

**KARELIA UNIVERSITY OF APPLIED SCIENCES**  
Degree Programme in International Business

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**ANALYSIS OF THE BAKERY SUPPLY INDUSTRY IN THE CZECH  
REPUBLIC: CASE COMPANY X, POLAND**

Thesis  
Spring 2017



**Karelia**  
UNIVERSITY OF APPLIED SCIENCES

**THESIS**

**March 2017**

**Degree Programme in International Business**

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Title: ANALYSIS OF THE BAKERY SUPPLY INDUSTRY IN THE CZECH REPUBLIC: CASE COMPANY X, POLAND

Commissioned by Company X, Poland

Abstract:

The aim of this paper is to investigate the food industry in the Czech Republic. The bakery and sweet shops area are researched according to the request of Company X, located in Poland. Company X is successful in the Polish wholesales industry with a wide international portfolio of brands.

To analyze the industry, different marketing tools were used. Marketing tools have helped to collect primary and secondary information. The main reason to investigate the Czech industry the request of the company, because of the close location, and the seeming similarities both in the tastes of consumers and the way to conduct business.

The research was done with the help of PEST indicators, which describe the numerous aspects of the current Czech industry. The next step was to analyze the chosen sector with the usage of Porter's five forces. The last step was to conduct an interview with the business owners and purchasing managers to understand the trust level. The paper includes an entry mode strategy and recommendations regarding Company X's promotion.

Language  
English

Pages 32  
Appendices 1  
Pages of Appendices 2

Keywords:

Czech Republic, Poland, warehouse, entry model, direct export, promotion, bakery industry

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## APPENDIX

Appendix 1 Interview with the manager - in English language

# 1 INTRODUCTION

## 1.1 Background

Bakery products are a part of everyday life. The annual bread consumption per person in the EU is about 59 kg (AIBI 2015).

The bakery industry is divided into in-store bakeries and artisanal bakeries, industrial and craft bakers. Frozen bakery products are a remaining threat to other producers.

There are everyday bakery goods (bread, pastry etc.) and an occasional production (for weddings, birthdays and other celebrations). The range of products has increased according to customers' needs – allergies or sensitivities (nuts, dairy products, gluten).

There are two types of raw materials: primary (essential for baking process) and secondary (improving the taste). A bakery supplies itself with the necessary materials and ingredients, according to its own recipes.

## 1.2 Aim of study

The aim of study is to detect the potential of the Czech bakery industry for a Polish wholesaler supplying raw materials for this segment. Bakeries in the Czech Republic seem to have potential due the location and the healthy lifestyle. Case Company X is a wholesale enterprise from Poland, selling raw materials to bakeries.

The main questions to be answered are:

- 1) What are the current bakery trends in the Czech Republic?
- 2) What are the Czech bakeries' expectations from and reactions to a Polish firm supplying local and foreign products?
- 3) What is a relevant marketing approach to enhance the reliability of the firm?

The research limitation is focusing on the Czech industry and a one geographical region. The research might be utilized by businesses that are associated with a bakery industry.

This study reviews the country, general trends in the bakery segment and the level of reliance on foreign companies.

### 1.3 Methodology

Table 1 shows the methodology of the covered topics and related materials.

Table 1. Sources of research.

Topic	Methodology	
	Primary	Secondary
Company overview	Interview with the company owner	-
Business Environment	Interview with a Czech expert in the bakery industry	Statistic data and the Internet articles
Supply of bakery raw materials in CZ	Interview with the company owner	Statistical data and Internet articles
Industry Survey	Interviews with Czech Republic business representatives	Sources for interviews are LinkedIn, Facebook profiles, Google Search Engine.

### 1.4 Outline

This research includes several parts uncovering the following aspects: a description of the company, the business environment situation in the whole industry and in the chosen part of it, interviews with the representatives of bakeries, an analysis of the results, recommendations and the marketing mix.

First, the study explores the business environment of the Czech Republic with the help of PEST indicators. Next, the study explores the supply industry of raw materials. For a study of the market and opinions of market's participants, Porter's five forces is used. Interviews with business representatives were conducted. Next, a marketing strategy for entering the industry with recommendations is formulated. At the end of the study, there is a summary of the main findings.

### **1.5 Case Company X**

The investigated Company X is located in the Silesian Region of Poland. Company X works in the wholesale supply of raw materials for bakery production, as well as the production of ice cream. (The ratio of supplying products is 80% to 20%, respectively). In recent decades, the company has grown. There are signed agreements with more than 400 business representatives. The company consist of the head of the company, an accountant, an IT specialist, two sales managers and numerous delivery service employees. (Interview with the company owner 2016.)

The company's assortment includes bakery mixes, jams (including a marmalade subtype), basic products for baking (salt, margarine, sugar, etc.), dairy products (milk, soft cheese, etc.), a mixture of nuts and dried fruits, chocolate.

The competitive advantages are an international portfolio of brands. The company supplies products from Germany, Poland, Belgium and Sweden. Mobility and flexibility of the company are key for a business partner. In addition, there is an individual approach to each partner-company.

The company sets short-term goals. The goals are the increase in the range of products, the inclusion in the range devices for the baking process, the increase in sales due to entering the Czech and Slovakian industries, as well as the opening of the first B2C store providing materials for decoration.

## **2 BUSINESS ENVIRONMENT OF THE BAKERY INDUSTRY IN THE CZECH REPUBLIC**

This chapter describes the political and legal, economic, socio-cultural and geographical indicators. These indicators allow considering the Czech Republic's industry features that are relevant to further research.

### **2.1 Political and legal indicators**

The country is a parliament democracy. The country is a part of the WTO and the EU. The main area of activity is cooperation with other European countries. The country follows the common regulations and rules of trade in the EU. However, the level of bureaucracy is noticeably high: in addition to the common EU regulations, there are more Czech Republic regulations influencing procedures. Internal policy clearly states that the main trend is an increase in the competitiveness of local products, firms and workers. (Czech Foreign Ministry 2016.)

According to the law, there is a need for companies working in the food industry to register. Therefore, it is advised to register the Polish NIP for the Czech Republic (Forum for entrepreneurs 2014). It can be done locally at the place of firm registration. The taxes will be paid to the Polish Government in case of work from Poland with Czech Registration. If it is advisable to open a branch in the Czech Republic, then the new company will be registered, and taxation will be paid to the Czech Government (Czech Foreign Ministry 2016).

### **2.2 Economic indicator**

In order to simplify the presentation, it was decided to choose a single currency, the euro. Calculations and conversions are based on the following exchange rates for February 2017 (European Central Bank 2017): 1 euro is equal to 1.06 dollar; 1 euro is equal to 4.31 zloty; 1 euro is equal to 26.95 CZK.

For the year 2016, the nominal GDP is 174.5 billion euro. The country ranks 49th in the world in GDP. GDP per capita is 16,917 euro, making the country rank 41st place in the

world. The inflation rate is 1.5%, while the unemployment rate is 4.9% (International Monetary Fund 2016). Graph 1 represents the development of GDP per capita for the last decade.

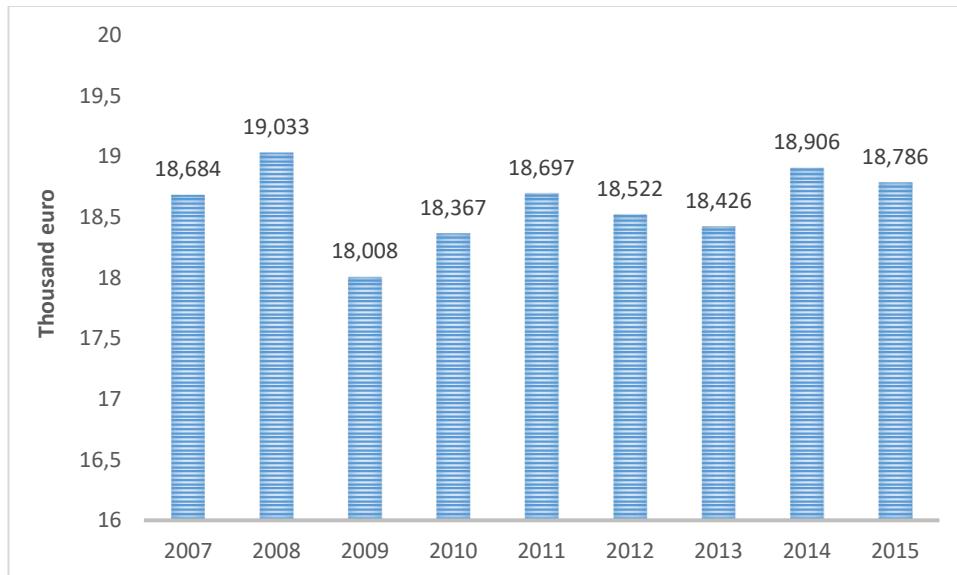


Figure 1. GDP per capita from 2007 to 2015, in euros (Source: International Monetary Fund 2016).

The main products from the agriculture segment for bakery production are sugar, milk, eggs, etc. The currency is the Czech Koruna. The prime minister has stated that the country is not ready for a change of currency to the euro. This might lead to millions in budget losses, so the long-term goal is to change the currency within 8-10 years (AroundPrague.com 2016).

### 2.3 Socio-cultural indicator

The population of the Czech Republic is 10.5 million inhabitants. The middle class is at a relatively high level (38%) (Worldpopulationreview.com 2015).

Czech cuisine is rich in meat and fish dishes. Some recipes are borrowed from its neighbors Austria and Germany. There are national dishes from bread - such as the soup bread-"plate". Every day, Czechs prefer bread baked according to traditional Czech recipes, sweet pastries with poppy seeds and dried fruits. (Eatingpraguetours.com 2016.)



International companies have introduced many variations of bread and sweet pastries, but preference is given to traditions. However, bakeries of international companies are not subject to research because they are self-sufficient (Eatingpraguetours.com 2016).

There are numerous scandals associated with the quality of Polish products. For example, several years ago, the use of pesticides in the cultivation of Polish apples was revealed (Mediafax.cz 2014).

## **2.4 Geographical indicator**

A study of the population of cities in the Czech Republic gives the following data: Prague (the capital city 1,259,000 inhabitants) Brno (377, 440 inh.), Ostrava (294,200 inh.), Plzeň (169,033 inh.), Liberec (102,562 inh.), Olomouc (99.806 inh.) (Theworldfastbook.com 2016). Picture 1 presents the locations of the cities.

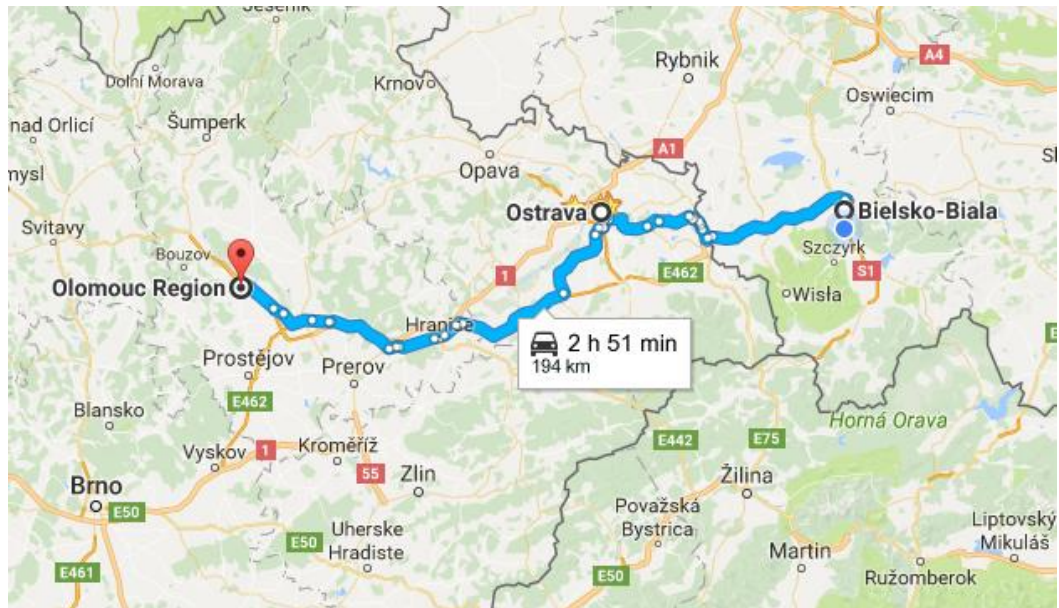
For further research, the region should be selected. The region should be in proximity to the Silesian region. This approach will reduce the time to establish business contacts, as well as the time for the delivery of goods in the future. Moreover, there are more competitors in the capital region and regions near the borders with Germany and Austria. (This competition is to be observed in Chapter 3.2).

The region worth paying attention to, Severomoravsky, is located immediately behind the border. Ostrava and Olomouc are part of the region, and together with the metropolitan area compose 1.64 million inhabitants.



Picture 1. Czech Republic map with the location of Company X, indicated by blue dot (Source: Emapsworld.com 2017).

In these cities, it is relevant to target artisan medium-sized bakeries, craft bakeries, cafeterias and cafes. Due to the short distance, the time on delivery takes seven hours maximum, and the time of ordering and delivering a product from a warehouse might take from two to five working days maximum (Interview with the company owner 2017). Picture 2 presents the transportation from the warehouse to Olomouc through Ostrava.



Picture 2. Approximate transportation from the warehouse to Olomouc through Ostrava (Source: Google.com 2016).

## 2.5 Concluding remarks

Political and legal indicators have little impact on the industry. The company is working in the field of bakery supply. This field is connected to the food industry. Each company in the food industry should follow laws and recommendations as stated by the government and the EU. The economic situation is stable. The most influential indicator is socio-cultural. The main trends are to prefer traditional breads and pastries as well as to buy in hypermarkets, which can be less likely the target of this research. Moreover, the quality of Polish delivery products has been the subject of a scandal covered in the press, so buyers might be suspicious in the first place. From the geographical point of view, the Severomoravsky Region is assumed to have potential due to the close location and the low number of competitors (to be observed in further chapters).

## **3 SUPPLY OF BAKERY RAW MATERIALS IN THE CZECH REPUBLIC**

This chapter examines the supply of bakery raw materials in the Czech Republic. Potential products for Company X are investigated, as is the industry itself.

### **3.1 The choice of the main products of research**

Since the study of competitors has not been completed yet, it is necessary to focus on the company's assortment. There is a ratio of 80% to 20% between bakery raw materials and ice cream raw materials respectively, as well as a greater variety of products for bread preparation and an appropriately larger number of possible business contracts.

Facts presented by Company X allow to focus on raw bakery materials as a subject of research.

Adaptation of production will be considered in the chapter of marketing research. However, the flexible approach of the Company X is already visible. There is a complete willingness to create correct translations, labeling and product descriptions. (Interview with the Company owner 2016).

### **3.2 Analysis of industry**

#### Threat of substitution

The procedure of making the bread and pastry products should be observed. There are several ways to prepare the dough: the sponge method (includes sourdough), straight dough method (the mixing of ingredients), micronization (includes the usage of infrared rays), and extrusion (involving the high pressure). (Street directory.com 2015). Company X can serve only those bakeries, which are baking with the method of straight dough and micronization. The threat of substitution is at a medium level.

### Threat of new entry

The threat of a new business is at a medium level due to the following factors. First, it is necessary to know the specificity of bakery products in the region / country. Second, it is necessary to have experience in this area in order to exclude risks and understand the needs of customers. Third, a large assortment is needed, since each recipe has its own nuances.

Before conducting business, it is essential to acquire a certain level of experience and expertise in the bakery itself, knowledge of recipes, types of production, a financial base, knowledge of the international standards, and laws in the food industry. There are numerous rules to follow and sanitary checks an entrepreneur must pass in order to start selling in the food sector. State Sanitary Inspection makes checks in the EU countries.

### Buyer Power

In the bakery industry, large volumes of purchases are a part of the business. This is explained by the desire to buy for a long period, the presence of large volumes and the uniqueness of products. The only exception is dairy products with storage time limitations. Despite the fixed costs for the rent, electricity, water etc., the variable costs for raw materials is the main and the most significant cost for bakeries.

Quality has a direct influence on the output and income of bakeries. The number of buyers is quite high in the target region. However, the number of suppliers is also high. Buyers can negotiate prices or other characteristics due the presence of competitors or their specifications of work. Buyer power is at a high level.

### Supplier Power

Generally, the suppliers' network is quite diverse. The composition of suppliers was chosen according to customers' preferences. The advantage of the sector is a large number of firms-competitors. This means that if there is an expressed displeasure with the quality of products, Company X is ready to replace the products for better products of another

brand. Nowadays, Company X supplies, among others, the following local Polish firms, which can make effective competition for international brands: EcoTrade, Bielmar, Vortumnus, Sudzucker etc. (Interview with the company owner 2016).

There are also suppliers who might be competitors – the German firms Puratos, Uniferm, and Martin Braun, which are present in Poland and the Czech Republic (Prague). (Observations are in the "competitive rivalry" part). There is a noticeable diversity of production lines; each product (especially bakery mix for bread) is unique. This makes the mixes for bakery and supplements different to other production types and enhances the supply power.

Supply power can be assumed to be at a medium level due to the local firm's production quality and unique mixes.

### Competitive Rivalry

A practical approach for identifying competitors was used. The imaginary situation of a imaginary Bakery Y was simulated. Company Y is new in the industry and does not have any business contacts with suppliers. The internet research in order to find contacts, gives the following list of firms supplying with the bakery's raw materials.

There are several kinds of suppliers. First, there is a need to consider local suppliers. Such companies, regardless of the quality of raw materials and the duration of service, may have caused more confidence in the buyers.

There are companies that work near the region chosen for the study. The list includes AZPEK s.r.o. (Bolatice – 30 mins from Ostrava), (Azpek.cz 2017), Alimpek (mixes for bread, gluten-free supplements, in České Budějovice), (Alimpek.cz 2017), the online shop BERUSKA (a great variety of mixes divided by recipes), (Beruska.cz 2017), Polmarkus (Ostrava), (Polmarkus.com 2017), HANA CZ s.r.o. (mixes), (Hana-cb.cz 2017).

The Czech Republic is located close to Germany, Slovakia, Hungary and Poland. The location, economic and political indicators presume for the high level of competitors to be observed.

The German company Martin Braun KG is represented by the firm FIALA PRAHA z.r.o., which is selling products in Prague, Brno and Ostrava. The company has a website with a full description of products and a simple order form. This is one of the biggest producers in Germany, which covers brands such as Agrano (organic mixes), Siebin (mixes, decoration ingredients), RAU (special oils, margarine). The company serves in English and German languages. (Braun 2017).

France is highly competitive in this sector as well. The company CARIF S.A., a representative of French traditions of baking, sells the mixes and supplements for sweet pastries and breads and has exporting experience in the Czech Republic (CARIF 2017).

The Turkish company BSM ENDÜSTRİYEL TAHIL GIDA SAN. TİC. A.Ş. has a similarity in range of products to other firms-competitors, but with a greater variety of types. They serve in three languages and ship worldwide. This company is located outside of the European Union, and this applies more regulations and taxation procedures (BSM GIDA 2017).

As a conclusion, there are plenty of competitors selling similar products. There are wholesalers, producers and sellers of materials, companies offering half-made products. International competitors selling though the Internet, however, are not the main threat, despite the language barrier, delivery and time issues or even trade barriers. The main competitors are local producers and wholesalers. The competition rivalry is at a high level.

## **4 SURVEY AMONG POTENTIAL BAKERIES IN THE SEVEROMORAVSKY REGION**

### **4.1 Method**

A survey among potential bakeries in the Severomoravsky Region has been implemented from 24.02.2017 to 05.03.2017. The research was conducted in two steps. The first step gave the preliminary list of bakeries and other places to visit, sorted according to reviews on the Internet and personal interviews via Facebook. The aim of the personal interviews was to understand and to create a map of the places which are popular among locals. Visits of Ostrava and Czech Teschen were implemented during two trips. The interviews were conducted to know two points of view – the ordinary workers and management, which usually conducts the process of buying the raw material. The management of bakeries in the Olomouc Region was reached by phone. In the Appendix, there is a questionnaire, which was used as an outline for the interviews. In total, around 30 calls were made.

### **4.2 Results**

The results of the study are presented in the following format. First, there are the names of the cities along with descriptions. Secondly, there is list of bakeries, which have provided relevant answers for the study.

#### **Český Těšín – Czech Teschen**

The border city in the Czech Republic. The city is located in the Ostrava region. The total population is around 25,000 inhabitants. The key advantage is the close relation to Poland (with the Polish Teschen).

#### **“Cukrarna na nabrezi”, specialized in baking and sweet pastries**

After a face-to-face interview, the following findings were revealed. The current suppliers are from the Czech Republic and Poland. The owner is quite interested in products. However, the owner knows little about the presented international products. The main



disadvantage of the Polish products is the quality. This statement is based on the business experience. The most interest has been shown in the dairy products and some of the mixes. The question about the possible volume of units to order was left without a precise answer, due to limited information regarding products. The company is willing to order a small portion of products to overview the quality through a testing process.

“Pekarstvi”, two bakeries on the main square

After a face-to-face interview with the owner or manager, the following opinions were revealed. According to the business experience, the best suppliers of raw materials are Czech companies. Companies expressed their distrust and unwillingness to try the proposed products.

**Ostrava**

Ostrava is one of the main target cities. The city is located in the east of the Czech Republic. The city is the third biggest after Prague and Brno. It is located near the Polish border and it would be attractive to start the entry process.

“Karlova pekarna”, specialized in baking and sweet pastries

*Karlova Pekarna* is a big chain of the bakeries located in the eastern part of the Czech Republic. During the phone conversation, the supply manager showed cognition about materials from Poland and other countries. The firm has started to produce goods using Puratos and Komplet (mixes for bakery and sweet pastry). This process was started recently. However, there were no problems with the quality of the products. The rest of materials are provided by Czech suppliers.

“Pekárna PEČIVO”

The face-to-face interview revealed that the bakery had had cooperation with companies supplying Polish products. More precisely, they were using the brand Vortumnus (jams and marmalade). However, the cooperation was stopped due to an unsatisfactory level of product quality. Nowadays, the main supplier is the Czech firm “Polmarkus”, which

supplies mixes and ingredients for the bakery. The cooperation started nearly a year ago, and no changes have been planned due to total satisfaction.

“Pekárna Ing. Marián Kebísek”

The owner Marian Kebisek stated that the main approach of the bakery is an old Slovak recipe. The provided products did not reveal any interest. The main reason is the specific way of making bakery products. All products are made by the so-called sponge method (including sourdough).

“Pekárna Lomná”, specialized on sweet pastry, bakery and cakes

This bakery has its own materials for the process of production. The manager has not heard of any of the mentioned firms, except the “Semix” firm. The purchasing manager uses products for personal purposes and he would consider having business connection with Company X.

**Olomouc**

Olomouc is another of the main target cities. This city is the center of the Olomouc Region. There are a large number of bakeries.

“Sazava”

The bakery manager stated that the bakery itself has never had cooperation with Polish firms and has never used Polish or foreign products in the bakeries. They would like to maintain it the same way. The main reason is the very bad reputation of Polish products in general.

“Dalaman pekarstvi”, specialized in baking and sweet pastries

After the phone conversation, the following results were gathered. The manager is quite open to new products. Their current suppliers are from the Czech Republic and England. The bakery may consider other proposals. The general experience about Polish products

is zero. The manager is not against foreign products and does not follow a common mistrustful model of behavior. The bakery is willing to pay any price for good materials. However, the guarantee of the high quality of products should be ensured.

#### “Svoboda a Březík – Pečivo”

The bakery owner has admitted that the bakery has no experience with Polish or foreign products. Owner prefers numerous suppliers from the Czech Republic. For now, Czech suppliers are more reliable for the bakery. However, if sampling was offered, they would try small portion of products.

### **4.3 Positioning of Company X in the Czech market**

A SWOT analysis helps to make an overview of the gathered facts and position Company X in the Czech market.

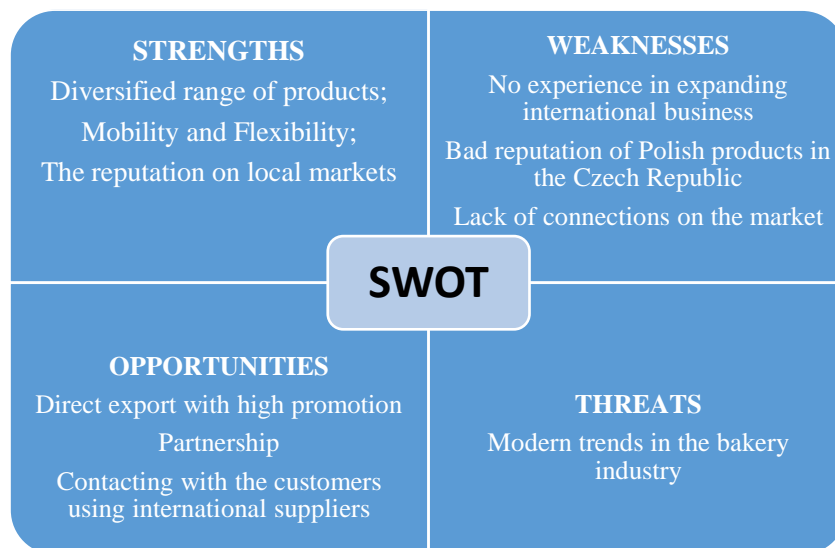


Figure 2. SWOT analysis of Company X in the Czech Republic.

#### Strengths

The firm supplies consumers in the Polish Silesian Region with a wide range of products. The range of products allows a bakery to have only one supplier and conduct the business in an easier way from the logistical point of view. The distribution and duration of the delivery, as well as the duration of the period in between delivery helps to calculate

further supply processes. The mobility of the company is key as well. The availability of delivery workers and the flexibility of the manager give the partner the possibility to offer materials and help to produce fresh goods. Company X is known in the Polish Silesian Region as a stable, reliable partner with a high level of production. The mentioned factors can be transferred to the Czech market in order to prove the quality and reliability of Company X.

### Weaknesses

Company X has no experience in expanding business, especially on an international basis. As many SMEs, the current level of marketing and Internet tools are relatively low (Casey 2015). The reputation of the products from Poland is another issue. For the past years, there were different scandals regarding the quality of production. As research has shown, there is a very low level of trust towards materials, because of the experience of the owners/managers or because of the so-called “word of mouth” effect. This effect works in the direction of lowering the reputation.

The lack of connections on the current market is another issue. The method of direct entry without the use of marketing and technological tools is not suitable for the situation of entering the Czech market. Companies need to create a good perception of themselves before entering.

### Opportunities

The company should focus on the firms and managers with experience in international partnership. It might seem that industries in the Czech Republic and Poland are quite similar. However, the Czech Republic industry survey has shown a higher level of trust towards local products in 2/10 cases. Another option is the partnership with Czech companies that have experience and stable reputations (References for business.com 2016).

### Threats

The bakery industry in the Czech Republic could be considered traditional. However, modern trends are changing the industry. Such trends include gluten-free, lactose-free, and anti-allergic products. The Czech industry is developed in this direction. Company X does not plan to expand the product line of trendy products. The industry in Poland is filled with simple and high-quality breads and sweet pasty.

### **4.3 Concluding remarks**

The face-to-face interview was held in Ostrava and Czech Teschen. Telephone interviews were held in Olomouc. Communication was conducted in Polish, Russian and English languages. The questionnaire is presented in Appendix 1 as the basis for the interviews.

The study showed that Czech companies do not trust Polish or foreign products. The reason for this is the numerous scandals that have caused doubts about the quality of products from Poland ((Mediafax.cz 2014). In addition, the business experience or the "word of mouth" have played an important role. Regardless of the positive aspects of the company, such as flexibility and individual approach, the main issue from buyers remains product quality.

However, four of the twelve bakeries showed some interest in the products, which makes the situation more potential. Some positive answers are useful to consider in more detail. The answer of *Karlova Pekarna* (a large network of bakeries, popular among buyers). After certain period of usage of Polish raw materials, there are no negative effects on the quality of the final products. In addition, those companies that already cooperate with international suppliers are more open to cooperation with a Polish supplier. The others are willing to try the product by testing a small portion.

An interview with representatives from Frydek-Mistek was planned for the study. However, during the research, it was impossible to reach local business representatives.

Frydek-Mistek is located in the east of the Ostrava Region, and the total population is around 100,000 inhabitants. The internet research gave the information about the main firm specialized on bakery, "Labužník Celiak, Cukrářství a pekařství bez lepku". The firm

is specialized in gluten free products and production. This is the biggest supplier of special products for the city and areas around.

Company X does not follow modern trends, such as gluten-free and lactose-free products, etc. Perhaps, when evaluating a new market and opportunities, Company X will consider expanding the product range.

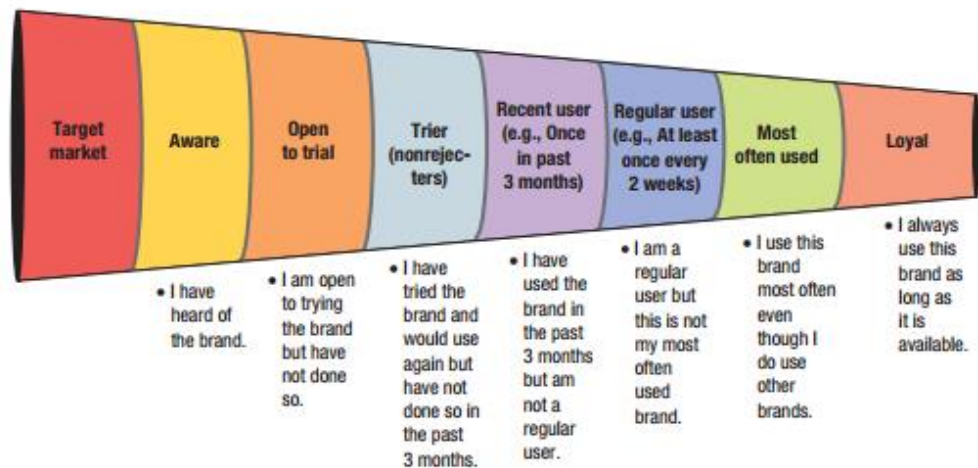


Figure 3. The marketing funnel (Source: Marketing-made-simple.com 2016).

After the described results, the analysis of the marketing funnel can be done. The general level of knowledge is “Aware” or “Open to trial”. However, the majority of opinions are negative. There is a low level of willingness to proceed with further cooperation. The survey and interview process has shown a very low level of trust towards the Polish products (Marketing-made-simple.com 2016).

## 5 MARKETING STRATEGY

In this chapter, the possibilities and ways to enter the Czech Republic bakery market are described. It includes the initiation steps and further stages of entry as well as the marketing mix.

## **5.1 Objectives and strategy**

### Objectives

The implementation of the marketing stage is around three to five. Within this period the cooperation with the Czech companies should be set.

The first objective is international growth. The investigated area is one out of seven Czech regions. There is a need to develop beyond the limits of the investigated zone. Such regions as Jihomoravsky and Vychodocesky can be entered in the first or second year.

The next goal is to improve the quality of customer service. The company should pay attention to its staff and increase its Czech department. Customer service can be improved through marketing, promotion and advertising.

### Strategy

There are several ways to define the strategy. According to Porter's Generic Strategies, there are overall cost leadership (focuses on lowering production and distribution costs), differentiation (focuses on high-level performance of company) and focus (the main idea is to identify the segment to work with) (Kotler & Keller 2009, 418-420). The best strategy based on the information received is differentiation. Differentiation is chosen in order to improve its position and image on the market.

Direct entry to the market is suitable for this company. Through differentiation and help from advertising and marketing tools, a firm can enter the market. However, considering the attitude to Polish goods in the Czech Republic, the company needs to analyze its activities and results of market strategy.

There is the possibility to strengthen the position on the market by combining direct market entry and partnerships. Product or service partnership is an option to establish relationships with bakeries and sweetshops, through cooperation with companies connected with this business area. The possible areas to cooperate with are dairy products factories, chocolate producers, companies which supply dried fruit or poppy seeds for filling, and other companies which have a relationship with bakery production.

## **5.2 Entry model and the further steps**

This chapter describes both advised approaches - direct entry and partnership.

### **5.2.1 The direct export**

The direct entry method is the first one to be described. This approach is similar to the approach used in Poland. However, the focus is on the use of advertising tools and special offers.

#### Promotion

The purpose of advertising in this case is persuasive (Kotler & Keller 2009, 747). Persuasive advertising helps a business to create a convincing image. It creates the desire to purchase and enhance the level of purchases and business contacts. For the SMEs, this is usually a hard step to define objectives and set the budget for marketing and advertising tools, due to the lack of experience (Allen 2016). In the observed case, the market share is quite narrow and the competition level is high, so it is needed to calculate an advertisement budget.

There is the need to formulate the competitive strategy to differentiate Company X and the ways of promoting the company. In this case, there is a need for advertising and promotion which could be tracked. Interactive marketing is using the Internet and social network resources. Social networks and a proper website are key to creating an image on social media and expanding the contacts. This step increases the awareness. Search and display ads help to track the impact, and it is furthermore assumed to be less annoying for the potential customer.



It is advisable to use such social media tools as LinkedIn and Facebook to increase awareness. Currently, Google Search Engine shows a small number of pages regarding a company. It can be an interesting option to create the blog with a short video, which will show the procedure of baking, the quality, and current business contact opinions. The usage of the search ad can influence opinions (Ironpaperinsights.com 2016).

The company has already made a website with a catalogue of products. The researcher has observed websites based on online-customer experience and based on competitors' pages (MartinBraun, Polmarkus etc). The list of production remains partly completed as well as information about prices. There is a need to translate Company X website into Czech language for further access for a business. As well as translating, it is needed to create a quick response and quick offering procedure. Usually customers are less interested in ordering with the registration procedure (Businessinsider.com 2016). After these actions, the website can be used as a promotion tool.

For Company X, it is necessary to prepare and train a salesperson or find an experienced seller. The salesperson will be the main representative in the Czech Republic. The aim is to create a customer base through the direct marketing – set meetings, phone calls, and e-mail advertisement (Investopedia.com 2016).

Company X should decide which steps are most suitable for it. The approach can be classical or interactive. However, there is a need for a salesperson to increase recognition.

### Distribution

Research has been conducted for the Severomoravsky Region per the request of the company (company owner interview 2016). However, considering the cost of promotion and other costs, it is advised not to limit the company to one region. As an additional step, Company X can start to work with in Vuchodocesky and Jihomoravsky. The bigger market area the company starts to work with, the bigger market share will be reached.

The salesperson cannot work remotely. It is possible to open an office, or it is possible to work and hold meetings on the client's premises or in other convenient places.

### Price

Company X uses a flexible individual pricing strategy on the Polish market. Generally, the level of prices is medium (Interview with the company owner 2017). There are special discounts or promotions given to constant customers or customers ordering a large volume of products. The company should keep prices at the same level in order to penetrate the Czech market. Pricing for market penetration can be combined with the special promotional discounts for new customers. This will increase awareness of the products and the interest among potential customers. (Quickbook.com 2017.)

### Product offer

The main approaches to be used in Poland are to offer the full variety of products to a business. This includes, from the very basic essential products, mixes and dairy products, to exclusive mixes, flavors and jams. This approach let the company be the only supplier for one bakery or sweet shop. In Poland, trust is gained over years of reliable work.

This approach cannot be fully used at the entrance to the Czech market. Knowledge of the assortment is at a low level, so it is needed to offer one, individually selected product. This part is connected with the promotion and work of a salesperson. An individual approach, which is carried out through business meetings and discussions, will determine the most suitable starting products. Furthermore, a sampling approach or special discounts/promotions can be used. In the short term, some of the profit may be lost, but such an open approach allows for finding long-term contacts. (Entrepreneur.com 2014.)

Regarding the range of production, the Czech market follows the current tendencies in food. People prefer healthy, organic products. Sometimes due the diet, people prefer gluten-free, sugar-free, allergy-free products. This is something missing in assortment of Company X. One of the important steps is to be able offer healthy and specific diet products, which allows satisfying companies producing these types of breads and sweets (CNN.com 2016).

### **5.2.2 The partnership approach**

This approach can be combined with direct market entry, thereby strengthening the company's position and increasing recognition.

The basis of the partnership approach is the “win-win-win” situation. Two companies are creating the cooperation in order to satisfy each one’s needs and the needs of the consumer. The idea of equality and multiplication of it is the core. That is why the partner should be closely connected to the bakery and sweetshop field. It can be the wholesaler or producer of the equipment or of the supplements (dairy production or basic bakery products).

#### Promotion

The promotion part should include improving the webpage as an individual firm and as a partnership. The internet tool should be used widely, with the elements of the interactive marketing. The system of quick offer and quick response should be the basis of the Internet page. The promotion should increase the common value of products range. It is advisory to use special discounts and the program of loyalty for customers. This could be e.g. special discounts for regular users to buy the products of Company X or a sampling approach (Investopedia.com 2016).

In this case, it will be fewer expenses for the promotion due the shared costs. Moreover, the partnership with a company with an expanded client’s base makes the process faster.

#### Distribution

The approach of the “direct export” can be used. The headquarters and the wholesales are located in the Silesian Region, Poland. The flexibility and mobility of the company allows to ensure quick delivery, while the online offered service ensures a quick response and ordering process. The offices and salesperson can be widely presented within the Czech Republic.

### Price

The approach, described in the part “The direct export” can be used.

### Product offer

Gluten-free, allergic-free, natural products can be added to the assortment of Company X. The approach of offer is changing due to the partnership agreement. It is advisory to decide which promotional actions can be taken by firms to try new products. The products offered within partnership should complement each other. For example for bakery interested in buying partner products, it should be provided the presentation of Company X products and should be offered special promotions and discounts.

The partnership approach helps to keep the expenses on a relatively low level, increase or share the budget, or increase the base of the customers with the less costs. However, the issue is to find an equal partner and create a win-win contract with the firm (Thesaurus.com 2016).

## 6 SUMMARY

To summarize, there is a need to answer the questions from Chapter 1.2 "Aim of study". First, there is the interest to identify the main trends in the bakery industry in the Czech Republic. Further, it is necessary to describe the opinions and attitudes towards the Polish supplier. Finally, there is the description of the marketing approach aimed at increasing the level of trust in the company.

The main bakery trend is healthy products. By healthy products, Czech companies mean high-level materials, high quality and effortless products. Companies follow the international trends of gluten-free, allergy-free or organic products, expanding their lines and choosing quality supplements to create bakery products.

It was investigated that Polish firms have created quite a bad reputation in the Czech Republic. The primary data research has been conducted. The main reaction towards products is suspiciousness, lack of knowledge or shown lack of desire to work with Polish products. For other international products, the level of suspiciousness remains high. However, there is some potential to work with firms, who has the international experience. Participants of survey, who have tried some brands, admit that the level of products presented is high and products suits the recipe.

The main approaches to be done by Company X are the direct export with a high level of marketing, promotion, and partnership. For SMEs, this is the hard decision to start the promotion campaign and avoid the methods used in Poland. However, through the help of a salesperson in the Czech Republic, the usage of interactive marketing is increasing chances to find the business contacts. Through reduced prices, sampling helps companies to try product and create independent opinion. The combination of direct entry and partnership can increase the position on the market. A partnership should be made with an equal Czech company with a strong base of customers and a reliable image on the market.

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The interview with the manager - in English language

Stage 1 – identification of the prospect.

Have you heard of presented products?

- a) Yes, I heard and I am currently using them\some of them.
- b) Yes, I heard, but I stopped to use partly/fully them.
- c) No, I have not heard.

2.a Do you satisfied with your supplier?

- a) Yes, I am satisfied fully.
- b) Yes, I am partly satisfied; there is always something to improve.
- c) No, I cannot say I am satisfied.

3.a On which circumstances, would you cooperate with Company X as new supplier?

- a) I might think about it, if price/ quality / quantity / delivery service / etc look like...?(underline answer and describe)
- b) No, I am not interested. Why?
- c) Other (it needs more calculations etc) – to give contact e-mail and keep in touch.

2.b. What was the main reason to stop using the production?

- a) Quality of products (Why?)
- b) Quality of service
- c) Other (For example: “All was fine, but new proposal was better”).

3.b. On which circumstances, would you cooperate with Company X as new supplier?

- a) I might think about it, if price/ quality / quantity / delivery service / etc look like...?(underline answer and describe)
- b) No, I am not interested. Why?
- c) Other (it needs more calculations etc) – to give contact e-mail and keep in touch.

2.c. Do you satisfied with your current supplier of raw materials and its production?

- a) Yes, service and products are both satisfying me.
- b) Yes partly, service/production are partly satisfying me.
- c) No, service is dissatisfying me.
- d) No, products is dissatisfying me.

3.c. On which circumstances, would you cooperate with Company X as new supplier?



a) I might think about it, if price/ quality / quantity / delivery service / etc look like...?  
(underline answer and describe)

b) No, I am not interested. Why not?

c) Other (it needs more calculations etc) – to give contact e-mail and keep in touch.

Stage 2 – identification of the capability.

1) Which products are you interested the most? (Many answers are required)

a) Jams

b) Marmalade

c) Dried fruits, nut and chocolate (supplementary one)

d) Special mixes for bakery

e) Decoration

f) Other

2) How interested are you to buy products, within your budget?

a) Not interested/more no than yes (why?)

b) Partly interested, why?

c) Quite Interested

3) How many units company is ready to buy?

a) Jams

b) Marmalade

c) Dried fruits, nut and chocolate (supplementary one)

d) Special mixes for bakery

e) Decoration

f) Other

4/5) What did you like the most/the least about the presented products and company?