
**INCREASING THE COMPETITIVENESS AND
PROFITABILITY OF A SMALL AND MEDIUM-SIZED
ENTERPRISE**

Increasing the Competitiveness and Profitability of Case Company X



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ABSTRACT

The main purpose of this thesis work was to help the case company solve its problems by providing recommendations specifically tailored to the needs of the company, based on the results of the research conducted.

The primary goal of the research was to find a solution to aid in the increase of competitiveness, as well as profitability. In order to fulfil that, two types of analyses were performed, to be specific, SWOT analysis along with PESTLE analysis. These are supported by a personal interview conducted with the manager of the case company.

The findings discovered during the research include the advantages that the company possesses and problems that need to be minimized. The main strength is the company's long-term reputation in the market resulting in a loyal customer base and extensive experience in the industry. Consequently, the research discovered the problems that the business is majorly struggling with, which in this case is lack of strategic management combined with strong competition in the form of multinational corporations.

As for the actual solution, the company in question should start out with the initiation of a strategic planning process followed by further development of the strategy.

Keywords Competitiveness, Profitability, SME, Strategic Planning

Pages 36 p.

LIST OF ABBREVIATIONS

MNC	Multinational Corporation
PESTLE	Political, Economic, Social, Technological, Legal, Environmental
ROI	Return on Investment
SME	Small and Medium-sized Enterprise
SWOT	Strengths, Weaknesses, Opportunities, Threats

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1 INTRODUCTION

Considering the current situation of the market and economy, it is apparent that the environment is rather competitive, hence it is becoming more challenging for smaller businesses to keep up with the pace of larger corporations and still maintain profits. Small to medium size enterprises are indeed a large source of employment. The problem is that SMEs are also rather vulnerable when it comes to the environment. They have limited access to finances and when stronger local competitor or multinational corporations enter the same market, it can affect small business unfavourably. If such situation happens, an SME loses control over a large portion of its customers and it can no longer determine product pricing according to its will. The stronger competition has the upper hand and the SME has to accept the new market rules set by the incoming competitor.

This is the current situation of the case company, which started with growing numbers of SMEs in the same field and followed with the entrance of a national competitor together with a later arrival of a multinational corporation. All these factors have influenced the performance of the company over the past few years. On top of that, the economic situation in the country has not been doing particularly well, which affected the level of demand and requirements of the customers.

Therefore, the author dedicated this thesis to this issue, with the goal of clarifying the factors that potentially hinder the competitiveness of the case company as well as its profitability and discovering the means to deal with them. Nevertheless, the primary aim of the thesis is to find solutions for the problem of the company and provide suggestions about the means of improving that.

1.1 Company Introduction

The case company X was established in 1992 and is located in a small town in Slovakia. It is a private firm, which focuses on the retail of products such as food, beverages, tobacco and drugstore products. In addition to this, the case company also provides service of supplying local schools' as well as kindergartens' canteens. (Malackanic, interview 03.06.2016)

1.2 Research Objectives

The author of the thesis has set four objectives for the thesis as follows: theory, research, analysis and recommendations.

Theory

With the first objective being the theory, the author of the thesis aimed to establish solid theoretical foundations prior to conducting the research. The purpose of the theory was also to gain deeper understanding of the effect of the company's external environment in its ability to compete in the

market, and gain better insight into the level of significance that the possession of a solid and structured strategy has on the current as well as the future success of the company.

Research

The second objective concerns the research, particularly, the assessment of the current situation of the case company which includes its competitive positioning, level of profitability, strategy status, etc. On top of that, the goal was to conduct an interview with the company's manager and execute an environmental appraisal for the further reference.

Analysis

The third objective was the analysis, which is about the identification and consequent evaluation of the problems and strengths resulting from the research conducted. Additionally, it also entails the areas in need of improvement.

Recommendations/Development plan

The fourth and the last objective involves recommendations or the development plan, that is, suggestion of possible solutions or advices for the issues that the company is coping with base on the research results.

1.3 Research Question

The goal of the author of the thesis was to provide an answer for the question „*How can the competitiveness and profitability be improved in case company X?*“.

1.4 Research Methods

These are the research methods that were used to answer the research question and support the process of developing recommendations.

Literature

The author of the thesis used various sources of literature, in order to support the research and provide more detailed and objective recommendations. The majority of the literature comes from secondary data, such as business journals, scientific articles, research papers, books, etc.

Interview

To support the above mentioned literature, one face-to-face interview was conducted to understand the details of the situation further. Therefore, the discussion revolved around the current state of the case company, identification of what needed to be one, acquirement of additional information

that were necessary and the intentions of the manager for the company's future were also determined.

Environmental appraisal

In addition to the interview, two types of environmental scanning, PESTLE and SWOT analysis, were conducted for the sake of gaining better understanding and more detailed idea of the situation.

2 THEORY

In this section, the author of the thesis focused on the achievement of its theoretical objectives defined in chapter 1.2, and gaining comprehensive understanding regarding the most essential subject matters corresponding with the main argument of this research work.

2.1 Competitiveness

Competitiveness can be defined as the ability of an organisation to sell the right range of goods and services, while accomplishing the maximum level of productivity with the lowest cost or effort exerted, relative to its competition. Competitiveness most commonly indicates an edge acquired by higher level of productivity. It is also the capability of a company to meet the standards set by large corporations, in terms of quality of the offering, and the cost to obtain or manufacture them. Competitiveness can be quantified by determining company's profitability or size of its market share. Additionally, the way an organisation performs can also be considered as a metric of competitiveness. (Enright, Frances & Scott-Saavedra 1996)

2.1.1 Competition

Definition of competition is a rivalry between considerably equal opponents or rivals. In competition, the winning side is the one that possesses sufficient competences to manufacture or offer products and services, which are considered superior by an end user, as opposed to the offering of its competitors. (Karloef & Loevingsson 2005, 94.)

2.1.2 Comparative Advantage

Comparative advantage is a theory that assumes the manufacturing of products is dependent on either favourable or unfavourable outcomes for the company, which is determined depending on the location. That means that certain countries have an expertise and achieve a value by producing certain type of goods, when at the same time, they import something that they are not very skilled at producing. Therefore, if the country is able to produce two different types of products, it is advisable to choose only one of them for the production, and the other one for the import. (Karloef & Loevingsson 2005, 94.)

2.1.3 Competitive Edge

Competitive edge is the one aspect that is highly desirable by many organisations. There are various factors that might provide a company with competitive edge. For instance, increasing efficiency of the manufacturing process, inventing or possessing patents, quality marketing and strategic managerial attitude, as well as effectively managed customer relationship management. (Karloef & Loevingsson 2005, 95.)

2.2 Profitability

Profitability is the notion that any organisation needs for its survival, but at the same time, in the past, many were convinced that even though it is crucial for the company, it should not be the only driver for equity or cash investment. There are several concepts of profitability, which are discussed below. (Karloef & Loevingsson 2005, 302.)

First of all, definition of profitability is considered to be a return on investment capital, which has been around for more than a century. In past couple of years, the centre of attention has shifted from return on investment to cash flow, which indicates that the idea of stable profit seems to be insignificant as long as an organisation has the ability to generate enough cash flow, no matter the means of achieving that. Some corporations followed this notion and ended up making irrational choices. (Karloef & Loevingsson 2005, 302.)

As it was mentioned before, profitability is commonly referred to as a return on investment, abbreviated as ROI. The mathematical formula for the calculation of ROI is pictured below.

$$ROI = \frac{\text{Gain from investment} - \text{Cost of Investment}}{\text{Cost of Investment}} \times 100$$

Figure 1 Return on Investment Formula

To calculate return on investment, one must start with subtraction of the cost of investment or total costs from the gains acquired from investment, otherwise known as the total revenue. Then the result should be divided by total costs and subsequently multiplied by 100, to get result as a percentage.

To comprehend the meaning of the return on investment, the particular elements of the ROI formula are explained in detail as follows. Total revenues are prices of the products of services multiplied by their respective quantities. Particular prices are determined by how customers perceive

certain product or service relative to the value they are receiving from purchasing it. On the other hand, the quantity of the sold products or services is totally dependent on advertising competences of a company, the quality as well as price of the offering. (Karloef & Loevingsson 2005, 303.)

Moving on to the costs, there are two different types, and first of them involves fixed costs, meaning the costs remain constant whether the production level or number of units sold is high or low. The other kind includes variable costs, that change depending on the production level or the number of units sold. Therefore, there might be periods, where variable costs are low to none or the complete opposite, where variable costs might also surpass fixed costs. (Karloef & Loevingsson 2005, 304.)

Despite the fact that ROI is considered to be very useful when determining the level of profitability of various organisations, it is not as valuable for firms in possession of expert systems. As an example, in a company that offers data consultancy services, return on investment cannot provide sufficient information about how well the company is doing. This is mainly, because the assets that the company has, might include administrative premises, furniture, electronic appliances like business phones or computers, and even company vehicles. In such cases, when the company is primarily offering services, profitability cannot be determined simply by ROI and there is a need to use other data, for instance the ratio of profit to revenue, etc. Nonetheless, ROI is very useful for those organisations, which rely their operations upon investments in long term assets or supply. (Karloef & Loevingsson 2005, 303.)

Another very important issue concerning this topic is the value of organisation's non-monetary assets, for example, personal competences or expertise. In general, organisations providing services rely upon monetary as well as non-monetary assets. However, it was discovered that fixed assets become particularly insignificant if there is no real knowledge or expertise available to harness those assets. (Karloef & Loevingsson 2005, 304.)

2.3 Strategy

The strategy is well-thought out, specific and extensive plan of an organisation with an aim of using company's strategic assets to cope with various challenges arising from its environment. The primary purpose of the plan is to assure that the goals set by an organisation are successfully accomplished via proper implementation. (Subba 2009, 21.) In addition to that, strategy can also be considered as a company's resolution to adhere to its long term goals, development of plans to achieve those goals, ability to assign resources for successful execution of plans and drive an organisation from its current state to the aspired future state. (Subba 2009, 22.)

In order for a strategy to be successful, it firstly needs to have conclusive and clearly defined objectives. It is the primary role of management to ensure that the predetermined goals are rational and simple enough for anyone to understand. (Subba 2009, 22.) Secondly, it has to be very focused,

which means that its objectives should be set in such a way, that the strategy's focus will be based on company's major strengths relative to its competition. If an organisation has the ability to determine its unique capability that will set it apart from its competition, then it will accomplish more with lesser sacrifices. Thirdly, there is a strong need for adjustability. Strategy, which is easily adjustable to unexpected occurrences will eventually gain extra benefits with lower expenditure, and can possibly bring advantage above competitors. Last but not the least, it is essential that the management is fully dedicated and willing to take all the responsibility for the execution of the objectives. (Subba 2009, 23.)

2.3.1 Levels of Strategy

There are three different levels of strategy as follows: corporate-level, business-level and operational strategies.

Corporate-level Strategy

Corporate-level strategy involves the organisation as a whole. This type of strategy usually deals with issues such as geographical range the company serves, product and service variety, expansion of the business whether it is through mergers, acquisition, internal growth or any other. It is also concerned with distribution of resources throughout the organisation. (Johnson, Scholes & Whittington 2011, 7.)

Business-level Strategy

Business-level strategy is concerned with the means the organisation should utilize, in order to challenge the competition in its respective markets. That is the reason why it is often called competitive strategy. This particular strategy often involves start-up firms or small business units belonging to greater entities. It usually involves matters concerning the innovations that the business might undergo or how it should respond to current action of its competition. (Johnson, Scholes & Whittington 2011, 7.)

Operational Strategies

Operational strategies are about the effectiveness of the corresponding parts of the company in assisting both the corporate and business-level strategy with regards to resources, processes and people. In many cases, success of the strategy is based on the actions that take place at the operational level. Due to that, decisions made at this level should be undoubtedly connected to the above explained 'competitive strategy'. Not only that, but they also have to be closely tied up with corporate-level strategy. (Johnson, Scholes & Whittington 2011, 7.-8.)

That portrays how critical it is to have clearly defined and particularly integrated objectives of strategy. All the levels should be synchronized with each other. Therefore, it is apparent that strategy is rather complex subject, which needs a lot of attention, time and knowledge. (Johnson, Scholes & Whittington 2011, 8.)

2.3.2 Strategy Statements

Strategy statements should include three aspects, with the first of them being the foundational targets, which the company strives to achieve, and those are generally based on the mission, vision as well as the objectives of the company. The second aspect is concerned with the range or realm of operations of the company's actions. The third and the last point includes the specific assets and competences the company possesses to accomplish and support all of this. (Johnson, Scholes & Whittington 2011, 8.)

Mission

Mission is linked with the goals and indicates what the predominant aspiration of an organisation is. Oftentimes, mission of the organisation is explained by answering the question 'What business are we in?'. The purpose of the mission is to aid the management with keeping their concentration on matters which are crucial to company's strategy. (Johnson, Scholes & Whittington 2011, 8.)

Vision

Vision, similarly as mission, is linked with the goals and indicates where the organisation would want to be. It is like a motivation for stakeholders of the organisation that keeps them eager and enthusiastic. In this case, vision can be explained or determined by answering the question 'What do we want to accomplish?'. (Johnson, Scholes & Whittington 2011, 8.)

Objectives

Objectives, as opposed to mission and vision, are much more specific. In the best case scenario, objectives should be measurable in terms of the organisation's achievements over time. They can be concerned with matters such as profitability or market share and the role of objectives is to pose certain authority and control to a strategy. In this case, the question to be answered is 'What do we have to accomplish in the near future?'. (Johnson, Scholes & Whittington 2011, 8.)

Scope

Scope or realm of the organisation involves three aspects, as follows: firm's target customers and clients, geographic area as well as the scale of internal activities, otherwise referred to as vertical integration, which concerns the product as a whole. The relevance of each aspect might not be equal, hence one can be more overriding than the others. Careful consideration of all the three aspects ensures that the organisation knows which ones to focus on and vice versa. (Johnson, Scholes & Whittington 2011, 8.; MaRS Discovery District 2013)

Advantage

Advantage is concerned with the means an organisation will take, in order to accomplish the predetermined objectives in the particular realm and, therefore, it is the most crucial aspect of the strategy statement. It is also referred to as competitive advantage. It explains how an organisation will differentiate from its competition, how it will strive to become successful and what the organisation has more competence or expertise in, relative to its competitors. (Johnson, Scholes & Whittington 2011, 8.; MaRS Discovery District 2013)

2.3.3 Development of Grand Strategy

Grand strategy is very thorough universal strategy that serves as a foundation for the orientation of the strategy with the aim of achieving long-term objectives of the company. The grand strategy entails three different types of strategies, that is, growth, stability and retrenchment strategy. The growth as well as retrenchment strategy make sure that the objectives are accomplished by using very distinctive methods, as opposed to stability strategy. In the latter one, executives attempt to retain current state of affairs, while the organisation is performing satisfactorily and is not eager to jeopardize it through rapidly advancing growth. In this research, the author of the thesis decided to focus mainly on the growth strategy and briefly describe the remaining two strategies. (Chandan 2009, 155.-156.)

Growth Strategy

Growth strategy is concerned with, as the title of it obviously states, the growth or otherwise said expansion of the already existing business and its goal is to expand the range of its current operations. Such strategy indicates higher level of revenues, sales, larger market share and even higher numbers of staff needed. There are several possibilities as for how to expand the existing business. For instance, the organisation might do it through penetration of new markets with the existing product and services; through differentiation of current product and service portfolio in the existing market, for the sake of expanding its customer base or by launching completely new products or services, in order to make company's offering more appealing to the customers. (Chandan 2009, 156.)

Growth strategy is rather appealing among the managers due to the idea of growth equalling to almost guaranteed success (Barnat 2014). Nonetheless, this strategy has many of its own perils, and requires thorough examination and prediction of company's both current as well as future environment, possession of sufficient resources and reasonable market share. While the growth is an aspect that is required, at the same time, many organisations yearn after it; whereas growth signifies the success and competence of the executives, what as a consequence is very appealing to skilled potential workforce. Therefore, growth requires having a comprehensive and detailed strategy, in order for its execution to succeed. (Chandan 2009, 156.) In addition to that, the company that strives to achieve growth needs to be producing certain amount of surplus. It can be spent

through various means, such as increase in employees' salaries, allocation of rewards, dividend allotment or price reduction of product and service range of an organisation. In addition to that, it can be also used for both internal and external growth of the company, while the author of the thesis focuses on the internal growth in this part. (Barnat 2014)

There are four potential strategies for growth, as follows: concentration, vertical and horizontal integration and diversification strategy. (Chandan 2009, 157.)

Concentration Strategy

Concentration strategy, further divided into three sub-strategies, namely market penetration, market development and product development, is concerned with having an impact on the growth of either current market, new markets or particular product or group of products and services. The primary goal is to attract new customer base with existing products or by inventing new ones similar to the existent offering. (Ansoff 1957, 113-124.; Chandan 2009, 157.)

Vertical Integration

Vertical integration can have two separate directions. The first of them is backward integration, in which an organisation manufactures its inputs instead of purchasing them from suppliers. Second direction is forward integration that means the organisation distributes its outputs. (Chandan 2009, 157.)

Horizontal Integration

Horizontal integration means that the company grows through obtainment of at least one of its competitors. This takes care of the competition and expands product range as well as the customer base of the company. (Chandan 2009, 157.)

Diversification

Diversification is concerned with stimulation of growth of the company by expanding its range of operations to completely different department than that of the original focus. Growth through diversification can be achieved by reducing the perils arising from the environmental changes, while operating in a single business field. (Chandan 2009, 157.)

Stability Strategy

Stability strategy focuses on the notion of 'If it works then leave it alone', therefore, when business is performing well enough and the environment seems to be unfluctuating, the organisation perceives it to be a good idea to avoid any adjustments. This particular strategy is used when the company's current product portfolio, customer base and market share fulfil ex-

ecutives' expectations, and consequently, they are not willing to put achieved stability into jeopardy by attempting to grow. Furthermore, this strategy may be adapted even in case the managers are not eager to change or try new methods, and it is commonly applied in companies that are rather small, in private possession and are performing favourably with well-founded customer base. (Chandan 2009, 158.)

Retrenchment Strategy

Retrenchment strategy is evidently associated with reduction in both product and service offering of an organisation or its staff count. It is generally used in cases when the company is coping with particularly challenging and resilient competition, shortage of resources or during periods of economic crash. In the worst case scenario, this strategy may become an obligation if the company wants to sustain itself. There are four different types of retrenchment, as follows: harvest, turnaround, divestiture, bankruptcy and liquidation strategy. (Chandan 2009, 158.)

2.4 Small and Medium-sized Enterprise

Micro, small and medium-sized enterprises, abbreviated SMEs, are regarded to be non-auxiliary enterprises, which are rapidly expanding and are indeed paramount for most economies in the world. (Hathway Management Consulting 2013, 3.; OECD 2016, 21.)

In the European Union, SMEs total 99% of all the enterprises. SMEs are major provider of employment, encourage entrepreneurship among others, and are a source of innovation, therefore, that is the main reason for their significance. (European Commission 2005, 3.) SMEs are considered to be those enterprises which have less than 250 employees, annual turnover lower than 50 million Euro and annual balance sheet not surpassing 43 million Euro. Nonetheless, SMEs often struggle with acquiring finances, especially those businesses that are in their beginnings. Due to the fact that they have limited resources, it can consequently limit their chances of obtaining newer scientific know-how and hinder possible developments. (European Commission 2005, 5.)

Company category	Staff headcount	Turnover	or	Balance sheet total
Medium-sized	< 250	≤ € 50 m		≤ € 43 m
Small	< 50	≤ € 10 m		≤ € 10 m
Micro	< 10	≤ € 2 m		≤ € 2 m

Table 1 The thresholds for SMEs

SMEs are described and divided based on three criteria. The first one is the number of employees or staff headcount, annual turnover and annual balance sheet. Above in the Table 1, there are all criteria thresholds for micro, small and medium-sized enterprises defined by the European Union. (Levy & Powell 2004, 20.)

2.4.1 SME Influences

SMEs are influenced by five primary factors, which are: market, independence, personal influences, flexibility and innovation. (Levy & Powell 2004, 20.)

Market

The business environment, where SMEs run their businesses, involves aggressive competition, that has an impact on sustainability of each enterprise. (Levy & Powell 2004, 21.) Considering that majority of SMEs have much lower market share, it is rather difficult for them to have any impact on the price, which results in SMEs taking already existing market prices. Bigger corporations have larger market share, therefore, they have much larger influence on the market, which enables them to set the price instead of SMEs. As a result of that, SME can be very negatively influenced by the entrance of any large corporation into its market, because such corporation has the ability to challenge smaller businesses and start the rivalry by setting competitive pricing. (Levy & Powell 2004, 21.)

Independence

Independence of SMEs refers to the fact that they are not obligated to operate under the supervision of larger corporations, both in terms of capital as well as resolutions. Therefore, the performance of the company is highly dependable on the actions and managerial skills of the manager. This can turn out to be both advantage and also big disadvantage, it all depends on the management of that particular business. (Levy & Powell 2004, 21.)

Personal

SMEs are usually operated by one or a few owners, hence the company is largely influenced by their personal attitudes and expertise. Whether it is one or a few owners, all of them are generally part of day-to-day managerial facets of the company, which in turn can result in complications once the organisation gets to the point, where it is necessary to assign responsibilities, even such as decision-making to the subordinates. Consequently, personal characteristics of each individual owner have large impact on the organisation as a whole. (Levy & Powell 2004, 22.)

Flexibility and Innovation

Flexibility and innovation are two characteristics that SMEs are well known for, and the reasoning behind that is their capability to react promptly to rapidly increasing requirements of customers and ever-

changing market environment. SMEs' critical feature is the ease with which they are able to adjust to unexpected developments, which is considered to be very advantageous, and at the same time dependent on other organisational aspects. (Levy & Powell 2004, 22.)

Additionally, innovation is the second critical characteristic of an SME and is highly dependent on personal features and specifically approach of its owners. This feature is concerned with owner's ability to react to constantly changing market and product demands, by using own expertise and personal know-how. As opposed to larger entities, SMEs have possibility to do small test runs for new products, which gives them prospect of flexibility as well as innovation. The two features are key to running successful business, but only in the case that managers are willing enough to adjust to modern practices, new methods and technologies. (Levy & Powell 2004, 22.)

2.4.2 Multinational Corporation

Recently many organisations have been aiming to expand their operations either internationally or globally, what also influences the strategy of the business. Entering foreign markets offers great opportunity for companies to grow, but at the same time it poses certain perils arising from the fact of foreign environment. This type of expansions serves well for businesses that aim to lower their expenditures by using more affordable raw materials or cheaper labour. (Jones & Sloman 2011, 185.)

That introduces the topic of multinational corporations (MNCs) that are generously spread all around the globe. MNCs are organisations which might possess or manage auxiliary organisations in several different countries. MNCs differ from the enterprises that are simply operating outside its national base through export or import of goods, by owning or managing the assets of its auxiliaries in various nations. (Jones & Sloman 2011, 186.)

In the world, there are approximately 80 000 multinational corporations that manage almost 800 000 auxiliaries across the world. They also provide the employment for roughly 82 million people. (Jones & Sloman 2011, 185.)

MNCs differ in several different aspects, namely, size, type of business, manufacturing location and forms of ownership. Starting with the size, even though it is obvious that the majority of MNCs is fairly large, and in certain cases their revenues surpass the national income of some nations, there are still considerable numbers of very small MNCs that commonly specialize in some particular area of business. Another case of small MNCs are those corporations that had undergone retrenchment, while eliminating redundant administrative level, in order to ease decision-making process or to initiate more autonomy. (Jones & Sloman 2011, 186.)

Next aspect discussed is the type of business, whereas MNCs across the world embrace all forms of business that exists out there. Therefore, it is safe to say that MNCs do not have one most common type of business activity, as their operations range from manufacturing, agriculture industry and funding to delivery of services. (Jones & Sloman 2011, 187.)

Manufacturing location is another characteristic that differentiates MNCs from one another. There are those, which are undoubtedly multinational and then there are the opposites that operate in either two or very few countries. In some cases, the organisation does not have other choice than to operate only in very few locations, due to scarcity of raw materials, which are available only in certain places. Similarly, those companies that provide specialty or luxury products and services are generally located in countries, where people can afford and are willing to buy it. On the other hand, the companies that have their operations based heavily on the manufacturing, either choose locations with cheap labour or countries with technologically skilled labour in case the firm's production is based on the use of machinery. (Jones & Sloman 2011, 187.)

Lastly, talking about the forms of ownership, MNCs have the opportunity to choose from large variety. Multinational corporations have a choice of doing the business on their own, which would also mean they would own all the auxiliaries. Another option would be shared ownership (e.g. joint venture), which always entails certain perils as there is another owner. (Jones & Sloman 2011, 187.)

2.5 Environmental Appraisal

Environmental scanning is necessary prerequisite, when developing a successful strategy. In business environment there is a possibility to manufacture and develop both products and services, and then deliver them to the customers or end-users. On the contrary, the same way as the environment gives an opportunity, it also involves serious threats and challenges that every business should be ready to cope with. In order to do that, organisations need to use their major strengths, develop them further, and make use of current awaiting opportunities to deal with threats and anticipate challenges. Environmental analysis aids the organisations in recognizing their strengths, opportunities as well as threats and weaknesses, hence assists in smoother strategy development and productive operation of the business in challenging environment. (Subba 2009, 52.)

2.5.1 Tools for Environmental Appraisal

There are many different tools and techniques available to execute environmental scanning. However, the author of the thesis concentrated only on two, namely PESTEL framework and SWOT analysis.

PESTEL Framework

PESTEL or PESTLE framework focuses on analysing the macro-environment of the organisation, meaning those external factors that might possibly influence the company, and is divided into six categories that influence the environment, as follows: political, economic, social, technological, environmental and legal. All of them can either bring opportunities or pose threats. (Johnson, Scholes & Whittington 2011, 50.; Jurevicius 2013)

Political factors have significant influence on any business, mainly due to the fact that government has upper hand on decision-making, concerning rules, policies and procedures, which can largely affect the company in a matter of short time. These factors are especially important if the business is aiming to grow in foreign markets, determining where to manufacture and sell the offering and even the site of company's head office. (Johnson, Scholes & Whittington 2011, 50.; Makos 2015)

Economic factors provide an idea about current state of local economy, which can change dramatically over time. It includes assessment of exchange rates, inflation levels, economic growth rates, unemployment level, etc. (Johnson, Scholes & Whittington 2011, 50.; Makos 2015)

Social factors are concerned with the mindset of local customers, otherwise called as demographic factors. It includes numbers of aging population, education, dissemination of wealth or changes in culture. (Johnson, Scholes & Whittington 2011, 50.; Makos 2015)

Technological factors deal with the assessment of the current technology and innovations on hand. These factors, if used properly, can impact operations of the business and improve the expertise by maintaining its product offering up-to-date. Involvement of technology is becoming more and more critical, thus, it is important to identify it and make a use of it. (Johnson, Scholes & Whittington 2011, 50.; Makos 2015)

Environmental factors are concern not only for the state, but also for customers and all the stakeholders, in general. Companies receive penalties if they do not comply with the latest environmental policies and laws. On the other hand, if they do comply with the pre-set standards, customers are more likely to cooperate with those organisations. It entails, for instance, environmental consumption regulation, waste disposal or pollution law. (Johnson, Scholes & Whittington 2011, 50.; Makos 2015)

Legal factors entail knowledge of various laws, legislations and regulations in that particular country. By being aware of these factors, business can prevent unwanted expenditures arising from legal concerns. (Johnson, Scholes & Whittington 2011, 50.; Makos 2015)

SWOT Analysis

SWOT is an analysis, which is mainly used for the assessment of both the internal as well as external environment of the business. SWOT is abbreviation and stands for Strengths, Weaknesses, Opportunities and Threats which could possibly affect the process of formulating business strategy. (Johnson, Scholes & Whittington 2011, 106.)

Strengths are those factors, which provide the organisations with advantage against its competition, and weaknesses are the exact opposite, hence those factors, which can put organisation into jeopardy if the competition uses them. Both strengths and weaknesses are internal factors, therefore, they can be handled by the company itself. Opportunities are beneficial circumstances or factors that give the company competitive advantage over its rivals, whereas threats are disadvantageous circumstances that may have harmful impact on the operations of the company. Opportunities as well as threats are external factors, which means that the company cannot directly affect them and must rely on timely anticipation and consequential actions. (Johnson, Scholes & Whittington 2011, 106.; Jurevicius 2013a)

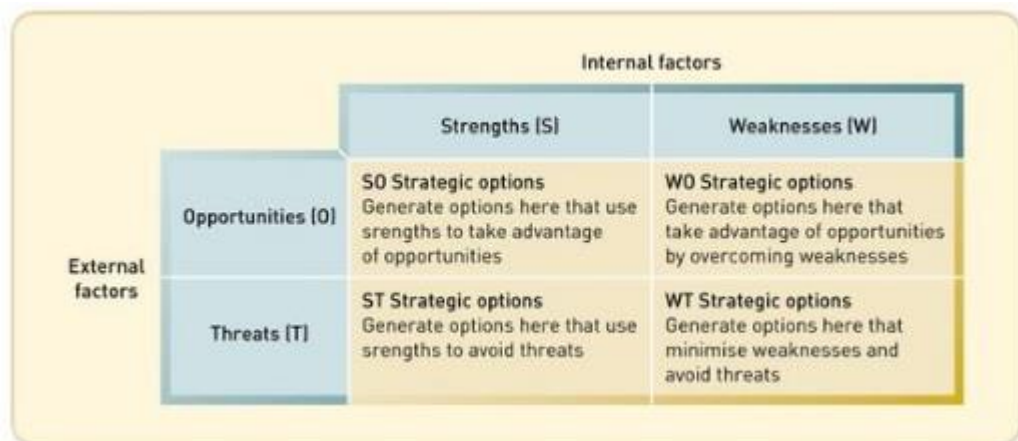


Figure 2 SWOT Matrix (Johnson et al., 108)

Above Figure 2, portrays SWOT matrix, where on its most left side are the two external factors, opportunities and threats, and right on the top of the matrix there are internal factors, strengths and weaknesses. Those are the first matters that need to be identified, and after this is completed, the process moves on as according to the figure. (Johnson, Scholes & Whittington 2011. 108.)

The person working on the SWOT analysis should provide ideas on how to use identified strengths of the company to make a good use of its current opportunities. After that, the same process should be carried out with the remaining factors. Therefore, determining possible ideas about how to use company’s opportunities to deal with its weaknesses as well as the way to use its strengths to anticipate and cope with possible incoming threats. Lastly, there is a need to generate ideas to overcome the weaknesses and threats that exist, and it might also include the worst case scenario. (Johnson, Scholes & Whittington 2011. 108.)

3 CURRENT SITUATION

To assess the current situation and execute the actual research, the author of the thesis conducted an interview, followed by environmental scanning consisting of SWOT as well as PESTLE analysis.

3.1 Interview

The interview consisted of the number of questions varying from the past experiences and success, changes that have occurred over time, current situation of the company as well as potential future encounters.

1. How long have you been in business?

The business has been in the operation for 24 years, since 1992. (Malackanic, interview 03.06.2016)

2. What are the differences between the business situation before and nowadays?

The business used to be very profitable before, because there was less competition and larger chain stores and corporations had not been opened. Furthermore, employee regulations were more lenient and social security together with health insurance costs bore by the employer were lower. Additionally, online shopping has gained popularity among younger generation resulting in sales reduction. (Malackanic, interview 03.06.2016)

3. How was the business situation before the acceptance of Euro and joining the European Union?

The business was doing undoubtedly better than it is now, but Euro and joining the EU as such did not influence it to a very large extent, instead the economic crisis, and especially big supermarket chains did. (Malackanic, interview 03.06.2016)

4. What are the changes that were caused by shift in demographics?

Due to the fact that the town is small, there are less job prospects. Majority of the young generation would like to or have already moved to bigger cities. That has caused a demographic change in the area, hence mostly retired pensioners or middle age people live in the town. Therefore, they mostly opt to buy cheaper and inferior quality products, on which profit margins are low, compared with better or more recognised brands. Additionally, young people are often interested in buying quality products, which may cost more than regular ones. (Malackanic, interview 03.06.2016)

Currently, old customers are still most loyal customer to our business, but that might change in the future. For this reason, it would be beneficial to invest more in diversification of the product range and attracting potential

customers through online business, as well as providing better quality products with decent price range. (Malackanic, interview 03.06.2016)

5. What is the impact of the internet on business?

Fortunately, internet has not affected the business to a very high degree yet, because demographic structure of the location, where the company is located comprises mostly of older people as well as youth that still lives with the support of their parents. Consequently, pensioners do not currently use online services and young people have their shopping done by their parents. (Malackanic, interview 03.06.2016)

However, in next few years there is a prospect of starting an online platform, due to its lower costs and grocery business moving online, while older generation can also have convenient shopping done on the internet. (Malackanic, interview 03.06.2016)

6. How does inflation and increase in variable costs such as utilities and employee wages affect profitability of the business?

At the moment inflation is rather low, therefore prices of variety of products are stagnant or have been reduced. On the other hand, costs of operating business have been constantly increasing due to higher utility costs, increasing wages as well as higher maintenance costs of the premises. (Malackanic, interview 03.06.2016)

7. What is the effect of competition on the business?

Increasing competition has caused profits to reduce and opening hours have been prolonged to gain competitive advantage over competitors. Furthermore, the product range has been diversified. The business is also trying to obtain fresh products to satisfy consumers, and it has also started selling locally produced goods, as opposed to larger competitors, who sell their own brands. (Malackanic, interview 03.06.2016)

8. How is the business affected by constantly changing legislation and laws?

The effect is mostly negative, due to the fact that the changes usually result in unnecessary expenditures. (Malackanic, interview 03.06.2016)

3.2 SWOT Analysis

Internal Factors	Strengths	Weaknesses
	<ul style="list-style-type: none"> • Long time in the market/Reputation • Personal approach • Experience/Strong foothold • Fast service due to its size/Convenience • Strategic location 	<ul style="list-style-type: none"> • Not asking for customers' opinion/feedback • Insufficient marketing/promotion • Low margin • Limited flexibility in pricing
External Factors	Opportunities	Threats
	<ul style="list-style-type: none"> • Customer loyalty • Open more stores/Expand • Improve visibility through marketing • Introduce new or additional services • Online sales 	<ul style="list-style-type: none"> • Bureaucracy in legal matters • Changes in laws and regulations • Chains can offer better or cheaper deals • Constantly increasing competitiveness in market • Excessive accrued inventories

Figure 3 SWOT Analysis

SWOT analysis covers current strengths and weaknesses of the case company, as well as its potential opportunities and threats. The first two factors are internal, meaning that the company itself has the ability to influence them. On the other hand, the latter two are external, thereby coming from external environment, which disables the company's chances to affect them. Furthermore, there are strategic options that combine internal with external factors, in order to make use of the positive factors and deal with the negative ones. The outcome of this analysis, which is discussed in depth below, is based on the author's findings and interview with the manager of the case company. (InnoSupport 2016; Renault 2016)

Strengths

First of all, the author of the thesis identified strengths of the case company that consist of the following points. The main advantage of the company is, first and foremost, good reputation which was achieved by its long-term operations in that particular market. Local customers have known the store as it is now for over 24 years, and similarly, the personnel are rather familiar with regional clientele due to low employee turnover rate.

Partially derived from the first point are also the consecutive two. The first one offering unique advantage is personal approach to individual customers, due to the fact that staff is aware of the customers' needs and wants on very personal level as compared to its competitors. The reason for this is that loyal customers have been coming to the store for years, therefore, there are cases when some goods are exclusively ordered just for some particular customers.

Furthermore, when it is needed, personnel usually help older people do their entire shopping, and in case of large purchases member of the personnel helps to carry customer's shopping to their vehicle. Second one is

experience in the business and knowledge of the market gained throughout almost two and half decades of serving the market. Such experience resulted in management possessing greater knowledge, thereby having better apprehension of the market as well as having well-established connections with suppliers.

Another strength is more or less related to the convenience that comes with doing the shopping in the store. Considering the fact that it is considerably smaller than other stores belonging to larger chains, it is significantly easier to find what a customer is looking for and faster to check-out. Last of the strengths is the strategic location of the store. The case company is located on the main street in the town, but at the same time, it is enveloped by the housing development. Therefore, it is an asset to the company, when attempting to attract new customers.

Weaknesses

The second internal factor that was analysed by the author of the thesis consists of the weaknesses that the case company is currently coping with. One of the matters which is the weakness and could be improved in the future, is the absence of asking for customers' opinions and feedback. This is very crucial in situations such as the one that the case company is experiencing. It is important to communicate with customers, in order to gain awareness of new and constantly changing demands.

Even though the company has been operating in the same location for 24 years, and the store itself is hard to overlook due to its location, its insufficient marketing and promotion activities are still considered as a weakness. Presently, consumers strive to look for the best deals and lowest prices, while maintaining the average quality of goods with the intention of saving their earnings. This is where marketing and promotion come into use, considering that the competitors might not even offer better value at all times, they just excel at advertising it.

Additional weaknesses of the company are low margins on the products sold, together with rather limited flexibility in pricing. Goods such as any food, fruits and vegetables or tobacco are all known for its very low margins, which cannot be influenced by small enterprises. Moreover, SMEs do not have the advantage of having flexible pricing, whereas they are unable to make bulk orders, which would allow that to happen. Consequently, larger stores or any multinational corporations are able to use it to their benefit.

Opportunities

The second part of the SWOT analysis focuses on external factors, starting with the opportunities that the case company faces with. One of them is the potential expansion of the company, which would involve opening additional stores in different locations. Opportunity such as this could increase the customer base of the company, and at the same time, improve its profitability if the new target area is chosen strategically.

Furthermore, there is an option of improving the visibility of the case company through more aggressive marketing or establishment of an online store. Major focus should be on the online store development that has ability to increase the visibility by itself, and with the additional help of advertising it would only multiply. Online stores offer broader area coverage as well as wider product portfolio, while providing comfort for busy and older customers.

Apart from the online selling, introduction of supplementary services is another viable possibility for the store. Taking the issue of aging population into consideration, the case company has the perfect chance to offer various complementary services related to this particular matter, solving two problems at the same time. Lastly, there is an opportunity to build and sustain customer loyalty, in order to strengthen its position in the market, and attract more customers through already existing ones.

Threats

The second and last external factor - threats - is the most dangerous to the business, and the company must try to anticipate it. To begin, it is the best to point out the obvious ones, and that is the fact that multinational corporations or similar larger chains have the ability to set the market price, while they also have the advantage of offering better deals for consumers. Large corporations have the benefit of buying the stock in bulk quantities, resulting in lower prices and higher profit. In addition to that, competitiveness in the market is constantly increasing, which is substantially challenging for small enterprise competing with multinational corporations.

Excessive accrued inventory poses another threat, where the case company might attempt to gain same advantage as bigger companies by ordering in larger or even bulk quantities, but is unable to dispose of the goods in due time. Similar situation can occur if stocking up on products that are rather new in the market, and the particular clientele of the store ends up not liking them.

Finally, there are last two points that are mutually interconnected, and are related to the legal system. Firstly, there is the threat of bureaucracy, where the government pointlessly attempts to make administration of the business complex, resulting in processes that are time consuming and redundant. Secondly, company is facing the issue of frequently changing laws and regulations. The changes required are often to no purpose, while involving expenditures of wasteful amount of mostly financial resources.

3.2.1 Strategic options

Strategic options are the second part of SWOT analysis, where after determining all internal together with external factors, the author of the thesis generates options to:

- possibly utilize strengths in order to take advantage of the company's opportunities,
- make the most of opportunities by dealing with weaknesses,

- utilize strengths in order to refrain from threats,
- reduce weaknesses as much as it is possible, and keep away from threats. (Johnson et al., 108)

Strengths and Opportunities

The case company can use its already prominent location for the sake of increasing visibility of the store. Its position on the main road just simplifies certain part of the upgraded marketing process.

Its 24 years of experience can pose as a very useful asset if attempting for expansion of the company. Undoubtedly, it is much easier to open another store, when the person already possesses knowledge of opening and running one for years. On top of that, the long term reputation might prove to be beneficial when the management is considering to run an online platform or add supplementary services to its offering. The reason for this, is the fact that many people know what they can expect from this particular company, therefore, they will not be afraid of trying out new ways of shopping.

Weaknesses and Opportunities

Increasing visibility by enforcing well-developed marketing and promotion strategy has the potential to improve company's ability to compete in the market, and in the best case scenario, even overthrow its competitors' deals in case the marketing is done effectively.

Customer loyalty can be achieved as well as enhanced by giving customer an opportunity to voice out his or her opinions, when testing new products or even asking him or her for feedback of newly invented or current business processes. By making customers feel that their ideas matter and are heard of, the company will make them feel that their presence is important and that they are cared for.

Furthermore, running an online platform gives management the opportunity to have higher margin on the products sold, due to the fact that it requires rather low expenditures. Online store needs a domain and warehouse, but there is no need for the store which would incur additional expenses such as rent, electricity, water, maintenance, wages for the employees etc. There is also another option, i.e. to keep margin the same and offer lower prices, in order to have higher turnover.

Strengths and Threats

The advantage of personal approach may help the company to compete in the challenging market, and in some cases, it can also beat better deals offered by competitors. Certain consumers prefer close assistance or good attitude over cheaper deals, which is not usually possible in larger stores, consequently gaining additional customers for the case company.

Moreover, long-term experience in the field means plenty of knowledge regarding the management of the business and other legal matters, which as a consequence, might aid in limiting the pressure, workload and time spent on the bureaucracy in the day-to-day administration.

Weaknesses and Threats

Asking customers for their opinion and feedback can solve certain problems of the company. For example, if the management knows its customers' needs and preferences, it can avoid situations where it would end up with excessive or wasted inventories. Additionally, more assertive marketing plan gives it an opportunity to change its competitive position in the area.

3.3 PESTLE Analysis

PESTLE Analysis	
Political	<ul style="list-style-type: none"> • Corruption (cartel) • No funding for business • High social security and health insurance contributions for employees • Pay increases (at least once a year) • Supermarkets have tax advantages over SMEs
Economic	<ul style="list-style-type: none"> • Weak labour market (high unemployment) • Less disposable income • Low economic status • Interest rates low on mortgages for regular people • Entrepreneurs cannot get mortgages easily and have higher interest rates
Social	<ul style="list-style-type: none"> • Pensioners and young people • Low education and low wage earners • Medium to low living standards • Consumers prefer low price/quantity over quality
Technological	<ul style="list-style-type: none"> • Internet • Consumer attitudes slowly steer towards online shopping
Legal	<ul style="list-style-type: none"> • Bureaucracy • Inventory stock check • Inspection • Often changing laws • Cash terminal change
Environmental	<ul style="list-style-type: none"> • Proper cooling temperatures and storage conditions • Liquidation request

Figure 4 PESTLE Analysis

PESTLE analysis includes six external environmental factors, namely political, economic, social, technological, legal and environmental, affecting the business. Therefore, the case company itself is unable to directly influence any of these factors. However, all the six factors have rather significant effect on SMEs, due to the fact that they do not possess enough negotiating power as opposed to large multinational corporations, which on the contrary have the advantage to intervene on higher governmental levels, under some circumstances.

Political Factors

Political factors involve matters such as government and funding policies, taxation, government structures or degree of corruption. In Slovakia, one of the most predominant political factors affecting small businesses like the case company is high level of corruption. It can be encountered in the lowest as well as in the highest levels of society, including government. Just recently, there has been a cartel agreement made between bigger firms in the country to set and consequently control prices of certain products according to their liking.

While discussing the subject of larger companies, they also have taxation benefits that smaller enterprises do not have, therefore holding further advantage over SMEs. (Business Survival Toolkit 2016; Team FME 2013)

Furthermore, funding for businesses is almost non-existent, which is a big disadvantage for small companies that could make use of some financial aid from the government. Although there is one way to get funding for the business, the conditions for its acquirement are very specific and hard to fulfil, thus making it very unlikely for the companies to receive any funds.

High social security and health contributions that employer must pay for its employees are another factor that has negative influence on the business. On top of that, employees' wages increase at least one time each year, what contributes to the addition of higher financial burden on the entrepreneurs.

Economic Factors

Economic factors include matters like interest rates, inflation rate, unemployment levels, economic status or disposable income of consumers. Slovakia has considerably weak labour market, due to consistently high unemployment rate over past years. Consequently, consumers have lower disposable income, considering the fact that many of them are unemployed people seeking job vacancies. This is one of the main reasons causing decreased profitability of the business in the country. Partially due to above mentioned factors, people's economic status is relatively low, resulting in lower living standards as well as lower product requirements. (Matabadal 2014; Team FME 2013)

Interest rates in Slovakia are considerably low on mortgages taken from banks, but those who do not fulfil criteria to take a mortgage from a bank,

turn for help to instalment companies that offer smaller mortgages with significantly disadvantageous interest rates.

Furthermore, conditions to get a mortgage are comparatively tougher to accomplish for entrepreneurs than those for regular citizens, and the interest rates are higher for them, as well. All these unreasonable factors make it very inconvenient for the enterprises to seek for financial help from banks.

Social Factors

Social factors deal with issues such as demographic structure of society, education levels, living standards, lifestyle, career trends together with attitudes and beliefs of the consumers. (Business Survival Toolkit 2016)

The area where the case company is located is mostly populated with pensioners and young adults, whereas both groups have rather varying preferences. Pensioners would like to have undivided attention of the store personnel when doing their shopping, while young customers would most likely prefer to have their shopping done online and ready for pick up, whenever they have time to come and get it.

Additionally, the store is located in rural town, where level of education is quite low and the population itself consists of mainly low wage earners. Accordingly, people living there have medium to low living standards. These three factors together influence general attitudes and preferences of consumers in the area. In general, customers prefer either low quality or high quantity, over quality of the products offered, which makes it much harder to increase the profitability.

Technological Factors

Technological factors involve matters like consumer attitudes, buying patterns of consumers, internet, etc. For the case company, there are not many such factors affecting the business at this point. However, there are few such as the internet. These days it is becoming more and more popular to do the shopping online, taking into account that in many cases it is more convenient and cheaper at the same time. If the grocery shopping moves to an online platform, it might affect company's revenues in positive manner. (Business Survival Toolkit 2016)

Moreover, government requests the change of cash terminal technology quite frequently, and that requires constant training of personnel as well as incurs additional expenditures to the business. (Malackanic, interview 03.06.2016)

Legal Factors

Legal factors consist of consumer protection law, domestic and European legislation as well as industry specific legislation. First of all, there is a lot of bureaucracy in Slovak legal system. Administration and day to day running of the company is made unnecessarily complicated, as well as time and money consuming. (Business Survival Toolkit 2016)

Laws are changing very frequently, thus the management has to constantly keep a close eye on statute books and other documents necessary to keep the manager updated about new codes and regulations.

Consumer protection in Slovakia is significantly strict, meaning that consumers are rather well protected. The store has frequent inspections that are concerned with every small and sometimes even unnecessary detail. Oftentimes, inspection result in the business paying a fine or having redundant expenditures, due to inspection confiscating or rendering certain goods unfit for sale.

For example, due to forged imported alcohol from other countries to Slovakia, supplementary inventory check of the entire alcohol stock was requested last year. (Malackanic, interview 03.06.2016)

Moreover, as a result of frequent scams in the country, government often requests change of the entire cash register system every few years. In most cases, the new technology ends up being rather costly for the company and the additional training of the personnel is required as well. That tends to take up a sizable amount of time and financial resources, too. (Malackanic, interview 03.06.2016)

Environmental Factors

Environmental factors involve issues such as disposal of materials or energy availability and its cost. Even though, environmental issues are of concern in Slovakia, they are not very common matter in the industry of the case company. (Business Survival Toolkit 2016; Team FME 2013)

Nevertheless, the company still has to manage to maintain proper cooling temperatures and storage conditions of products, especially in the case of groceries such as dairy and baked goods, which tend to spoil very easily. (Malackanic, interview 03.06.2016)

In addition to that, there are certain rules when it comes to disposal of edible materials. For instance, if the company has expired meat left unsold, it has to send a liquidation request to rendering plant to have it disposed of. (Malackanic, interview 03.06.2016)

4 ANALYSIS

For the analysis part of this research work, the author of the thesis decided to divide it into three separate sections, with its own strengths and problems. The first section is the analysis of the personal interview conducted with the manager of the case company, the second is the SWOT analysis, and lastly, the third is PESTLE analysis. In each one of the three sections, there are individual strengths and problems that were deduced from the research that was carried out.

4.1 Interview

After careful examination of the interview answers given by the manager of the case company, the author of the thesis pointed out a couple of the most relevant positive and negative aspects resulting from the outcome of the interview that was carried out as the part of this research work.

4.1.1 Strengths

To begin with the strengths, one seemingly bland, but at the same time very advantageous for the case company is its tendency to retail more of locally produced goods, which are at the same time fresh. As opposed to large corporations, the case company gets its bread and pastries from the local or regional bakeries, which are freshly made at that particular bakery and not just baked out of some frozen pre-baked form. Many customers often ask for certain type of bread and pastry from specific bakery they are in favour of. This works for many other products of similar kind and brings a huge advantage over MNCs.

Next positive factor on the list, is longer opening hours when compared to most of its competitors. This fact combined with the location of the business offers a certain upper hand, which can be utilized for the benefit of the case company. Longer opening hours than usual are in the effect even during the holidays such as Easter or Christmas. The store usually has less employees, therefore it can get slightly more hectic. However, it often pays off, considering the fact that many times rushed customers come in the last hour, to buy something they forgot or need urgently, while thanking that the shop is opened, because all others in the area are closed.

The last strength deduced from the interview is the firm's openness to the prospect of online expansion of the business. The reason for mentioning it is that many SMEs feel like it is unnecessary or absolutely pointless to get into anything of that sort, when taking into account the field of the retail business, where the case company runs its operations. It is rather reassuring to see that the firm realises the position it is currently in and also that it is crucial to be more innovative and steer towards more modern ways of executing the sales. This point can aid in boosting company's competitive positioning, which is more than likely to increase its profits at the same time.

4.1.2 Problems

Moving on to the negative factors causing difficulties for the case company, there are a few, while some of them may or may not be influenced by the firm itself. One major problem is that multinational corporations in the area are the prime competitors, rather than other small to medium enterprises. The reason is that due to bulk orders or even their own production centres, the final margin they receive after selling the product is bigger than in the case of SME. Therefore, MNCs have possibility to lower the prices to a desirable level and still maintain margin which is beneficial for them. Unfortunately, small corporations do not have such opportunity.

Another problem that the case company is facing is constant increase in operating costs, which makes running a profitable business an uneasy task. High operating costs together with low margin pose significant risk for any company in the same situation. Apart from savings made on owning the property rather than renting one, utility bills are usually high.

The remaining problem includes high technology and software expenditures, which similarly as those above, hinders company's chances to develop and prosper. Such high costs are often very unjustified, and this is because government often requires the change of certain technologies, due to safety reasons, what is often followed by either software change or update. Sad to say, none of the changes required are for free or subsidised. That often ends up as a financial burden, mainly for the organisations that are already struggling with this matter.

4.2 SWOT

SWOT analysis conducted in the research for the case company includes strengths and weaknesses itself. However, in the analysis part, those aspects are evaluated to aid in the selection of those ones with the utmost importance only, in order to bring the most benefit for the company.

4.2.1 Strengths

Based on the results of SWOT analysis conducted by the author of the thesis, there are a few strengths that the case company possesses. First and foremost, it is the long-time reputation of the company in the market which offers fairly big advantage over other SMEs or MNCs that were mostly established much later than the case company itself.

Secondly, it is the highly visible spot where the company's premises are located. Not only is the location easily accessible to local customers, it attracts random passers-by that happen to stop in town and are in need of some basic necessities without a hassle.

Furthermore, due to the nature of the population in the area, as well as flexibility of the case company being small enterprise, it is easily achievable.

ble to add new services to its current portfolio, and broaden the spectrum of the offering that the company has.

4.2.2 Problems

Problems of the case company stem from the fact that it has no consistent strategy, which is in fact, very vital for any enterprise to survive while sustaining its competitiveness and profitability. Therefore, it lacks a well thought out plan on how to manage the business successfully, in both short as well as long term.

Another issue discovered as a consequence of lack in strategic management, is poor marketing effort from the company's side. Nowadays, in particular, there is much more emphasis placed on the power of marketing and promotion on the competitive position of the business.

Last problem addressed, is the fact that the company has unnecessary accrued inventories at times, which more than often leads to waste of financial resources, thus affecting its profitability. If that is caused due to lack of customer's feedback, it can be considered as rather avoidable mistake, when managed effectively.

4.3 PESTLE

PESTLE analysis in this research work consists of six environmental factors that have crucial effects on the case company, namely political, economic, social, technological, legal and environmental, as it was explained earlier in the theory part. As for the analysis, it concludes the most vital strengths and problems discovered in the above mentioned environmental scan.

4.3.1 Strengths

There are a few strengths identified in PESTLE analysis, even though they do not possess overly substantial significance. First one of them is that majority of the population consists of either pensioners or young people, what gives the case company a big opportunity to use this factor for its benefit. Considering the fact that the company has long reputation in the market and rather personal approach of personnel to the customers, company has a good chance at attracting bigger number of older customers, which oftentimes become very loyal if they receive satisfactory service. On the other hand, young people might appreciate prompt service without having to stand couple of minutes in the line, just to get to the cashier. Moreover, they are more likely to respond positively to newly introduced services or innovations that might take place at the store.

Another strength stems from technological factors in PESTLE analysis, and includes constantly widening usage of the internet and customers' preferences shifting to online shopping services. This, in fact, works in direct advantage for the case company to broaden its trading options and opt

for starting up an online platform along with its retail store. Running an online store can prove to be significantly more profitable in the long term, than regular retail store, especially in this particular case. Furthermore, online platform also enlarges the potential for considerably greater customer base as compared to the limited range of customers that the retail store presents.

The last strength to mention might not seem like a strength at all, but when looked into deeper, there is a certain kind of benefit coming as a result of that particular factor, which is frequent inspections made by State Veterinary and Food Administration. Regular inspections of this kind ensure the safety of various easily perishable groceries like dairy, animal products, fruits and vegetables as well as any other products that could be, for example, counterfeited, and imported from abroad, such as tobacco and alcohol. Therefore, customers are assured that the products they purchase are safe to use for consumer and genuine. Counterfeited goods have been an issue in Slovakia for some time now, and especially last year, when the case company had received a letter from the Food Administration bureau to execute an inventory check of the entire alcohol stock that the shop possessed, followed by a visit from the bureau to confirm the authenticity.

4.3.2 Problems

Similarly, as with strengths, there are a few external environmental forces that may pose a slight problem for the case company. The first to mention is the lack of government funding for SMEs. These days, small to medium enterprises are a large source of employment in the EU, especially in the country like Slovakia. However, SMEs do not receive much of encouragement from the government, when talking about the financial support. Many such enterprises are struggling and would largely benefit from some source of financial push, to develop and innovate their business more, in order to increase the possibility of success and further expansion.

Next factor, which poses much bigger problem than the first one, is the fact that people in the area where the case company is located have low social status, resulting from the lower income that they receive, as well as high unemployment rates in the country. None of this helps, when taking into account the fact that retail grocery stores, particularly SMEs have very low margin on the majority of the products that they offer. The reason for this is that people have less money to spend, therefore, they often prefer to pick products that are the cheapest in the market, no matter of the quality that the given goods have. On top of that, people also prefer larger quantities or so called bulk offers to acquire more volume for lower price. All the factors combined together, hinder the potential of business to grow and succeed in the grand scheme of things. The biggest issue is that the case company itself cannot have any real influence on these factors, other than taking initiative into its own hands and attempt to improve the business on its own.

5 RECOMMENDATIONS

Following the research together with its analysis, there come certain recommendations for the case company. The author of the thesis gave a couple of suggestions on how to lessen the impact of current situation, thus improve the company's operations to satisfying level and answer the research question stated in the beginning, that is to say „How can the competitiveness and profitability be improved in case company X?“.

5.1 Strategy Development

After considering all the aspects of the research, the first suggestion that would benefit the case company is, to develop its own rational business strategy that is attainable enough for the firm to actually go through with and execute. The reason why the company is in such a strong need for strategy is that it currently does not follow any precise plan, which is most likely hindering the development and forward progression of the company to its success. As it was explained above in the chapter 2.3, it is truly essential for any business to have a carefully planned strategy. This will eventually aid in running the business operations both efficiently and effectively if planned out logically. Therefore, to develop very good business strategy, the management has to take its time in strategic planning process, and avoid rushing the entire procedure just to have it done quickly.

Upon discussing this particular topic with the manager of the case company, the aim is to increase the business' competitiveness through growth. Accordingly, the firm should start with one important point in mind, and that is to work on developing its growth strategy. There are several growth strategies to choose from. However, the most appropriate strategies for the company at this point would be market development and product development strategy. Consequently, for market development, the management may keep in mind to focus on developing its market range, for instance offering its current goods and service portfolio online to reach broader customer base as it was hinted before in the research work. On top of that, there is the product development strategy, which would require the business to enrich their existent offering with additional products, to bring benefit to their current customers.

5.1.1 Suggested Execution of Strategic Planning Process

- I. To give a brief suggestion on how to start with the development of a strategic plan for the business, company needs to have its strategy statements (e.g. mission, vision, objectives, etc.), in order for the manager to have clear picture of where the organisation is now and where it is striving to be in the future.

- II. Later, environmental scan should be done, which includes both SWOT as well as PESTLE analysis. The case company should perform its own analysis process and also use the one conducted for this research. That should give the management enough overview of what position they stand at.
- III. Afterwards, it would be very useful to conduct further analysis on its customers and competitors, in order to get better idea on how to proceed with the strategy development.
- IV. Then the management should sit down and thoughtfully consider all the options they have for growth strategy and choose the strategy which deems to be the most fitting one.
- V. Lastly, the final step would be to utilize the developed plan and actually put it into effect.

5.2 Supplementary Service

The second and more specific recommendation for the case company is, to develop supplementary service that would involve delivery of some sort. For example, the store could offer delivery service for a small fee or for free in certain radius, such as 5 kilometres. It could work in two ways.

First, they could deliver the orders that have been purchased at the shop's premises, but are either too large for customers to take themselves or in the case of elder customers, who do not have the means; e.g. car; or strength to bring their purchase home with them. The second option is that there would be either some online platform, e-mail contact or phone contact, where customers could place their orders with quantities of each product they choose along with the date and place of the delivery. It could obviously work even in person, but first three options simply streamline the process and make it more user-friendly and conducive for the customer to order anything they need, and have it delivered later at their own convenience.

5.3 Establishment of an Online Retail Store

The third suggestion that could possibly help the company with improving its competitive position and profitability of the business is, the establishment of an online retail store. Ideally, the online store would have wider range of products available for its customers, which means there would be low, medium and at the same time higher quality products to fill in the gap that the company has in its store due to limitations in present demand derived from the current customer base. In order to fulfil expectations of larger market segments, there would be product groups with each one having different price range, what is directly interconnected with the level of quality.

The benefits of the online store would be seen in savings resulting from lower operating costs, considering that online store incurs comparatively lower expenditures, while still receiving profit. The reason for this, is also the fact that business owning an online platform can have larger margin on the products sold. Moreover, the online retail store simplifies the case company's marketing and promotion actions. Not only does it attract large customer base, it is a type of marketing of the company and its services in one, as well.

5.4 Reduction of the Operating Costs

The last but not the least suggestion for the case company is to truly strive to lower its operating costs, considering that it is a large contributor to hampering the profitability of the business. Naturally, it is not always overly simple to reduce the operating costs that the firm has. Nevertheless, there are a few tips that might help.

First of all, the company should try and lower the amount of money spend on its software. Understandingly, it is changed frequently as per government requests, but the company has a possibility to choose from open source software options rather than significantly more expensive providers, which are well renowned in the industry.

Second of all, as it was mentioned above, the company can save on marketing and promotion expenditures if it uses the online platform to do it. It is considerably cheaper and there is possibility to alter it anytime, according to manager's liking. If the manager has sufficient computer literacy, there is no need to even hire another employee to do the job.

Third of all, the company should invest more into camera system, thus broadening the monitored area. This advice might seem fairly contradictory to the topic of reducing the costs of the business operations, but it will eventually pay off. The case company has already had many cases of thefts. Therefore, investment into more extensive monitoring system would help the company to save at least some money at the end.

That would be the case especially when taking into account thefts of alcoholic beverages, which tend to be more expensive than any other type of products available at the store.

Lastly, the company should watch out for the usage of its most cost increasing utilities, namely electricity and water. Electricity bills, in particular, are usually high, which tend to add up to quite a sum at the end of each year. Consequently, the management should watch for any inefficiencies that might be caused by older equipment, including fridges and freezers as well as wasteful usage of central heating.

6 CONCLUSION

Taking everything into account, the research work conducted for the case company was rather interesting and educational experience. The case company struggles with issues that many other small enterprises do, yet there are certain aspects that always end up being characteristic to that one specific company. The research revealed some strengths that the company can use in its benefit, as well as problems that need to be tackled.

It is advisable for the management of the case company to take measures to deal with the problems it has as soon as it is possible. There are several options available as to how they can improve their competitive positioning and consequently increase the profitability. However, the most vital one out of them all is to truly get started on developing a proper strategy plan, so that there is a real chance for the improvement.

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