities.

## 2.5.2 Economic environment

As already mentioned above the Czech Republic is closely integrated with the EU. It is a stable and prosperous economy especially since the accession to the EU in 2004 (Central Intelligence Agency, 2014). The Czech Republic is characterized by balanced industry allocation with equal distribution of economic level and GDP per capita level among regions (Ministerstvo průmyslu a obchodu, 2014). Significant economic dominance remains in case of Prague and Central Bohemia region. Table 1 summarizes main macroeconomic indicators mapping current state of the Czech economy.

**Table 1: Macroeconomic indicators**

	2008	2009	2010	2011	2012	2013
GDP (in million current US\$)	225 427	197 187	198 493	216 061	196 446	198 449
GDP per capita (current US\$)	21 707	18 881	18 950	20 585	18 690	18 861
GDP annual growth (%)	3,1	-4,5	2,5	1,8	-1,0	-0,9
GNI (in million current US\$)	214 859	184 045	183 574	201 508	181 892	185 307
GNI per capita (current US\$)	17 910	17 990	18 450	18 710	18 130	18 060
Inflation, consumer prices (annual %)	6,4	1,0	1,4	1,9	3,3	1,4
FDI, net inflows (in million current US\$)	6 572	2 868	6 119	2 248	7 975	5 006

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insights into drivers of productivity and prosperity. For more information see: <http://www.weforum.org/issues/global-competitiveness>

<sup>6</sup> The Corruption Perceptions Index ranks countries based on how corrupt a country's public sector is perceived to be. Index is composed from corruption-related data from expert and business surveys carried out by a variety of independent and reputable institutions.

Source: The World Data Bank, <http://databank.worldbank.org/>

Czech economy was hit by the financial crises especially after Western Europe and Germany fell into recession and demand for Czech products and goods sharply decreased. As a result GDP fell significantly in 2009 in comparison with 2008. In following two years the economy slowly recovered but it fell back into recession in 2012. In the second half of 2013 the Czech economy pulled out of the recession and it is expected to slightly grow in 2014 (Central Intelligence Agency, 2014). Consequently the GDP annual growth is fluctuating and has been adversely affected in years 2009, 2012 and 2013. According to the Czech Statistical Office (2014) this adverse trend is about to change in 2014 and the estimates are predicting slow growth. What is more, in order to ensure price stability, especially stability of consumer prices, the Czech National Bank applies inflation targeting regime. Since 2010 the inflation target remains 2% and the Czech National Bank strives to ensure that the actual inflation will not differ from the target by more than one percent in either direction (Czech National Bank, 2014).

Problematic recession years can be also seen in the fall of foreign direct investment. Because of the recession inflow of FDI mostly coming from Western Europe, Canada and USA sharply decreased in 2009 and 2011. Industries with the highest inflows are financial intermediation and real estate and business activities (Czech National Bank, 2014).

The Czech Republic follows EU regulations on trade treaties, import regulations and custom duties. Companies operating in the Czech market have access to a tariff-free market of consumers through country's membership in the EU. The Czech Republic also follows the Common Trade Policy and Free Trade Agreement so no special procedures and rules apply when importing goods and services from other EU countries. Furthermore, the Czech economy is mostly driven by exports primarily to EU countries, particularly Germany and increased foreign direct investment as well as domestic investment (Deloitte, 2014).

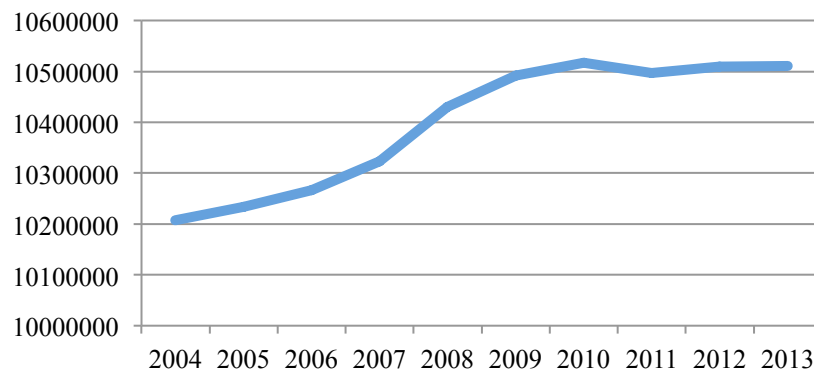
### **2.5.3 Social and cultural environment**

Total population in the Czech Republic accounts for 10.6 million inhabitants (Central Intelligence Agency, 2014). Data collected during the last census showed that 64,3% are Czechs, and the rest is split into minority of Moravian (5%), Slovak (1.4%), Polish, German and Ukrainian (Úřad Vlády ČR, 2012). The main religion in the Czech Republic is Roman Catholic (10.4%), followed by Protestant (1.1%) and none or unspecified (88.5%). The national language is Czech spoken by 95.4% of the population, followed by Slovak (1.4%) and minority of other languages (3%) (Central Intelligence Agency, 2014).

The Czech Republic belongs to many other countries facing aging and declining population problem. Size and structure of population has changed significantly in last decades. The main reasons of the ageing phenomenon can be seen in falling fertility

rates and increased longevity of population. These factors affect population in the Czech Republic as well. This can be illustrated by the fall of the total fertility rate from 2.1 in 1960 to current 1.43 children born per woman (Czech National Bank, 2009).

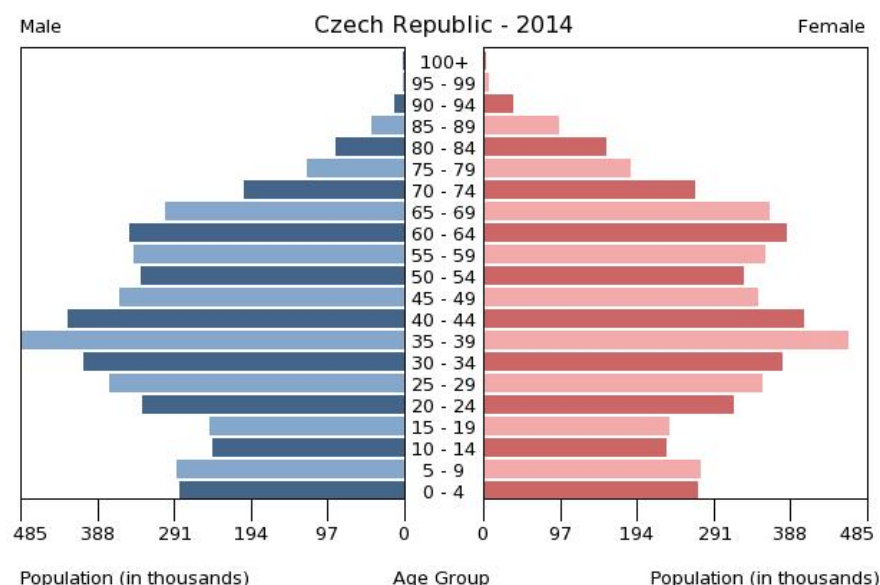
**Figure 6: Development of total population in the Czech Republic**



Source: Czech Statistical Office, <http://www.czso.cz/>, Author's drawing

Figure 7 illustrates the development of the total population in the Czech Republic. Currently the total number of inhabitants remains stable. Population growth rate estimated for 2014 is 0.17% but it is necessary to mention negative annual percentage change in population resulting from a surplus of deaths over births and negative net migration (Czech Statistical Office, 2013).

**Figure 7: Population pyramid of the Czech Republic**



Source: Central Intelligence Agency, <https://www.cia.gov/library/publications/the-world-factbook/>

Figure 8 illustrates age structure in the Czech Republic. The median age that can be seen there accounts for 40.9 years. Life expectancy at birth for female is 81.2 years

and for male is 75.1 years (Central Intelligence Agency, 2014). In comparison with other OECD countries the Czech Republic ranks slightly below average (OECD, 2014). Figure 9 also shows more detailed distribution of different age groups among the total Czech population. Higher life expectancy is usually associated with higher healthcare spending per person and living standards. According to OECD (2014) total healthcare spending accounts for 7.5% of GDP in the Czech Republic.

Distribution of labor force by occupation is following: 60% are employed in services, 37.4% in industry and 2.6% in agriculture (Central Intelligence Agency, 2014). Educational level of the Czech population ranks above average standards of OECD (2014) because 92% of adults aged 25-64 have earned the equivalent of a high-school degree. That makes the labor force attractive for foreign companies and investors especially because of lower wages. Current unemployment rate is approximately 7.5%, which in comparison with other EU countries above average value (EU Office České Spořitelny, 2013).

#### **2.5.4 Technological environment**

According to the Global Competitiveness Report, the Czech Republic ranked 34<sup>th</sup> in pillar 9 that maps the technological readiness, in other words the agility with which an economy adopts existing technologies, with specific emphasis on its capacity to fully leverage information and communication technologies in daily activities and production processes (Schwab, et al., 2013).

The most relevant factor regarding technological environment is the accessibility of advanced products and their utilization to enhance production and processes. Table 2 provides more detailed overview of criteria evaluated by the Global Competitiveness Report.

**Table 2: Technological readiness**

<b>Factor</b>	<b>Position</b>
Availability of latest technologies	53
Firm-level technology absorption	54
FDI and technology transfer	27
Individuals using Internet, %	28
Fixed broadband Internet subscriptions/100 pop.	41
Int'l Internet bandwidth, kb/s per user	19
Mobile broadband subscriptions/100 pop.	35

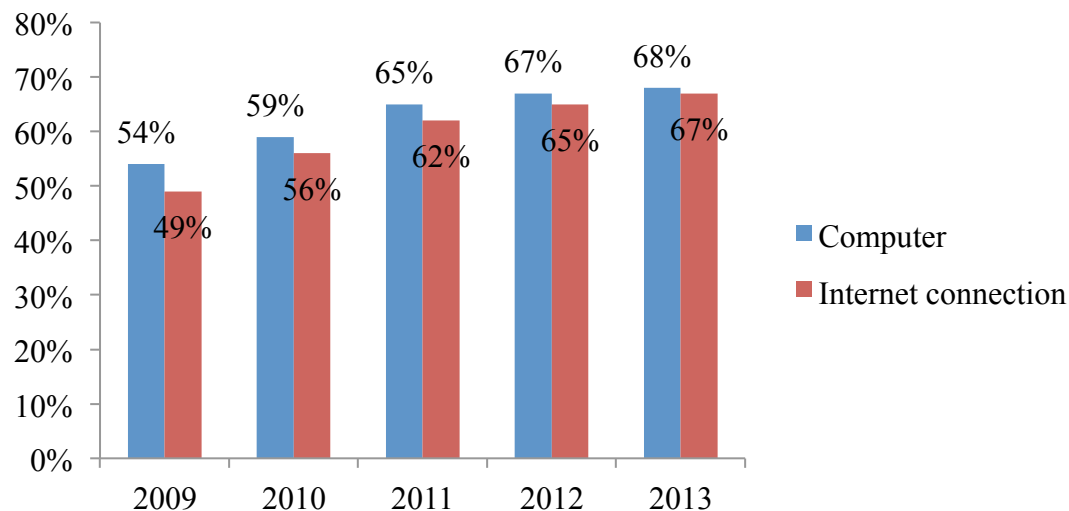
Source: The Global Competitiveness Report 2013-2014, p. 169, Author's drawing

As it can be seen the Czech Republic ranks usually above average, which indicates that Czech businesses are relatively sophisticated, innovative and fueled by uptake of new technologies.

Furthermore, the Czech Republic ranks rather high on individuals using Internet, which is very convenient for an e-commerce company. Figure 9 shows that there is

a computer with Internet available in almost 70% of households. It also shows the change in last five years, in other words, slightly increased percentage of households having computer and Internet every year. This fact is also supported by another analysis conducted by Czech Statistical Office that showed that more than 25 percent of the Czech population is purchasing online (Statistika & my, 2012). More detailed overview of types of goods and services usually purchased online can be found will be discussed later.

**Figure 8: Households and information technology (% of households)**



Source: Domácnosti a internet (ČSÚ), 2013, Author's drawing

## 2.6 Micro environment in the Czech Republic

Assessing competitive environment is one of the crucial aspects when considering a foreign market entry. For this purposes the current situation on the Czech market has been analyzed to recognize the important players, possible threats and opportunities. Overview of competitors will be followed by Porter's five forces analysis identifying the main forces that could affect Casamundo's business activities and profits on the Czech market. Porter's analysis also helps to understand the tourism industry and identifies main threats.

Competitors chosen for the overview are identical to competition recognized by Casamundo. It is necessary to understand that the core of Casamundo's offer includes above all holiday homes, therefore companies offering only hotel or hostel accommodation are not considered to be direct competitors.

### 2.6.1 Competition analysis

According to the company research and knowledge the main competitors are Novasol, Interhome, Chata.cz and Booking.com. All these competitors have online website that enable to conduct booking of accommodation.

## **Novasol**

Novasol was founded in 1968 in Denmark and belongs to Wyndham Vacation rentals. It offers approximately 33 000 holiday cottages in 26 European countries<sup>7</sup>. Most of the holiday homes are directly under contract with Novasol, which ensures highest possible quality of services. Business activities are supported by service centers and branches placed in locations where Novasol rents substantial amount of objects. These branches allow easier relationship building as well as increase company's trustworthiness. Such branch can be also found in Prague.

Novasol's offer is significantly smaller than Casamundo's and covers lower number of countries. On the other hand, Novasol is also one of the rental partners, whose offer is accessible through Casamundo's website, which makes it one of the key partners. This means that even though it is a competitor there is a need to maintain long-term relationship.

## **Interhome AG**

Interhome AG was founded in 1965 and its today's offer includes more than 33 000 holiday homes in 32 different countries<sup>8</sup>, including both Europe and USA. It offers extensive customer support 24 hours 7 days a week and individual consulting but there is no possibility to visit a branch, meaning that bookings must be conducted either online or via phone. Offered housing varies from cottages to luxury apartments and villas with pools. It is an internationally active company with 15 regional subsidiaries. Furthermore, holiday homes are rented on contractual basis. As well as Novasol, Interhome is also one of Casamundo's rental partners, whose offer can be found on the website.

## **Booking.com**

Booking.com is one of the world's leading companies in booking accommodation online. Booking.com was established in 1996 in Amsterdam. It specializes in providing hotel accommodation worldwide and its offer includes various types of objects from small family-run bed and breakfasts to five star luxury hotels. Offer is probably also the biggest differentiation point from Casamundo, which focuses more on holiday homes than hotels. On the other hand, Booking.com lately introduced a new sister site Villas.com and started offering holiday homes and independent accommodation as well. Even though it will not be the core activity of its business it may harm Casamundo's sales significantly in the future because of the well-established brand and image.

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<sup>7</sup> More detailed description can be found on: [http://www.novasol.cz/o\\_novasolu.html](http://www.novasol.cz/o_novasolu.html)

<sup>8</sup> For more details see: <http://www.interhome.cz/vsechny-destinace/>

Booking.com is available in 40 different languages and offers accommodation in 205 countries<sup>9</sup>. Because of this wide portfolio it covers not only people looking for vacation but also business travelers etc. A must is a well-developed customer and partner service that allows efficient management of more than 500 000 objects.

### **Chata.cz (Region s.r.o.)**

Region s.r.o. was founded in 1993 in the Czech Republic. It focuses on accommodation rentals in the Czech Republic, Slovakia, Italy, Hungary and Austria. It is rather a small company that takes care of 55 000 clients every years. The number of offered objects is not comparable to Casamundo's offer because includes only hundreds of holiday homes.

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## **2.6.2 Porter's five competitive forces**

Porter analysis serves as a tool for deeper understanding of the Czech accommodation-rental industry and competitive forces governing the industry. It will assess the profitability and potential of the industry in order to ensure appropriate strategy creation.

### **Bargaining power of suppliers**

Bargaining power of supplier cannot be easily defined because suppliers can be found all over Europe and include important partners with significant number of holiday homes as well as private holiday home owners. It is clear from the previous sentence that the number of suppliers is very large, especially because of Casamundo's wide a various offer. The same also applies for their size because it varies significantly.

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<sup>9</sup> For more details see: <http://www.booking.com/content/about>



Of course there are many accommodation providers offering various quality of housing and Casamundo does not have to accept all of them. Because of maintaining high quality standards the housing quality have to be evaluated in advance and as already mentioned above customer reviews are also taken into account.

On the other hand suppliers have quite an important influence on price setting because it is not Casamundo, who decides about pricing of particular holiday homes but it is up to the owners. Casamundo only receives provision from total rental price. In case suppliers decide to lower prices it of course means lowering profits coming from provision. But this development is rather unlikely to happen because it would lower supplier's profits as well. Bargaining power of bigger accommodation rental portals is of course significantly higher and can influence provision level.

### **Bargaining power of customer**

Customers of Casamundo are usually people seeking accommodation rentals for vacation or business travelling. As discussed above prices are set by suppliers and cannot be really influenced by Casamundo. Size of each order tends to be rather small because it is unlikely for customers to travel frequently and in big groups. Therefore there is small bargaining power in terms of quantity discounts or similar promotions.

Because of the business nature it is necessary to approach customers with wide offer that would satisfy different kinds of needs and wishes. Consequently it can be stated that price sensitivity is less important than usual because almost any customer is able find suitable and satisfactory alternative. Of course there is a need to maintain favorable prices because the possibility of switching to competition is quite high. The costs of switching are almost equal to zero before placing an order. After that it depends on particular policies of the suppliers. The main reasons for switching may be personal experience with provided services, possibility of personal contact with company or more favorable pricing strategies.

### **Threat of new entrants**

Threat of new entrants is a significant danger that must be taken into account and constantly considered when making strategic decisions. There are no high barriers while entering the market especially because of the ease of e-commerce business. Furthermore, e-commerce represents a low cost market entry mode, which makes it even easier for new entrants.

Most of the accommodation rental portals are active in more countries and enable customers to rent holiday homes abroad. Internationalization is usually done via development of adapted website before taking further steps. There is no need for special knowledge but long-term relationships with partners and holiday home owners are necessary.

Furthermore, speaking about near future, there is a major threat coming from one most important competitor. Booking.com is launching new portal for holiday homes that would be complementary to its current offer. Entering the Czech market can have significant impact on current sales and market share of competitors.

### **Threat of substitutes**

Because of the wide customer segment it is difficult to approach all potential customers and satisfy all possible needs and wants. Customers prefer different kinds of vacation so there are many possible substitutes threatening sales and profits. Low cost solution might be sleeping in camping places or in a tent in nature. Another type of substitutes would be ordering the whole holiday package from a travel agency. Such packages include transport, meals and sometimes even more (all inclusive, entertainment, wellness). What is more, it is not only about types of vacation but also offered destinations. Usage of such substitutes depends on customer preferences and cannot be easily avoided or reduced. As already mentioned above the cost of switching to competition is rather low for customers. This means that if another offer attracts them they can easily switch. On the other hand Casamundo's offer belongs to the biggest within the industry, which makes it difficult for competitors to imitate it and compete.

### **Rivalry among existing competitors**

Rivalry between competitors of course exists but it is necessary to mention that Casamundo is cooperating with some of them, which of course lowers it. This reciprocal cooperation is always very important for both parties because they can benefit from competitor's marketing activities. Furthermore, problematic factor is the number of competitors and comparability of services. Customer loyalty depends mostly on customer's experience and quality of provided services. Loyal customers are very important for business and there is therefore a need to maintain long-term relationship with them.

## **2.7 General information about Czech consumers**

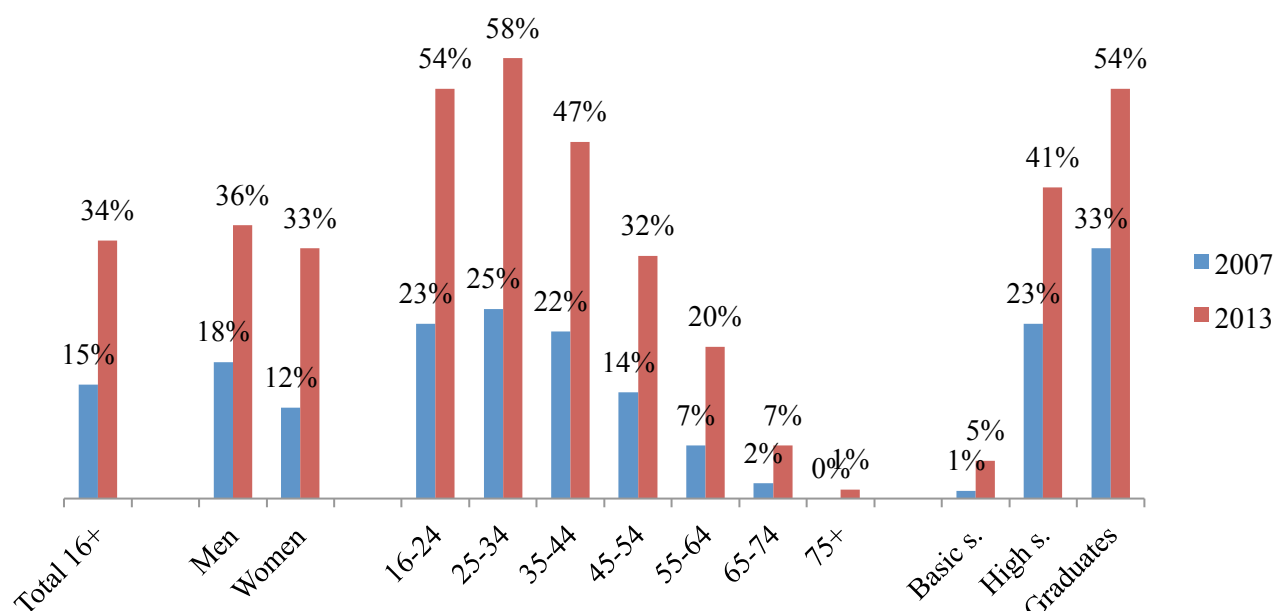
### **Online shopping behavior and vacation habits in the Czech Republic**

Consumer characteristics are crucial for strategic decisions when considering new market entry. Following paragraphs will describe some of the characteristics applicable for Casamundo's plan regarding entry to the Czech market. This information can be further utilized especially for segmentation and targeting of potential customers and enable closer analysis of differences beneficial for adjustments to marketing mix.

Figures 10 and 11 summarize online purchasing habits of Czech residents. Survey conducted in 2011 proved that 28% of the Czech population purchased something online in the last 12 months (Statistika & my, 2012). This percentage share seems

to have an increasing tendency. According to data from 2013 more than one third of the total population bought goods or services online (Czech Statistical Office, 2013).

**Figure 9: Demographic characteristics** (% of individuals in given age group)

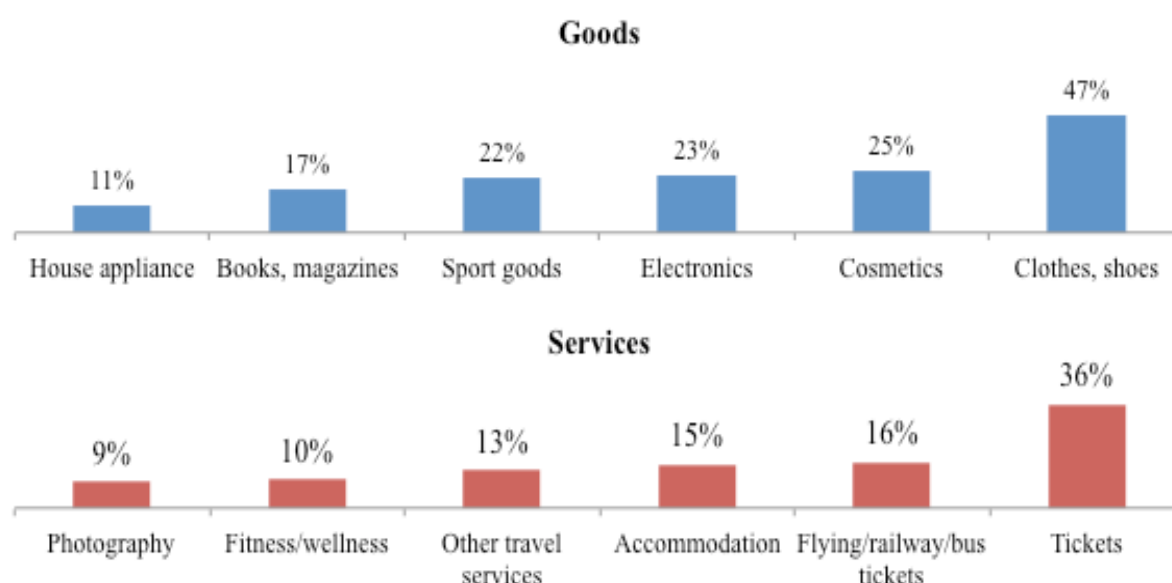


Source: Domácnosti a internet (ČSÚ), 2013, Author's drawing

The number of men shopping online is slightly higher than the number of women but this trend can change very quickly with the spread of Internet usage and the ease of online shopping. Gender distribution plays an important role in online shopping but the characteristics do not differ significantly from regular buying habits in physical stores. Men usually purchase sports goods, electronics and mobile phones. Women on the other hand focus more on buying clothes, cosmetics and accessories (Statistika & my, 2012).

Figure 10 is divided into seven different age groups. Highest percentage of individuals purchasing online can be seen in age group 25-34 (58%), followed by groups 16-24 (54%) and 35-44 (47%). Online shopping is very popular especially among younger generation and among people having higher level of education. Recently it also gained popularity among women on maternity leave (Statistika & my, 2012). The comparison of years 2007 and 2013 showed increase of percentage shares in every age group. Furthermore, the lowest increases were registered in case of the last two age groups confirming previous statement about popularity of online shopping among younger people.

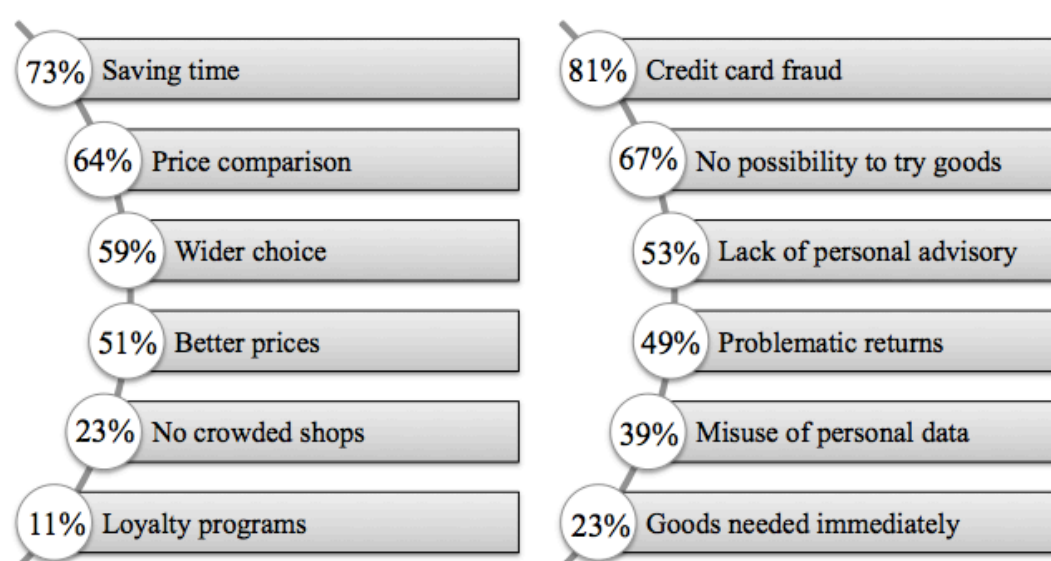
**Figure 10: Goods and services purchased online in 2013** (% individuals that made a purchase in 12 months period)



Source: Domácnosti a internet (ČSÚ), 2013, Author's drawing

Figure 11 divides online purchases made in 2013 into two categories: goods and services. In goods category consumers mostly ordered clothes and shoes (47%), followed by cosmetics (25%) and electronics, including mobile phones (23%). Regarding services customers usually buy tickets for cultural or sport events (36%). The second most purchased service categories are accommodation (15%) and transport tickets (16%).

**Figure 11: Positives and fears of online shopping in case of Czech consumers**



Source: Shoptet, 2012, Author's illustration

Online shopping is a phenomenon of today's Internet era. According to Lidovsky.cz<sup>10</sup> (2012) customers tend to choose their accommodation and holiday trips online. This is especially typical for young people up to 30. The recent boom of online shopping can have positives as well as negative impacts on consumers. Figure 12 summarizes the most common reasons for and against online shopping typical for Czech consumers. These results have been gathered and presented by Shoptet.cz.

Both positives and negatives match the most common features of online shopping discussed in the theoretical part of the thesis. Czech consumers consider saved time, easy price comparison, wider choice and better prices to be the most important positives. Negatives can be seen in possible credit card frauds, lack of physical experience and personal advisory, followed by problematic returns and fear of data misuse.

Ministry of regional development introduced a study focused on tourism in the Czech Republic in 2012. This study includes description of typical stays of Czech residents in the Czech republic and abroad. Table 3 covers different types of stays divided into three main groups: Long trips<sup>11</sup>, Short trips<sup>12</sup> and Business trips<sup>13</sup>.

In 2012 Czech residents reported 11,7 millions long trips with the purpose of leisure activities and recreation, out of which 7,3 millions were spent in the Czech Republic and 4,4 millions abroad. In case of long trips the most visited destination abroad was Croatia (over 800 thous. long trips) followed by Slovakia (over 580 thous. long trips) and Italy (550 thous. long trips). Figure 13 summarizes the exact values for each mentioned country. Within the Czech Republic residents mostly spent their long trips in Central Bohemia, Southern Bohemia and Liberec Region (Ministerstvo pro místní rozvoj ČR, 2012).

Total number of short trips of Czech residents equals 19,7 millions, out of which 18,6 millions were conducted within the Czech Republic and 1 million abroad. Most of the short stays headed into neighbor countries such as Slovakia and Germany.

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<sup>10</sup> Article describes results of a study among 3700 respondents conducted by Heureka.cz in cooperation with research agency NMS.

<sup>11</sup> Long trip – trip for the purpose of leisure activities and recreation that includes at least 4 consecutive overnight stays outside the traveller's usual environment.

<sup>12</sup> Short trip – trip for the purpose of leisure activities and recreation that includes at least 1 and at most 3 consecutive overnight stays outside the traveller's usual environment (incl. weekend stays).

<sup>13</sup> Business trip – trip for the purpose of business outside the traveller's usual environment, which includes at least one overnight stay and its length does not exceed 12 months.

**Table 3: Czech Residents - number of trips and average tourism expenditure**

<b>Trips total (1 or more overnight stays)</b>	<b>Total</b>	<b>Domestic</b>	<b>Abroad</b>
Number of Trips (thous.)	32 858	26 881	5 978
Number of Overnight Stays (thous.)	135 935	94 981	40 954
Average Overnight Stays for 1 trip	4,1	3,5	6,9
<b>Long Trips (at least 4 overnight stays)</b>			
Number of Trips (thous.)	11 727	7 358	4 369
Overnight Stays (thous.)	93 236	56 977	36 259
Average Overnight Stays for 1 Trip	8	7,7	8,3
Average Expenditures for 1 Day of the Trip (CZK)	6 197	2 897	11 756
Average Expenditures for 1 Trip (CZK)	692	331	1 264
<b>Short Trips (at least 1 and at most 3 overnight stays)</b>			
Number of Trips (thous.)	19 679	18 629	1 051
Overnight Stays (thous.)	38 547	36 200	2 347
Average Overnight Stays for 1 Trip	2	1,9	2,2
Average Expenditures for 1 Day of the Trip (CZK)	975	812	3 858
Average Expenditures for 1 Trip (CZK)	330	276	1193
<b>Business Trips</b>			
Number of Trips (thous.)	1 452	894	559
Overnight Stays (thous.)	4 152	1 804	2 348
Average Overnight Stays for 1 Trip	2,9	2	4,2
Average Expenditures (CZK)	6 761	2 807	13 088

Source: Ministerstvo pro místní rozvoj ČR, 2012, Author

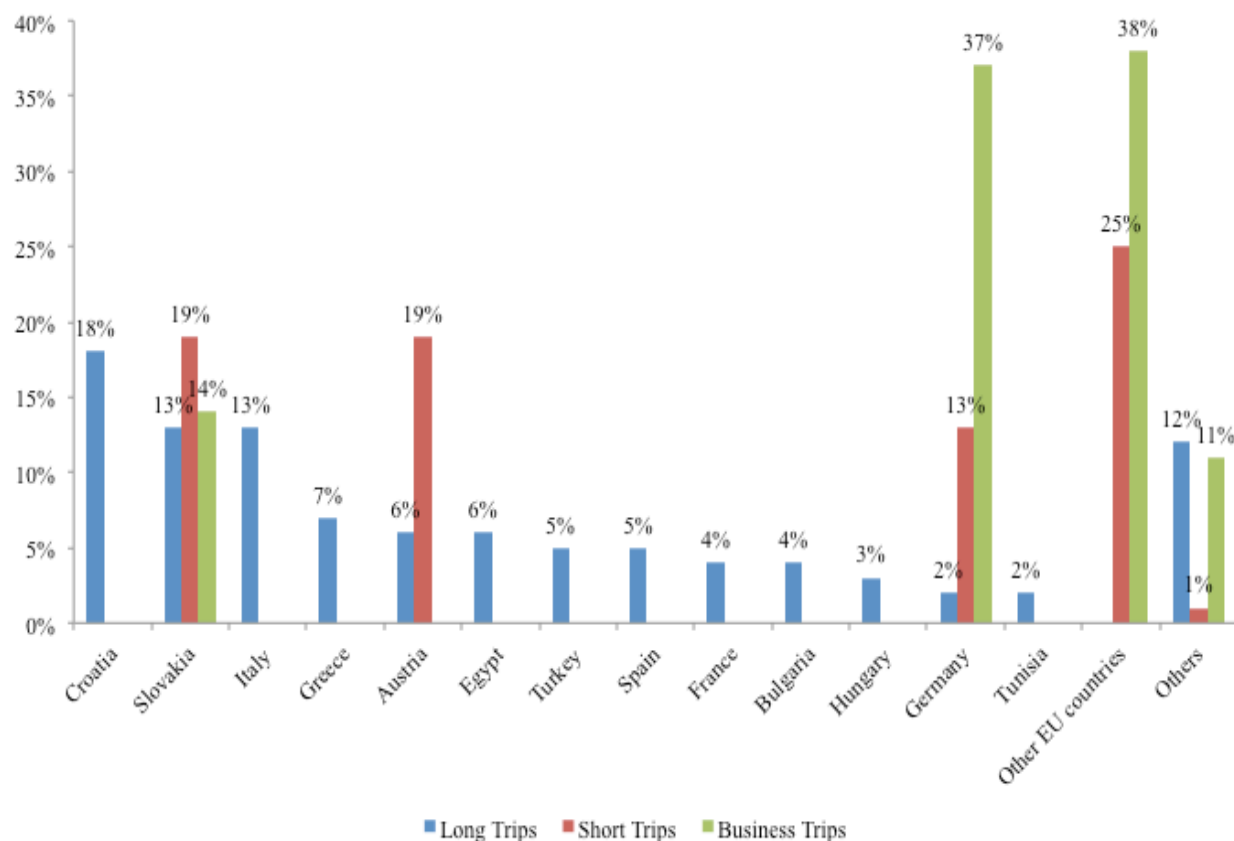
Last category describes business trips with at least 1 overnight stay. The total number of reported business trips equals 1,5 million. 900 thousands business trips were conducted within the Czech Republic and 560 thousands abroad. Czech residents going on a business trip usually head to Germany, Slovakia and other EU countries.

The highest average expenditures<sup>14</sup> for 1 trip are paid for business trips and they account for 6 761 CZK. Average expenditures for long trips are only slightly lower and equal 6 197 CZK. When comparing these two values it is also important to mention the average overnight stays for 1 trip. Even though the expenditures are high in case of business trips the average overnight stays equal to 2,9, which is significantly less than 8 overnight stays in case of longer trips. This comparison shows high financial claims of such a business trip. Looking at the differences between average expenditures in the Czech Republic and abroad it is clear that in all

<sup>14</sup> Average expenses per participant for one trip in CZK.

cases expenditures abroad exceed domestic ones. The biggest price difference can be seen again in case of business trips.

**Figure 12: Long, Short and Business trips of Czech residents abroad by country (%)**

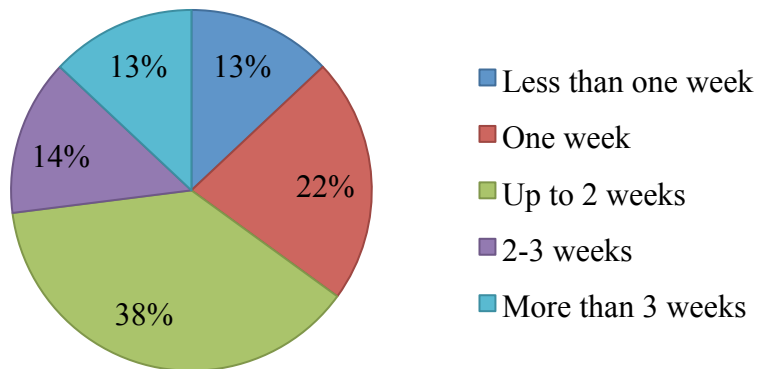


Source: Ministerstvo pro místní rozvoj ČR, 2012, Author

When considering an online purchase Czech consumers usually follow recommendations of family members or friends (Lidovky.cz, 2012). Holiday choice is influenced by the current trend of increased amount of time spent on the Internet and increased usage of social networks. During the decision-making process people compare information found on the Internet and information obtained from friends, colleagues and recommendations coming from social networks.

Figure 14 shows the average length of vacation in the Czech Republic. Graph shows results of a survey conducted by Jobs.cz (2013) in which 1 037 respondents were involved. Most of the respondents (38%) plan vacations with length between one and two weeks. Second biggest group (22%) plans going on vacation for exactly one week. Only a minority of respondents plans vacation shorter than one week or longer than two weeks.

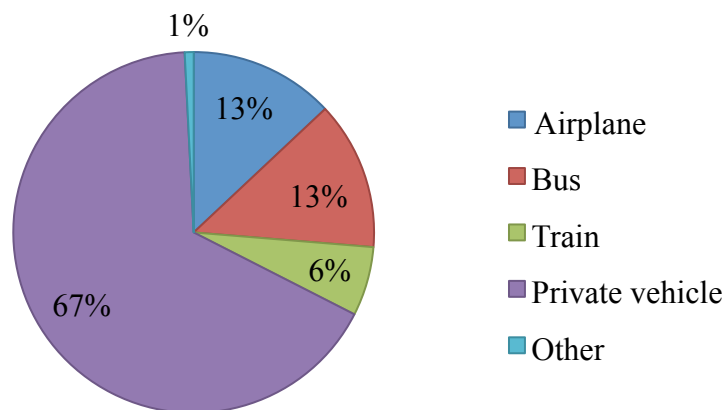
**Figure 13: Average length of vacation in the Czech Republic (2013)**



Source: Jobs.cz, 2013, Author's illustration

According to multiple sources<sup>15</sup> today's trend among the Czech consumers seems to be shortening of vacation and not even using the full number of vacation days per year. There are multiple reasons behind such theory. According to Podnikatel.cz (2014), Czech consumers are not used to resting and try to keep in touch with work even when on vacation. Týden magazine (2013) on the other hand ascribes this trend to the fear of losing a job and increasing unemployment.

**Figure 14: Breakdown of holiday trips by mode of transport (2011)**



Source 1: Czech Statistical Office/Eurostat, 2012, Author's illustration

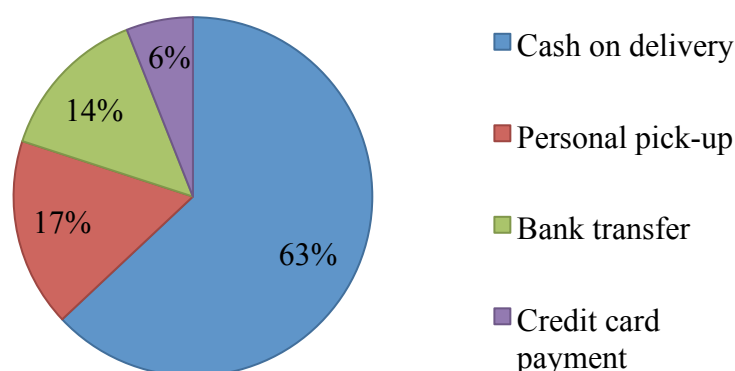
<sup>15</sup> For more info see following articles (online sources can be found in reference list): Týden.cz (2013), Jobs.cz (2013), E15.cz (2013), Podnikatel.cz (2014)



Figure 15 maps different modes of transports utilized when going on holiday trips<sup>16</sup>. 67% of consumers, who went on a holiday trip used private vehicle as a transport mode. Further means of transport are airplane and train both having 13% share.

This division of Czech consumers is important for Casamundo's purposes and shows significant potential on the Czech market because people travelling with private vehicles are more likely to book accommodation on their own than people travelling by bus or plane because such holiday trips are usually organized by travel agencies.

**Figure 15: Most frequent payment methods of Czech consumers**



Source: Shoptet, 2012, Author's illustration

Figure 16 that provides an overview of most frequent payment methods used by Czech consumers, which is another characteristic important for the foreign market entry. Cash on delivery is applicable especially in case of goods and accounts for 63% of all payments. Personal pick-up and payment ranks second with 17%. Methods applicable for Casamundo seem to be inconvenient for Czech consumers because only 20% of them use them.

Generally speaking Czech consumers are quite conservative regarding online payments. Recently the number of online payments increases because customers have more opportunities to pay on the Internet. Websites and portals also increase their trustworthiness (Ihned.cz, 2013).

## 2.8 SWOT analysis of Casamundo's expansion to the Czech market

### Strengths

- Expertise and experience of managers with new market entry that can be transferred and applied to the Czech market.

<sup>16</sup> Trips including 4 overnight stays and more

- Casamundo's offer includes large portfolio of various objects that outweighs most of competitor's offers, especially in variety and number of offered holiday homes.
- Business strategy enables easy and fast market entry that does not require extensive implementation of resources.
- Flexible company structure allows quick decision-making and implementation of new ideas and processes.
- Committed and well-trained employees provide above-average customer service, which can result into competitive advantage.
- Casamundo has been awarded with various certificates and ratings from reputable agencies for its outstanding services quality. This supports positive image and well-established position on the domestic market that can support new market entry.
- Well-developed and user-friendly website with relatively cheap maintenance that can be easily adapted to local needs while entering new market.
- Large number of customer reviews available to most objects increases trustworthiness and simplifies customer decision-making. It also provides immediate feedback and allows Casamundo to take actions in order to increase quality of provided services.

### **Weaknesses**

- Insufficient number of employees that would support new market entry. Only limited number of full-time employees that are already using their full capacity to support current business activities may constrain international activities. Unless new employees are hired it can slow down business activities and endanger gained position of Casamundo in the market. Furthermore, there is a need of a native speakers for the Czech market in order to ensure high-quality content on website as well as appropriate customer support.
- High fluctuation of majority of employees that are hired as interns only for limited periods of time. Continuous need of training and education of new hires.
- Company structure does not support formal communication flow and employees communicate as needed. This can result into lack of information about new strategy and recent developments that can create crucial obstacles while entering a new market.
- Accommodation services implicate very wide and differentiated segment of potential customers. Therefore target customer definition and marketing campaign targeting might be rather difficult and requires extensive marketing research. This can be crucial while preparing new market entry because targeting a wrong segment can not only decrease sales and profits but also suspend the whole plan.

- Very flat company structure and missing control mechanisms for strategy implementation can decrease efficiency and cause chaos and misunderstandings while entering new market. Decision-making process lacks official documentation rules, which may in the future result into missing background information for past issues.
- Both lack of knowledge of the Czech market and low brand awareness among Czech consumers requires establishing trustworthiness; new relationships and building brand image in order to efficiently compete with current market players.

### **Opportunities**

- Accommodation services belong to most frequently purchased services online in the Czech Republic. Changing trends and increased number of customer looking for holiday homes online creates new opportunities for Casamundo. Appropriate marketing campaign can help to win potential customer or gain competitor's market share.
- Geographical proximity of Germany and the Czech Republic, bilateral cooperation and membership in international organizations serves as an ideal background for business activities. Similar regulation of e-commerce business prevents problematic market entry.
- Market seems to be not saturated especially because of niches and smaller segments looking for special services. Therefore there is enough space for differentiation and special offerings.
- Differentiation and offering of various unusual types of holiday homes ensures satisfies needs of more customer segments. That leads to increased sales and competitive advantage.
- Significant number of Czech consumers choose private vehicle as transport mode when going abroad, which increases the probability of booking only accommodation.
- Easy access to well-educated cheaper work force that can support market entry.

### **Threats**

- Strong and established competition on the Czech market that can slow down the market entry.
- Vulnerability to business cycle, financial and economic stability because people tend to save more and travel less in weaker years.
- Possibility of new entrants, including domestic and foreign ones, to the Czech market that increase the competitive pressure.
- Introduction of various substitutes and differentiated products focusing on niche market segments and lowering the competitive advantage.
- High level of corruption and mistrust in Czech governmental institutions and politicians.

- Strong bargaining power of suppliers that are setting the prices of rented holiday homes. Especially important issue in case of partners providing significant number of holiday homes.
- Possible changes in buyer's needs and wants or their increased price sensitivity.
- Lower average salary in comparison to current markets and need for establishing different pricing policy.
- Conservatism of Czech consumers in terms of online shopping and online payments.
- Lack of experience, especially practical, on the Czech market.
- Price wars introduced by competitors.

### 3. Market entry strategy proposal

This chapter focuses on proposition of market entry strategy to the Czech market. In order to ensure the most appropriate strategy a survey will be conducted and its results will extend information gathered during previous research. Evaluation of the results will play an important role when suggesting adjustments to marketing mix.

#### 3.1 Survey results evaluation

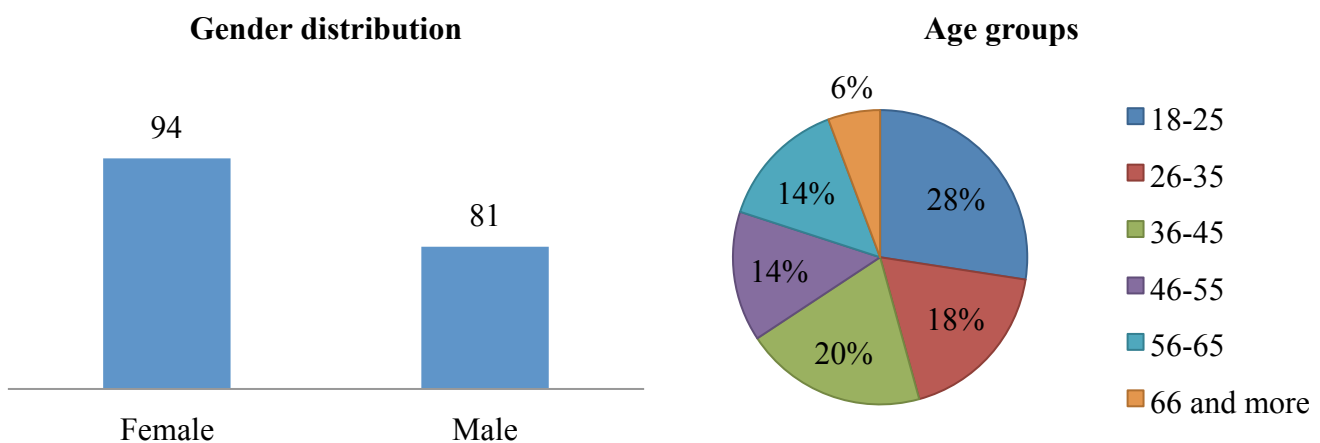
To gain better insights to customer's preferences and factors driving accommodation purchase a survey has been conducted among potential customers. It was also focused on mapping respondent's knowledge of competition present on the Czech market. Survey results will serve as supplemental information to secondary data and statistics already available from credible sources such as Czech Statistical Office.

An online-based questionnaire was distributed among various age groups of Czech consumers. The questionnaire was divided into four parts including: Information about interviewee, Sourcing channels, Competition analysis and Factors influencing purchasing behavior. Its full version can be found in Appendix 2. The questionnaire was mainly distributed through Facebook and Email. The rate of return was around 85%. The respondents were asked 17 questions, out of which 16 were closed questions and 1 open question. In case of some questions respondents were allowed to mark more options and usually they were also offered an option with the possibility to express their opinion (option Other with a text box). The average time for filling in the questionnaire was between 2 to 10 minutes.

#### The profile of respondents

During the collection period 175 respondents participated in the survey. More detailed demographic information about respondents can be seen in Figure 17 and 18.

**Figure 16: Gender and age distribution**



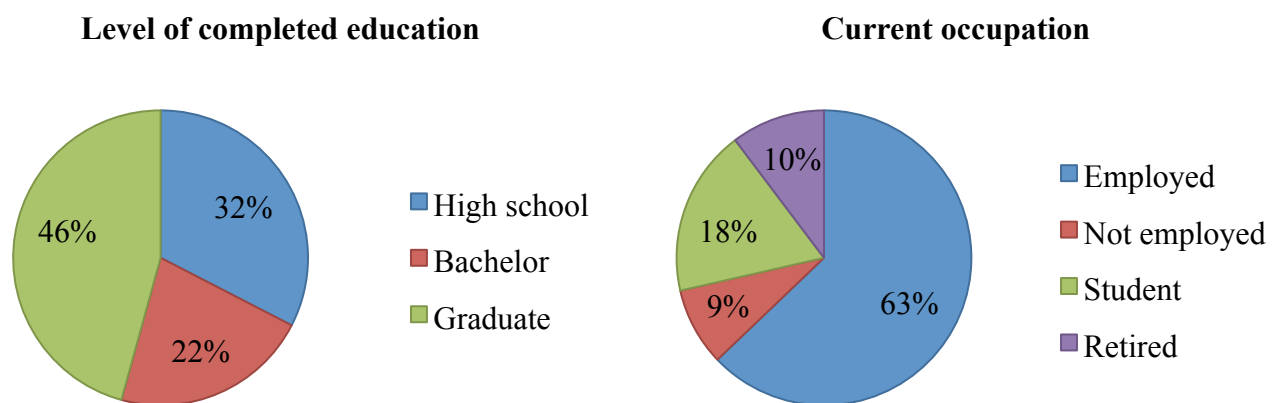
Source: Author, (own research, n=175)

From the total number of respondents 94 were women and 81 men. Respondents were divided into six different age groups. In order to confirm previously discussed findings of the Czech Statistical Office (2013) I tried to keep equal gender distribution within these groups and except the biggest age group it was also succeeded.

Age groups were created in line with division of the Czech Statistical Office used previously in description of Czech consumers. This uniformity enables easier comparison. Since younger people are more engaged in online shopping the biggest share on total number of respondents belongs to group 18-25 (48), followed by 36-45 (35) and 26-35 (32), 46-55 (25), 56-65 (25) and 66 and more (10).

Figure 18 describes current occupation and highest level of completed education. Most of the respondents (63%) indicated to be currently employed, followed by the second biggest group of students (18%). Furthermore, 10% of respondents stated to be retired and 9% to be currently unemployed.

**Figure 17: Education and occupation characteristics**



Source: Author, (own research, n=175)

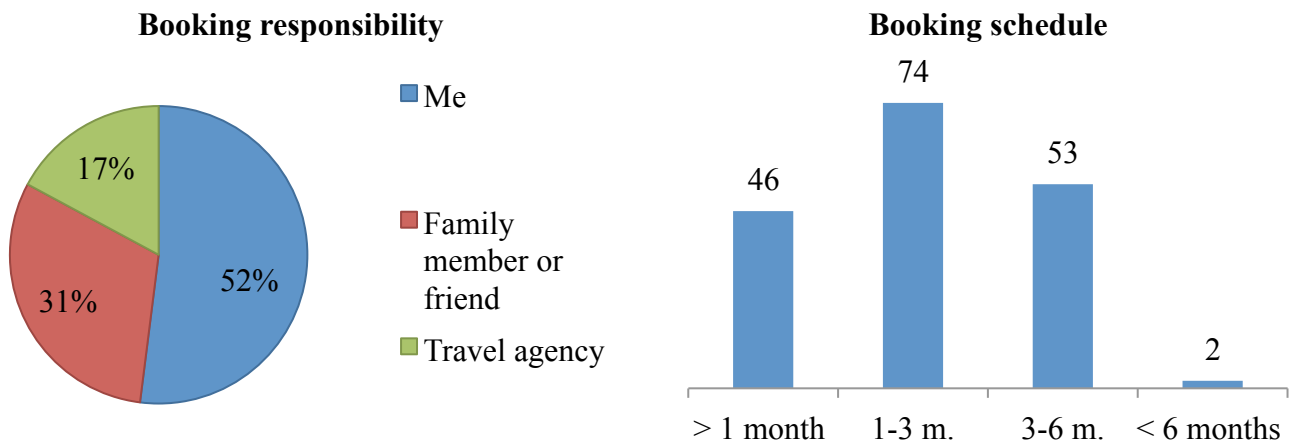
Highest level of completed education shows that all of the respondents reached some level of secondary education. 80 respondents indicated to be graduates, 57 completed high school and 38 stated to have reached a bachelor degree. According to the Czech Statistical Office (2013) education has great influence on online shopping and people with higher levels of completed education tend to do more online shopping.

Looking at individual answers it is clear that education and occupation have significant impact on knowledge and usage of accommodation rentals. Mostly employed people with higher level of education already booked accommodation by a competitor and consider factors such as quality and customer service to be more important than others. Students on the other hand tend to choose accommodation especially due to its price and friend's advice. These factors will be discussed more into detail later.

### Timing and responsibility

For later purposes it is necessary to understand when customers usually book accommodation. What is more, it is also important to find out who is actually responsible for booking. Figure 19 provides results of questions focused on this information.

**Figure 18: Booking schedule and responsibility**



Source: Author, (own research, n=175)

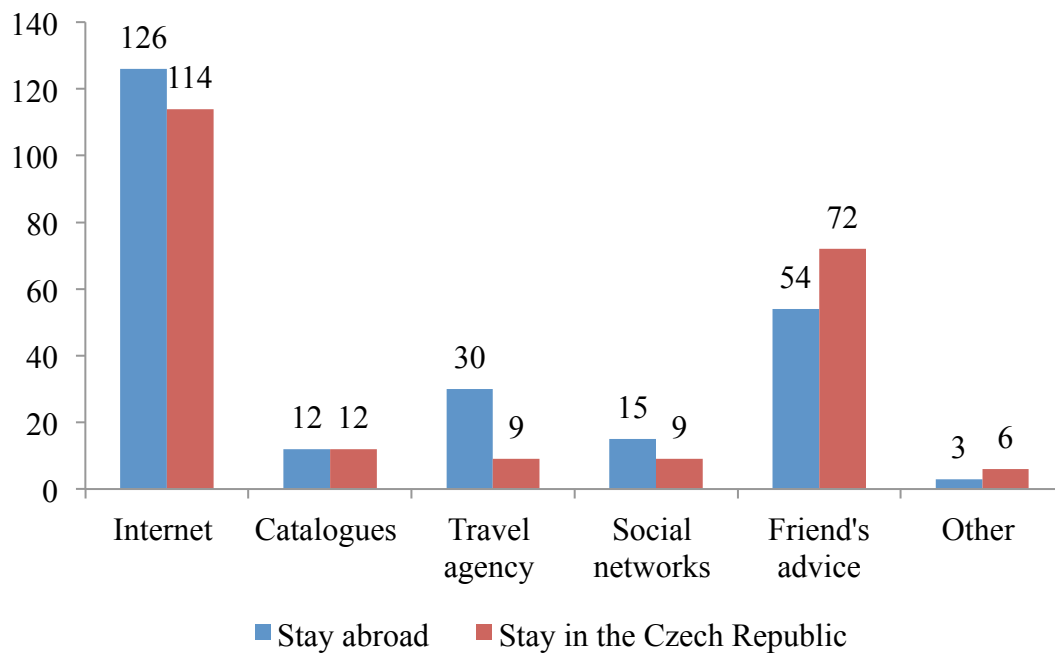
52% of respondents stated that it is their personal responsibility to book accommodation when planning a trip. The second largest group indicates that it is either a family member or a friend, who conducts a booking. This is valuable information especially for targeting purposes because it allows more precise determination of potential customers. Travel agency books accommodation especially for older respondents (over 46).

Booking schedule of customers is also important mostly because of correct timing of promotion campaigns. Minority of respondents (2) books accommodation more than six months in advance. Most of the respondents on the other hand indicated that they book accommodation either 1-3 (74) or 3-6 (53) months in advance. Last group of interviewees books so called last-minute accommodation, only less than a month in advance.

### Factors influencing accommodation booking

Customers have very wide selection of channels and sources where they can seek and book accommodation. Precise targeting requires good knowledge of such channels preferred by potential customers in order to reach them efficiently. Figure 20 summarizes channels respondents use to search and book accommodation. For practical purposes respondents were asked two almost identical questions, one focused on stays abroad and the second one on stays within the Czech Republic.

**Figure 19: Channels used for searching and booking of accommodation**



Source: Author, (own research, n=175)

It is clear that the Internet plays a dominant role as a way to search and book accommodation. Consumers have an opportunity to easily compare various offers from different suppliers. This hypothesis is also confirmed by the results of the questionnaire because in both cases (126 + 114 respondents, stay abroad and in the Czech Republic) respondents stated that they usually seek and book accommodation on the Internet. In case of tested sample of respondents neither education nor occupation or gender have significant impact on channel choice. The only criterion dividing respondent's preferences is age. In case of two last age groups a slight avoidance of Internet can be seen.

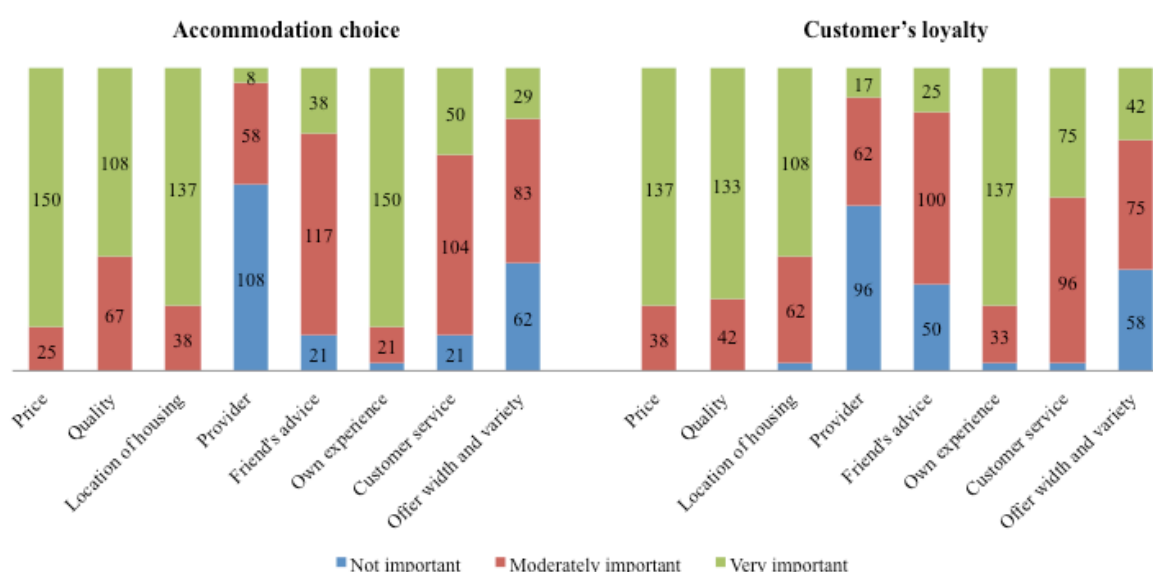
Another important source of information is advice coming from friends. This channel more significantly influences accommodation choice in case of domestic trips (72 respondents). But customers also follow friend's advice when going abroad. This also goes hand in hand with the results of following Figure 21 in which friend's advice scored to be moderately important factor influencing customer's choice and loyalty.

Respondents coming from three last age groups usually prefer more conservative channels such as travel agencies and catalogues offering accommodation. Travel agencies are convenient solution especially for stays abroad and for customers that are not capable or willing to search the Internet on their own. They also take care of all necessary arrangements saving customer's time. Smaller importance on the other hand can be assigned to social networks and other channels such as searching accommodation after arrival to destination or magazines and newspaper (mentioned by 3 + 6 respondents).



Looking at Figure 21 provides more detailed description of factors influencing customer's accommodation choice and their loyalty to accommodation provider.

**Figure 20: Importance of chosen factors on accommodation choice and loyalty**



Source: Author, (own research, n=175)

These factors play very important role in customer's decision-making process and therefore cannot be ignored by rental portals when creating a marketing strategy. Respondents were given there possible options how to evaluate importance of chosen factors: not important, moderately important and very important. Respondents were asked to evaluate importance of factors in two different situations: accommodation choice and their loyalty to accommodation provider.

More than 100 respondents have evaluated following factors in both categories as very important: price, quality, location of housing and own experience. Friend's advice, customer service and offer width and variety have been marked as moderately important. Accommodation providers belong to factors that have lower importance among the questioned respondents. This puts them into a difficult position regarding brand building and building long-term relationships in order to maintain stable customer base. On the other hand, putting more weight on factors that scored high on importance can decrease this inconvenience.

## Competition analysis

As already discussed above mapping competition seems to be rather difficult task because in case of Casamundo a competitor can be any company providing accommodation or even a travel agency. It would be complicated and inefficient to restrain respondent's answers so all mentioned competitors are taken into account even though the competition analysis introduced in last chapter focuses only on direct competitors recognized by Casamundo.

Three questions were focused on mapping respondent's competition knowledge. First tested criterion was unaided awareness. Respondents were asked to name any accommodation providers that come to their mind. Figure 22 provides overview of mentioned competitors. The size of writing represents frequency of respondent's entries of company's name (the bigger writing the higher number of entries).

**Figure 21: Unaided recall**



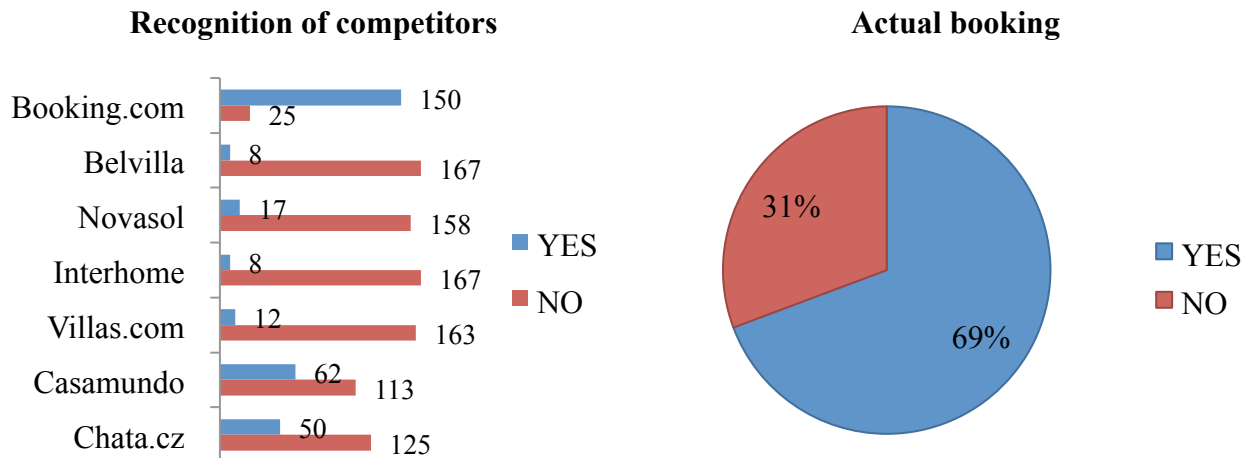
Source: Author, (own research, n=175)

Without any doubt Booking.com was the most mentioned competitor. Almost 90% of the respondents named it as a first company that comes to their mind, making it the top of mind company and confirming company's strong position on the Czech market. High level of unaided awareness also deepens skepticism regarding recently introduced portal Villas.com that focuses especially on holiday homes and its future effect on sales and profits of remaining competitors. On the other hand, Casamundo can benefit from reciprocal cooperation with Booking.com, since it is one of its most important partners.

Portals providing hotel and hostel search services, such as agoda.com, hostelworld.com and trivago.cz, follow Booking.com in unaided awareness testing. The last mentioned company recently launched TV campaign (TV advertisement) to increase awareness in the Czech Republic, which probably contributed to the number of respondent's entries. Furthermore, minority of respondents mentioned smaller private providers of accommodation and private holiday homes owners.

Second question tested aided awareness. Respondents were provided with a list of relevant competitors and asked to state whether they recognize them or not. Figure 23 sums up the results.

**Figure 22: Aided awareness**



Source: Author, (own research, n=175)

Booking.com confirmed its position with the highest number of respondents answering Yes (150). Other Casamundo's partners (Belvilla, Interhome and Novasol) scored very low on aided awareness. Casamundo itself proved satisfactory level of awareness, 62 respondents recognized it.

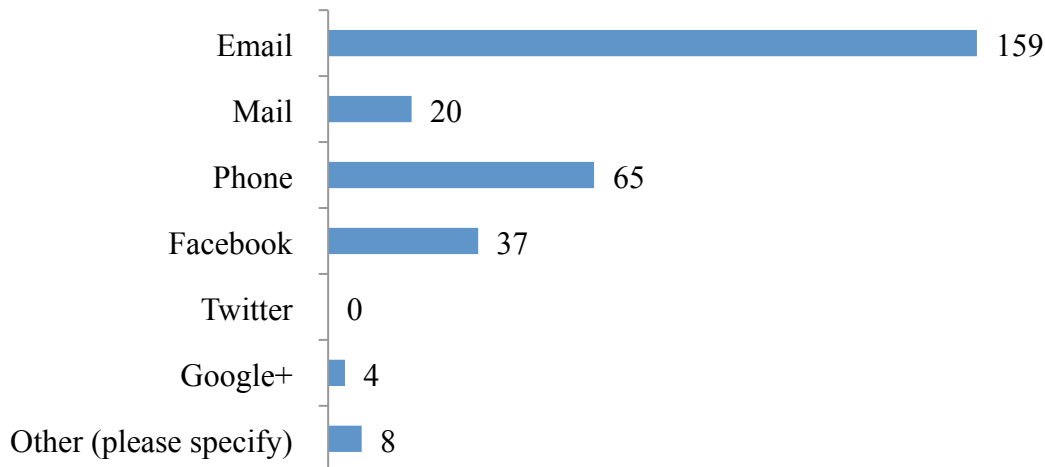
The last criterion tested in this part of the questionnaire was the number of actual bookings conducted through competitors. Respondents were provided with two possible options: No and Yes with specification. More than two thirds of them stated that they have conducted a booking through some of the mentioned accommodation providers. Confirming the results of the previous two questions Booking.com was mentioned in most cases.

### **Preferred communication channels and customer's loyalty**

Last part of the questionnaire examined customer preferences regarding communication channels and loyalty programs.

Respondents were given a list of possible options and asked to indicate, which communication channels they would prefer the most. They had the possibility to pick more options in case it was relevant. Regarding the most preferred method respondents seem to share preferences among all age groups as well as levels of education and current occupational status. As it can be seen on Figure 24 the most preferred communication method is email.

**Figure 23: Preferred communication channels**

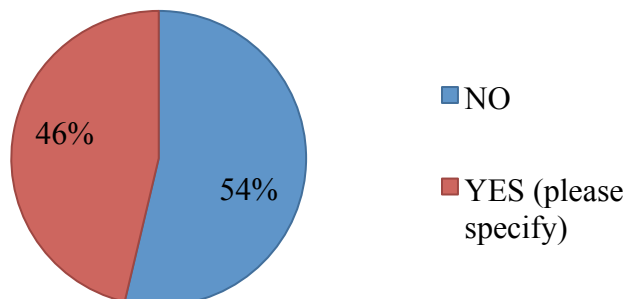


Source: Author, (own research, n=175)

What is more, 65 respondents indicated that they prefer to be contacted via phone. According to the individual responses, respondents belonging to age groups over 45 mostly chose this method. Younger people on the other hand, prefer contact via Facebook. Only a minority of respondents (20) would like to be contacted via classical mail. The results of this question also go hand in hand with the current trend of increased Internet usage among all age groups.

Knowing customer's preferences regarding loyalty programs and factors increasing loyalty can be beneficial for strategic decisions about building and maintaining long-term customer relationships. Figure 25 summarizes respondent's loyalty program preferences. Such loyalty program would enable easier tracking of respondent's preferences and provide other data important for marketing purposes.

**Figure 24: Loyalty program preferences**



Source: Author, (own research, n=175)

Looking at the results, 54% of respondents stated that they would not appreciate any kind of loyalty program. 46% on the other hand would be interested in some kind of a loyalty program. This almost even split makes it rather difficult to make a definite statement about a loyalty program implementation. What is more, gender distribution plays very important role in case of loyalty programs because it was mostly men, who were not interested in participating.

In the open part of this question various types of loyalty programs were mentioned. Mostly indicated options were volume discounts and bonuses for bringing new consumers, followed by vouchers and discounts on extra services.

### **Summary of survey evaluation**

The main goal of the questionnaire was gaining deeper insights of respondent's preferences regarding online rental portals and mapping their knowledge of Casamundo's competition. The results will also serve as supplementary information to surveys and statistics already available in the Internet.

A short recapitulation sums up key findings of the conducted survey. It will serve as a basic outline for recommendations, adjustments in marketing mix and market entry strategy creation. The total number of respondents (175) of course cannot be considered as conclusive for all Czech residents. On the other hand the results mostly match other surveys utilized for previous characteristics of the Czech market.

### **Important characteristics and conclusions:**

- Respondents were chosen in line with current trends in online shopping and Internet usage.
- Age has significant impact on online shopping habits of respondents. Younger people are more engaged in online shopping than older generation. The same applies also to level of completed education. People with higher education level tend to make online purchases more often than others.
- Internet plays a dominant role in accommodation search and booking. Another channels used by respondents are friend's advice and in case of older people also travel agencies.
- Factors influencing accommodation choice and customer's loyalty do not differ significantly. But they are slightly different in case of various age groups.
- Most important factors are according to the results quality, price and own experience. Respondents also follow friend's and family member's advice and experience.
- Respondent's knowledge of direct competitors is rather limited. The most mentioned as well as recognized company was Booking.com.
- Almost 70% of respondents already used services of one of the competitors while booking accommodation.

- The most preferred communication method is Email among all age groups. Younger people also appreciate being contacted via social networks such as Facebook. Respondents belonging to older age groups on the other hand prioritize contact via phone.
- Introduction of a loyalty program must be considered carefully because respondents are divided almost into two equal groups with conflicting opinions.

### **3.2 Recommendations**

Choosing correct market entry mode and adjusting marketing mix is essential for successful market entry strategy creation. According to conducted analysis the Czech Republic represents an interesting opportunity for Casamundo, especially because of unsaturated market and increasing trend of online shopping. While creating a market entry strategy several factors and facts, such as all data gathered during marketing research and attitude of the company towards new market entry, must be taken into consideration.

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### **3.2.1 Market entry mode**

Casamundo usually applies the same market entry mode within Europe. As an e-commerce company it usually adapts already existing website to the needs and characteristics of a new market, meaning especially language adjustments.

E-commerce companies benefit from low cost market entry mode. In case of Casamundo new market entry is usually characterized by establishing new website. Such approach does not require engaging extensive financial resources and is therefore also linked to fewer risks. It is beneficial to implement already tested and proven concepts from other markets similar to the Czech Republic. Before launching a new website appropriate language changes must be made in order to ensure well functioning and user-friendly environment. These changes will also lead to increased trustworthiness among customers. Czech native speakers should be hired to support the development process.

As discussed in the theoretical part of this thesis e-commerce market entry is a very quick market entry mode because developing a website is not too time demanding in comparison to other market entries such as establishing subsidiaries in foreign country. Geographical proximity of the country of origin and its positive business image are also beneficial for the market entry. E-commerce also enables quick reaction to customer's needs and wants because the comments and remarks are available almost immediately to the company.

On the other hand, there are also multiple disadvantages linked to e-commerce. The first and most problematic one is missing personal contact with customers. Sometimes customers do not trust unknown companies that do not have a store, which can be visited. To fight this threat Casamundo should consider establishing a branch in the Czech Republic. Because of the possible difficulties and financial expenses such branch can be discussed later when necessary.

What is more, there is a significant threat of already established competition that would be difficult to beat. Therefore Casamundo's probable position in the market would be follower or nicher. Becoming a market leader is at the moment unreachable target for Casamundo, especially because of very strong position of Booking.com.

Challenger strategy would require extensive engagement of financial resources with unclear outcome and would be therefore quite risky.

Before any strategic decisions will be made Casamundo should carefully consider the characteristics of the Czech market and consumers. Even though the Internet decreases differences between customers it does not erase them. Therefore these differences, such as purchasing habits, preferred payment conditions or average vacation length and expenses must be taken into account.

### **3.2.2 Marketing mix**

Even though Casamundo usually applies similar marketing strategy among European countries some adjustments to marketing mix are necessary in order to increase the chances of market entry success to the Czech Republic.

#### **Segmentation, targeting, positioning**

Segmentation, targeting and positioning represent an inevitable part of every marketing mix. All recommendations are based on current international practices of Casamundo meaning that there might be very little adaptation of the target groups and positioning message.

There are various criteria that can be used to divide customers into segments such as descriptive and behavioral characteristics. Looking at Casamundo's segmentation techniques, customers are usually segmented according to behavioral criteria assessing customer's purchasing behavior, purchase occasion and required benefits.

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Generally speaking every person planning to book accommodation or going on a trip might be a potential customer. Because of the nature of the business it is clear that there is a significant potential for Casamundo in the Czech market. Demographic criteria such as age, education or occupation are not sufficient for appropriate segmentation because consumers belonging to the mentioned groups with shared



interests can differ in every demographic characteristic. On the other hand there are some characteristics that Czech consumers share in case of online shopping. One of them is based on a trend showing that younger people and people with higher education level tend to shop online more than others. Considering such criteria can makes segmentation and targeting much easier.

Last but not least, socioeconomic segmentation might be suitable method in case of Czech customers. Criteria such as purchasing power and level of income enable easier targeting with tailor-made offer. Casamundo's offer includes various pricing levels of holiday homes. In order to attract as many customers as possible price-sensitive customers can be addressed with different offer than customers willing to pay more. What is more, looking at the characteristics of Czech consumers shows that the highest spending is represented by business trips. Even though Casamundo's core business activities focus on rental of holiday homes business travelers represent interesting niche market that should be targeted as well.

Targeting is strongly influenced by international marketing strategy used by Casamundo. Since all applicable strategies tend to be global it is highly probable that Casamundo will target the same segments in the Czech Republic as anywhere else in Europe, especially because of maintaining consistent company image. These were mentioned in the list of various target groups.

Positioning message and strategy must also follow and comply with corporate goals. As already explained during competition analysis Casamundo wants to be perceived as holiday homes provider. Fulfilling all possible needs and wants of vacation travelers and maintaining therefore high customer satisfaction represent the main positioning messages and also belong to company's core values. This should be also implemented to the Czech strategy and promoted to the customers.

## **Product**

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Furthermore, the typical three-layer structure of a product should be reviewed. The problematic part of the new market entry includes language adjustments as well as need to adjust website according to country characteristics. Language adjustments are necessary for success on the Czech market. New website must be translated into Czech language on a professional level in order to ensure high quality standard and to avoid misunderstanding and confusion. Because of the width of Casamundo's offer it would be difficult to translate descriptions of all offered objects (currently only minority of objects has Czech comment). On the other hand one of the core values states that Casamundo strives for the highest possible level of customer satisfaction so it is important to provide them with user-friendly and comfortable environment. Usage of foreign language can also cause confusion that would need to be resolved by customer service and can lead to decreased sales, bad reviews or switching to competition.

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Efficient competing with competitors on the Czech market requires not only wide and interesting offer with favorable pricing, looking at the survey results leads to conclusion that factors influencing accommodation choice and loyalty are above all price and quality. Accommodation provider plays less important role in decision-making process, which places them into a difficult position. This means that brand building might be complicated and will require high level of services that would ensure positive experience and will help to maintain long-term relationship with customers because negative experience can hurt Casamundo's image and force customers to switch to competitors.

Positive brand image can be also achieved via following of current trends in accommodation rentals and constant innovation and enlargement of offer. It is also very important to emphasize company's country of origin because products coming from Germany usually have very good reputation and are characterized by high quality level. Therefore it might be perceived well by consumers.

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Survey results also showed that customers are split into two equal groups with conflicting opinions regarding implementation of a loyalty program. Since there is a need to build and maintain long-term relationship with customer it would be beneficial for Casamundo to launch such a program and offer voluntary participation for customers. Collected information would contribute to improvement of services and more personalized offer. The form and possible benefits are subject for further research and discussion but most of the respondents stated that they would appreciate vouchers and extra services for their loyalty. One of the factors with high influence on respondent's decision-making is friend's advice. Getting bonuses for bringing a friend is therefore also an interesting option. This would broaden customer base.

What is more, Casamundo currently offers the possibility to pay either by credit card or via bank transfer depending on the holiday home owners or partner providing accommodation. Rentals booked in less than a week must be paid by credit card. In some cases there is also a possibility to pay the rent after arrival directly to the accommodation provider in cash. As already discussed before Czech consumers are quite conservative in terms of online payments. Because there is no chance of payment after delivery, Casamundo should provide other options acceptable for Czech customers. It would be very advisable to negotiate with partners and ensure option of payment via bank transfer to accounts by Czech banks because transfers abroad are usually quite costly and complicated.

### **Distribution**

Form of distribution is closely related to the mode of entry and nature of Casamundo's business. It is apparent that the main distribution channel of an e-commerce company must be the Internet. All bookings will be conducted through a newly developed website in Czech language. Another channel for conducting a booking might be customer service. Having well-trained staff assure high-quality of provided services and decreases the amount of mistakes made during booking. It is also convenient for customers because all questions they may have can be easily answered before making an actual booking. Full assistance can also raise customer satisfaction and help to maintain long-term relationships.

After booking a holiday home or a hotel customers usually immediately obtain all necessary documents and rental contract via Email. Casamundo's partners providing accommodation secure distribution of these materials. In order to maintain high

quality level Casamundo should therefore maintain relationships only with credible partners that would have positive impact on company's image.

### Price

Prices of Casamundo's services are given globally in order to assure consistent offer on all Casamundo's websites. Reasoning of global pricing strategy is especially e-commerce and its features because it is easy for customers to visit more Casamundo's websites and compare prices of given objects. As already mentioned before Casamundo is not responsible for actual pricing policy because it is up to holiday home owners or partner companies to set pricing (except for commission fees).

**Table 4: Comparison of macroeconomic factors**

	2011			2012		
	GDP growth (annual %)	GDP (in million current US\$)	GDP per capita (current US\$)	GDP growth (annual %)	GDP (in million current US\$)	GDP per capita (current US\$)
<b>Czech Republic</b>	1,8	216 061	20 585	-1,0	196 446	18 690
<b>France</b>	2,0	2 782 210	42 578	0,0	2 611 221	39 759
<b>Germany</b>	3,3	3 628 110	44 355	0,7	3 425 956	42 598
<b>Italy</b>	0,4	2 196 336	36 988	-2,4	2 013 265	33 814
<b>Netherlands</b>	0,9	832 755	49 886	-1,2	770 066	45 961
<b>Poland</b>	4,5	515 771	13 385	1,9	490 212	12 721
<b>Slovakia</b>	3,0	95 877	17 760	1,8	91 347	16 893
<b>United Kingdom</b>	1,1	2 462 484	38 927	0,3	2 461 768	38 649

Source: The World Data Bank, <http://databank.worldbank.org/>

Table 4 shows comparison of macroeconomic factors for countries where Casamundo is present and sells holiday homes. The Czech Republic belongs to smallest countries on the list indicating significantly lower amount of target customers. Even though the economy is slowly recovering from financial crises and it will probably reach positive economic growth the comparison clearly shows that purchasing power is significantly lower than in other listed countries. This is a very important factor that should be considered while planning a market entry to the Czech Republic.

There is a high possibility that Czech customer would not be able to afford paying the same prices as customers in Germany or Netherlands, etc. Therefore it is important to consider revision of Casamundo's offer and focus on less expensive objects and their promotion. On the other hand, because of the high number of holiday homes and hotels offered it is likely that customers would find suitable solution that would match their expectations.

## **Promotion**

Due to a confidentiality agreement this content has been removed.

Due to a confidentiality agreement this content has been removed.

## Conclusion

My master's thesis dealt with the topic of foreign market entry of a German accommodation rental company Casamundo GmbH to the Czech market. The main goals were suggesting an appropriate market entry mode as well as suggesting adjustments to marketing mix based on conducted research and survey. Internationalization offers possibilities to extend company's activities abroad and it is an inevitable part of Casamundo's business strategy. Because of advantages, such as increased sales and profits or reaching more customers, represented by a foreign market entry Casamundo is always looking for new opportunities within Europe.

In the first chapter all necessary topics relevant to the scope of this thesis such as foreign market entry, marketing research and strategic planning were discussed. Frameworks necessary for foreign market analysis such as PEST analysis, SWOT analysis and Porter's five forces concept were introduced. Creating theoretical background for further analysis and practical part of the thesis was very important in order to proceed because all of the discussed concepts were later applied practically. What is more, information about e-commerce and its specifics was provided as well because e-commerce represents one of the crucial concepts tackled in this thesis.

At the beginning of the second chapter Casamundo and its history, core values and company structure were shortly introduced. Correct description of Casamundo's core values and internationalization strategy was necessary because it helped to assure match of suggested recommendation with company's general strategy and business direction. The main core values are: team spirit, high customer satisfaction and engagement. These values are supported and executed by Casamundo's employees. They are also key to success in tourism industry. Because of confidentiality reasons first obstacle arisen when working on this chapter. No data on financial performance or sales volume were allowed to be used. Therefore all data regarding Casamundo's activities and performance are based on my own experience gained during the internship.

Furthermore, as already mentioned above all concepts and frameworks discussed in the theoretical part have been applied in conducted analysis and research. PEST analysis mapped Czech macroeconomic environment in terms of four different environments and showed main positives and negatives of conditions on the Czech market. Special focus was given to the technical and technological environment that showed favorable terms for a company using an e-commerce business model. Results of conducted PEST analysis were also one of the main sources for external part of the SWOT analysis.

Analysis of the current competitors present on the Czech market and Porter's five forces model showed that it might be rather tough to gain big market share for an unknown company because there is already established competition including couple strong companies. On the other hand there is a possibility for differentiation,

which would enable targeting significant amount of potential customers. During competition analysis another obstacle has been encountered. According to Casamundo's process not all competitors are considered as relevant. Therefore it was quite difficult to evaluate the exact competitors. To match companies standards only relevant companies were discussed more into detail.

Online shopping habits and behavior of Czech consumers are also inevitable information for appropriate market entry strategy. Even though differences among consumers are decreasing worldwide they cannot be ignored or overlooked. Analysis proved that Czech consumers are still rather conservative in terms of online shopping as well as preferred payment methods. On the other hand, the trend of sales volumes is constantly increasing and accommodation belongs to the most purchased services online.

Third chapter includes evaluation of survey results and recommendation for market entry strategy and adjustments to marketing mix. Survey was conducted to provide better and deeper insight to consumer's motivations and factors influencing accommodation choice. It was also focused on mapping competition from consumer's point of view via unaided and aided awareness. The results mostly match and broaden consumer characteristics introduced in the second chapter.

Taking into consideration all findings recommendations regarding market entry and marketing mix were suggested. Recommendations are based on primary and secondary data collected during marketing research and survey evaluation as well as on SWOT analysis results. Considering all advantages and disadvantages implied that developing of a new website would be an appropriate market entry mode for Casamundo. It would enable usage of already established concepts as well as managerial experience from previous foreign market entries. Opening a subsidiary should be also considered to raise trustworthiness of the company and provide full support for customers. Casamundo's team should be extended with Czech native speakers that would support all the necessary activities needed for the market entry.

What is more, marketing mix requires also some adjustments that would make it more attractive for Czech consumers. Changes to product itself would be difficult but Casamundo's offer enables differentiation on the Czech market. There is a need to make language adjustments, which are especially important because they create user-friendly and comfortable environment for customers. It is also necessary to provide sufficient customer support and maintain high quality standards and long-term relationships with customers. Pricing strategy and distribution cannot be changed because there are mostly created globally and partly given by partners and holiday home owners. The last part of the 4P's provides the biggest room for change because promotion must be adjusted when entering a new market. Raising awareness and building successful brand will require extensive marketing campaign. Such campaign can be developed in different media such as print (magazines and newspapers) and



the Internet. Combination of advertising and direct marketing was suggested as the best communication tools to be implemented.

To sum up it is clear that a foreign market entry is not an easy task but appropriate marketing research, consideration of possible differences and appropriate planning increase the chances of success. Geographical proximity, experience with internationalization and positives of e-commerce can be seen as Casamundo's biggest advantages that should contribute to easy and smooth establishment on the Czech market.

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## **List of appendices**

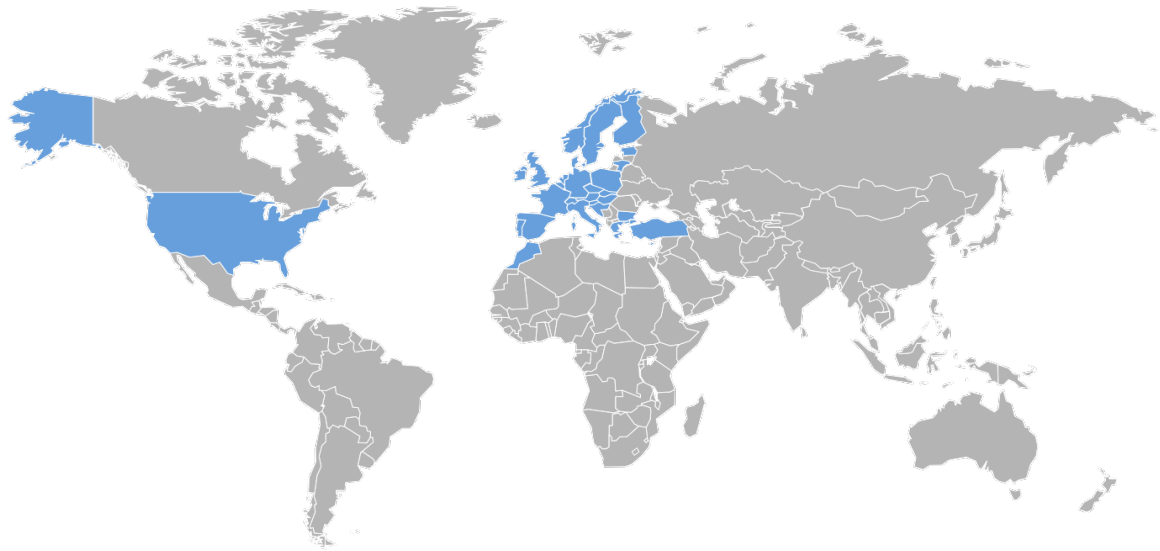
Appendix 1 – Overview of countries in Casamundo's portfolio

Appendix 2 – Full version of questionnaire

## Appendix

### Appendix 1 – Overview of countries in Casamundo's portfolio

Andorra, Belgium, Bulgaria, Denmark, Germany, Estonia, Finland, France, Greece, United Kingdom, Ireland, Iceland, Croatia, Italy, Lithuania, Luxembourg, Malta, Morocco, Montenegro, Netherlands, Netherlands Antilles, Norway, Austria, Poland, Portugal, Sweden, Switzerland, Slovakia, Slovenia, Spain, Czech Republic, Turkey, Hungary, USA, Cyprus



Source: [www.casamundo.de](http://www.casamundo.de), Author's illustration



## Appendix 2 – Full version of questionnaire

### Questionnaire

This questionnaire serves the purpose of getting to know your habits in terms of accommodation rentals. The output will be used for my master thesis. It should help to create an appropriate strategy for a German company planning to enter the Czech market.

In case of any question, please do not hesitate to contact me: [zapletalova.v@gmail.com](mailto:zapletalova.v@gmail.com)

Thank you for your time and cooperation.

Veronika Zapletalova

Important note: when answering questions consider any kind of traveling (vacation, business, family visits, etc.)

#### Gender

- ☐ Female
- ☐ Male

#### Age

- ☐ less than 18
- ☐ 18-25
- ☐ 26-35
- ☐ 36-45
- ☐ 46-55
- ☐ 56-65
- ☐ 66 and more

#### Highest level of education

- ☐ Basic
- ☐ High school
- ☐ Bachelor
- ☐ Graduate

#### Current occupation

- ☐ Employed
- ☐ Not employed
- ☐ Student
- ☐ Retired

How far in advance do you usually book accommodation?

- ☐ more than 6 months
- ☐ 3-6 months
- ☐ 1-3 months
- ☐ less than a month

When planning a trip, who is usually responsible for booking accommodation?

- ☐ Me
- ☐ Family member or friend
- ☐ Travel agency
- ☐ Secretary
- ☐ Other

Where do you usually seek and book accommodation, when planning a stay abroad?

- ☐ Internet
- ☐ Catalogues
- ☐ Travel agency
- ☐ Social networks
- ☐ Friend's advice
- ☐ Other

Where do you usually seek and book accommodation, when planning a stay in the Czech Republic?

- ☐ Internet
- ☐ Catalogues
- ☐ Travel agency
- ☐ Social networks
- ☐ Friend's advice
- ☐ Other

Do you consider current accommodation offer to be sufficient?

- ☐ YES
- ☐ NO (please specify what you miss)

Please name any accommodation providers that you recall

Nápověda k otázce: accommodation provider = portal/website where you can book accommodation

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Do you know following accommodation rentals?

	YES	NO
Booking.com	<input type="radio"/>	<input type="radio"/>
Belvilla	<input type="radio"/>	<input type="radio"/>
Novasol	<input type="radio"/>	<input type="radio"/>
Interhome	<input type="radio"/>	<input type="radio"/>
Villas.com	<input type="radio"/>	<input type="radio"/>
Casamundo	<input type="radio"/>	<input type="radio"/>
Chata.cz	<input type="radio"/>	<input type="radio"/>

Have you ever booked accommodation by any company from the previous list? (Booking, Interhome, Belvilla, Novasol, Villas, Casamundo, Chata.cz)

- ☐ NO
- ☐ YES (please name)

In case you know Casamundo, where did you learn about it?

- ☐ Internet
- ☐ TV
- ☐ Newspaper
- ☐ Magazine
- ☐ Friends
- ☐ I don't know Casamundo

Please evaluate the importance of following factors on your accommodation choice

	Not important	Moderately important	Very important
Price	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Quality	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Location of housing	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Provider	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Friend's advice	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Own experience	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Customer service	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Offer width and variety	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Please evaluate the importance of following factors on your loyalty to accommodation provider

	Not important	Moderately important	Very important
Price	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Quality	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Location of housing	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Provider	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Friend's advice	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Own experience	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Customer service	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Offer width and variety	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Would you appreciate any kind of loyalty program?

☐ NO

☐ YES (please specify - discounts, vouchers, extra services, winning games, bonus for new customer, etc.)

What kind of communication channel do you usually prefer?

☐ Email

☐ Mail

☐ Phone

☐ Facebook

☐ Twitter

☐ Google+

☐ Other (please specify)