

Marketing Penetration Strategy for “Super Tannery Limited” in the Czech Market

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I. Theoretical part

- **Compile theoretical background about marketing strategy and market penetration.**

II. Practical part

- **Prepare complete analysis of the current market situation of leather manufacturing companies in Czech Republic and to compare it with the "Super Tannery Limited" company in India.**
- **Prepare a project for market penetration for "Super Tannery Limited" in Czech Republic.**
- **Analyze the project using cost and risk analysis.**

Conclusion

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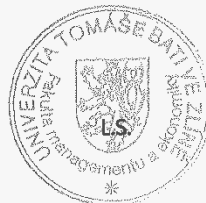
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ABSTRAKT

Největší indický výrobce kožené Super Tannery Limited zaměřuje svoji penetrační strategii nejednu z nejuhodnějších částí Střední Evropy, kterou je Česká republika.

Indická společnost má velké zkušenosti s pronikáním na zámořské trhy a hledá nové trhy k zahájení své činnosti otevřením zcela nových zastoupení a poboček v srdci Evropy.

Cílem této práce je zpracovat kritickou a hloubkovou analýzu současné situace v České republice, se zaměřením se na existující společnosti v oblasti kožedělné výroby a prezentovat aktuální potenciál země pro odhad vstupu nového subjektu na trh.

Kromě toho, identifikovat případné hrozby, kterým může společnost Super Tannery Limited mohou čelit v budoucnu.

Klíčová slova: pronikání na trh, makroprostředí, polohování, globalizace, marketingový mix, konkurence.

ABSTRACT

The biggest Indian leather manufacturer Super Tannery Limited has targeted its market penetration strategy in one of the most advantageous part of Central European country i.e. Czech Republic.

Indian company is well experienced in overseas market penetration and seeking new markets to start its operation with opening branch office/warehouse (in the heart of Europe/targeted market).

The aim of this thesis is to convey the crucial and deep analysis of the present situation of Czech Republic, distinguishing the existing leather manufacturer companies' and to study current potential of the country for estimating the accessibility of new market entrant.

In addition, to identify relevant threats that STL may face in the future.

Keywords: legal background, project implementation, market penetration, macro environment, positioning, globalization, marketing mix, potential competitors.

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I. THEORY

INTRODUCTION

Globalization progressed significantly in the past decade, facilitated by modern transportation, communication and improved legal infrastructure similarly political choice to consciously open markets to international trade and finance. Included in this wave were the efforts of companies to broaden the geographic reach of their products.

This project focuses on Eurasian countries, India and the Czech Republic. The Czech Republic, located in the center of Europe, known as a heart of Europe. After 75 years, in the 1993, country peacefully split from Slovakia. As Czech Republic is not a part of Euro zone, it has own currency named Czech koruna/Czech crown.

Officially the Republic of India is a country in South-Asia, the- most populous democracy in the world. It is the seventh-largest country by geographical area and the second-most populous country with over 1.2 billion people.

The purpose of this Master Thesis is to prepare a project of penetrating the Czech market by the Indian leather manufacturer Super Tannery Limited.

The reason of choosing the leather manufacturer company Super Tannery Ltd. is that it is the biggest and very successful leather manufacturer in India. Company is running on 40.000 sq. m plot of land successfully and growing constantly. Company has four overseas offices: in United Kingdom, China, Malaysia and United Arab Emirates. Company also has its business from a variety of countries. The list is as follows: Australia, Indonesia, Hong Kong, Taiwan, Vietnam, Bangladesh, Russia, Ukraine, and European Countries (France, Germany, Italy, Slovakia, Czech Republic etc.), also in Brazil, Peru, Chile, USA, Finland, Norway, Tunisia, South Africa, Iran and Saudi Arabia.

However, penetrating big countries such as China, UK and also rest two countries, Czech Republic will be an important step in terms of going firstly in Europe and then going globally.

The reason of choosing the Czech Republic is its location in the Central Europe and a potentially big and advantageous market.

The forthcoming project is consisted of the following parts:

Theoretical part will focus on marketing strategy, market positioning, global trends, international marketing and communication. It will focus on major steps crucial for market

penetration, providing analysis behind the entry modes. Accordingly, it will highlight the managerial awareness for conducting appropriate analysis in order to reach global success.

The analytical part will introduce a complete profile of the Indian leather manufacturer Super Tannery Limited, followed with the detailed analysis of the Czech Republic, containing all major players in the leather manufacturing sector current in the Czech Republic.

It will be helpful for readers to see the similarities and differences existing two countries' players. This part will be contained with analysis of both, the company and the environment, identify the threats and uncovering opportunities, along with the suggested ways to gain strength and to maintain a competitive position.

Lastly, a project for penetration strategy for Super Tannery Limited in the Czech Market will be laid out, conveying the leather manufacturer's new strategic objectives for the new market, choice of an entry mode, and the determination of all legal requirements where company will operate. The project will be followed with the draft of necessary steps and careful points as a part of Super Tannery Limited's strategy in the Czech Republic. Last part of the project will introduce cost analysis, ways to eliminate the risks and will introduce the time analysis.

Overall, the aim of this master thesis is to show that after deeper market research of current situation in the Czech Republic, penetration by Super Tannery Limited is reasonable and worth conducting project.

1 MARKETING

The main concept of marketing is linking production and consumption. To build customer relationships based on customer satisfaction and value, which is the core of modern marketing. It is crucial for every organization - large or small, for profit or non-for-profit, domestic or global to achieve success (Kotler and Keller, 2011). Marketing is much more than selling and advertising. It is marketing which influences on our daily life. It provides all-embracing choices of service and goods we purchase, Radio we listen, the Internet we use, TV programs we use, supermarkets where we buy all possible due to marketing (Canon, et al., 2008). Overall, marketing is everyone's role, not just that of a marketing department "*marketing is too important to be left to the marketing department*" said David Packard, he co-founder of Hewlett-Packard" (Doyle, 2011).

Marketing covers all of the activities crucial to move a product from the producer to the consumer. Seems like a bridge from the producer to the consumer.

1.1 Marketing Process

Mainly, marketing process comprised four steps and all are completed with the goal of creating value company's target customers. Some elements of the steps are performed continuously, such as monitoring the marketing environment. Some are done annually, such as the annual development of a marketing communications plan. In the end, some of the steps, if done correctly, should last for decades, such as segmentation, targeting, and positioning (Kotler and Keller, 2011).

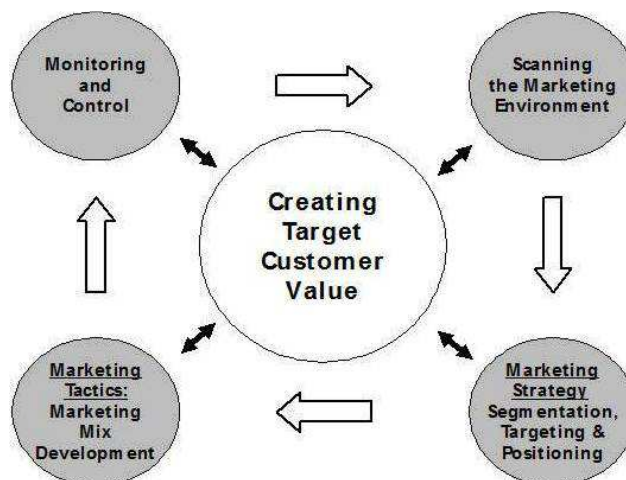


Figure 1: Marketing Process

(Source: J. Hargrave on marketing, 2011)

2 MARKETING STRATEGY

Marketing strategy covers of marketing objectives which are accomplished by careful analysis, planning and implementation and determines a target market and a related marketing mix. It is a big picture of what a firm has to do in some market. On the whole, two complementary parts are needed: first, a target market- similar group of customers to whom a company is willing to appeal and second, a marketing mix- the manageable variables the company puts together to satisfy this target group (Perreault and McCarthy, 2005).

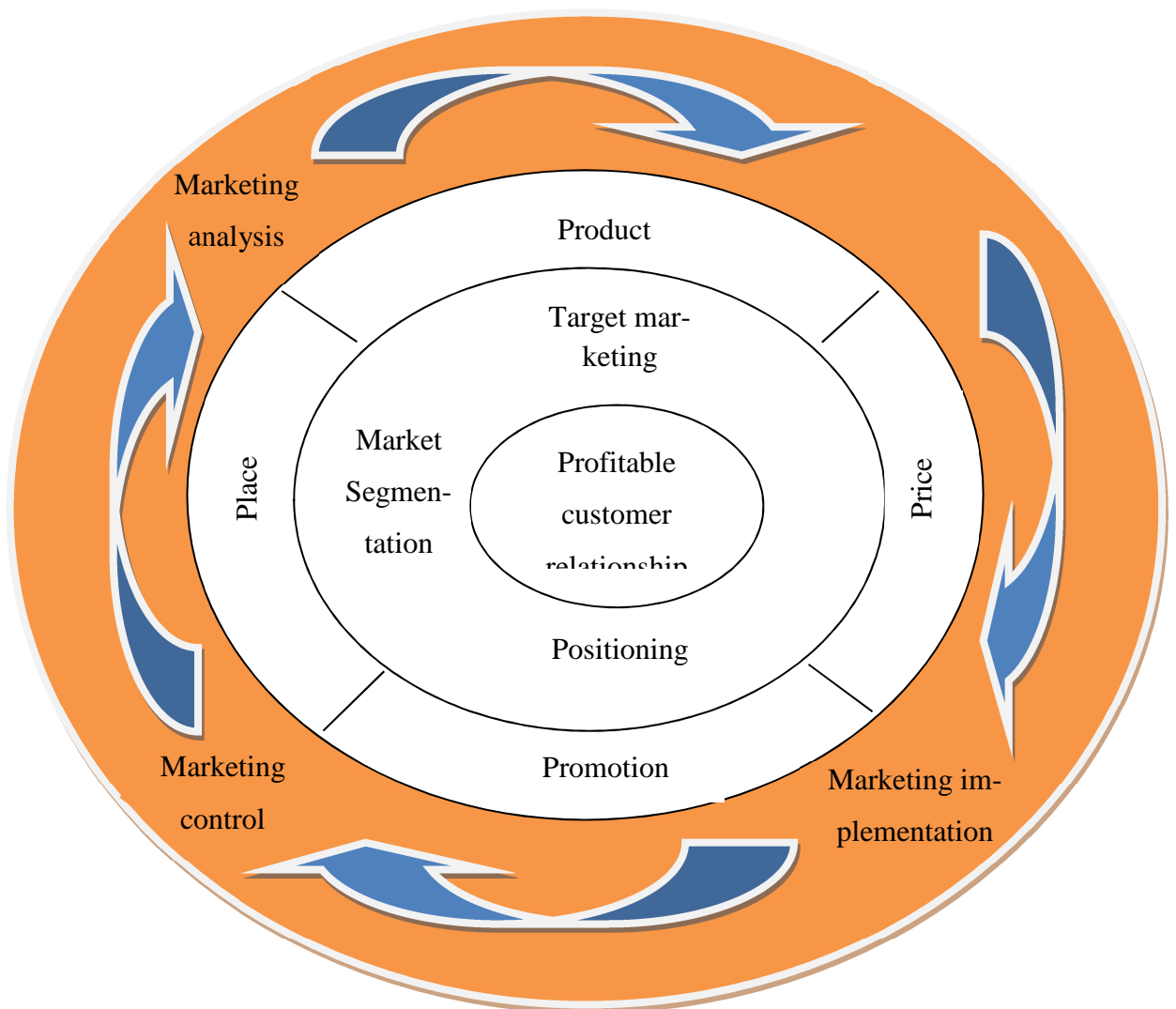


Figure 2: Marketing Strategy

(Source: Armstrong and Kotler, 2011)

From above figure, to maintain profitable customer relationship companies must spend effort on three main major processes: market segmentation, target marketing and market positioning.

2.1 Marketing Mix

The most important tool in marketing strategy is marketing mix, which has become known as the four P's model and the key ingredients being product, price, promotion and place. It is very beneficial for marketers to penetrate in the market. To create the right marketing mix, businesses have to meet the following conditions as it is shown below:



Figure 3: Marketing Mix

(Source: bbc.co.uk)

No one element of the marketing mix is more important than another- each element ideally supports the others.

2.2 PEST Analysis

A PEST analysis is a business measurement tool. PEST is an acronym for Political, Economic, Social and Technological factors, which are used to assess the market for a business or organization unit. PEST analysis also can be used for business and strategic planning, marketing planning, business and product development and research reports. As PEST factors are crucial external, completing a PEST analysis is helpful prior to completing a SWOT analysis (Businessballs.com).

2.3 SWOT Analysis

SWOT analysis is using for better understanding of organization’s strengths and weaknesses and to match them to the opportunities and threats present in the marketplace. It is a simple but effective method by which organizations can determine their current position and then develop strategies to take effective action (Ranchhod, 2005).



Figure 4: SWOT Analysis

(Source: Wikipedia.org, 2012)

Strengths and Weaknesses

SWOT analysis deals with the key strengths and weaknesses that an organization possesses in terms of products and services, distribution channels or brand image. *“The list can be endless, but it is often useful to link the strengths and weaknesses to specific areas within an organization, such as human resources, finance, marketing or operations”* (Ranchhod, 2005).

It is important to constantly evaluate the strengths and weaknesses of marketing group to ensure marketing budget are being spent wisely and company is getting the exposure it need to properly compete in their industry.

Opportunities and threats

Opportunities and threats are external factors and require an external analysis. It represents changes or developments in the world around company that may present new growth opportunities. For instance, introduction a new technology, a change or loosen of regulation and etc.

Threats come from the external environment, they have the potential to blindside company's viability. Company needs to be on the outlook for changes and developments in the external environment so that it is not caught unprepared.

2.4 Porter Five Forces

Michael Porter provided a framework that models an industry as being influenced by five forces. The strategic business manager seeking to develop an edge over rival companies can use this model to better understand the industry context in which the firm operates (quickmba.com).

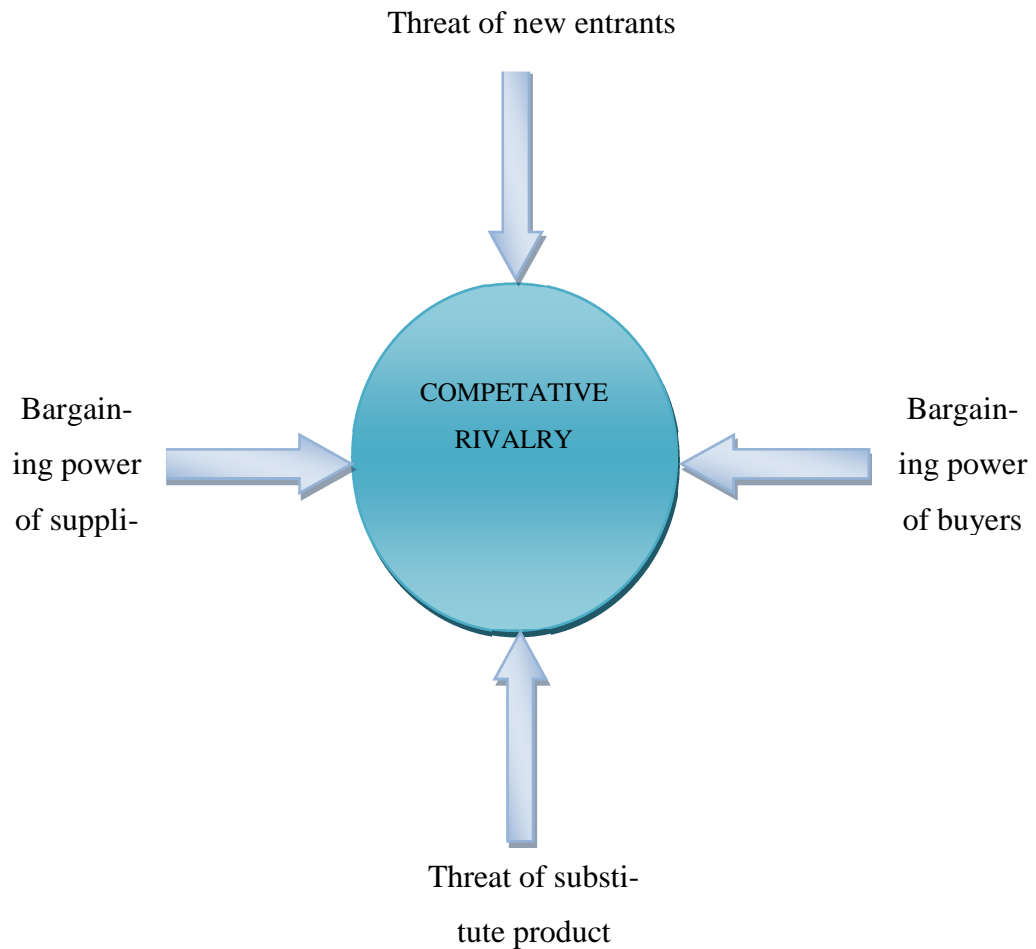


Figure 5: Five Forces Model

(Source: Doyle, 2011)

If rivalry among companies in an industry is low, the industry is considered to be disciplined and this discipline will result from the industry's history of competition, the role of a leading company, or informal compliance with a generally understood code of conduct (Doyle, 2011).

2.5 Market Segmentation

Market segmentation is a process with two steps of (1) naming broad product-markets and (2) segmenting these broad product-markets in order to identify target markets and develop reasonable marketing mixes (Perreault and McCarthy, 2005).

In effective market segmentation, the first step involves naming a broad product-market of interest to the company. Market segmentation is a (almost) homogeneous group of custom-

ers who will answer to a marketing mix in a similar way. The most crucial way to meet the needs is to divide the market into segments and according to that select the best segment which provides the better opportunity for achieving company's objectives also satisfy consumer needs.

Below on the table is shown several ways of segmentation (Armstrong and Kotler, 2011).

Table 1: Market segment

	Segment	Category
1.	Geographical	Region, country, city, state, province, suburb
2.	Demographic	Age, income, sex, gender, consumer preference, ethnicity
3.	Behavioral	Needs, thought, brand loyalty, usage rate, benefit sought, occasions, required information etc.
4.	Psychographic	Activities, opinions, interests, attitudes and values

(Source: Armstrong and Kotler 2011)

The segmentation process is based on the idea that the effectiveness and capability of a company's marketing activities can be improved by ignoring the nonessential differences among customers within each segment and treating these customers as if they were a single entity. Thus, through segmentation, the company can reduce the heterogeneity (i.e., diversity) in the marketplace and related to rather small number of customer segments (Chernev, 2009).

2.6 Target Marketing

The concept of target marketing is that those who are targeted show a strong attraction or brand loyalty to that particular brand. Target marketing provides a focus to all of company's marketing activities. It makes the promotion, pricing and distribution of company's products and/or services easier and more cost-effective.

If company does not have enough capacity of resources and cannot manage to satisfy the consumers of one whole segment might decide to enter sub-segment or market niche, which is narrowly defined group of potential customers (Kurtz and Boone, 2006).

2.6.1 Strategies for Reaching Target Markets

For the company's marketing success, marketers must develop strategies that will be best match to their company's product offerings to the needs of particular target markets. There are four basic strategies for achieving customer satisfaction as follows:

Undifferentiated marketing

It is also known as mass marketing which is not common today. It focuses on producing a single product and marketing it to all customers. In terms of production viewpoint, undifferentiated marketing is crucial, due to the strategy also brings typical dangers. Whenever a firm attempts to satisfy everyone in the market with one standard product may suffer if competitors offer specialized units to smaller segments of the total market and better satisfy individual segments (Kurtz and Boone, 2006).

Differentiated marketing

The company with product variety which has different marketing mixes to fit many segments and consumers is called differentiated marketing. Providing of customer's satisfaction it generates of high sales for the company. Only one disadvantage of differentiated marketing is that it increases costs because each product needs specific arrangement, raw materials, storage place and also promotional costs (Kurtz and Boone, 2006). However, by using this strategy firm can target categorical customers and overall can stay competitive.

Concentrated marketing

It is also known as niche marketing and company focuses on profitably satisfying only one market segment. Mainly, small companies adopt this strategy because of lacks of financial

resources and due to the small segment it can be hazardous if new competitors started to capture the segment (Kurtz and Boone, 2006).

Micromarketing

The fourth and last targeting strategy is more narrowly focused than concentrated marketing. It targets customer individually. The salesman tracks potential buyers at very first stage, such as specific occupation, lifestyle or by area code. The Internet may allow marketers to make micromarketing more effectively. They also can follow customers by tracking their personal information and can offer the products directly via email. Despite, micromarketing may cause a company to lose sight of other reachable markets (Kurtz and Boone, 2006).

2.7 Market Positioning

Positioning is all about ‘perception’. It is a powerful tool that allows company to create an image. Company’s position in the market place evolves from the defining characteristics of company’s product. There are four primary elements of positioning: quality, service, distribution and packaging. Positioning is company’s competitive strategy with identification of strongest strength and use it to position own product (<http://tenonline.org>).

The term of positioning can be used in two obvious contexts: desired positioning, which reflects the company’s positioning goal with respect to a particular offering, and actual positioning, which reflects customer’s perceptions of the offering. Naturally, in spite of a company’s efforts to create a certain image in the minds of its target customers, these customers might have formed a very different perception of the benefits of the company’s offering. Hence, the success of a company’s positioning strategy will be measured by the overlap of the company’s positioning goal and customers’ perceptions of the offering (Chernev, 2009).

All companies with their suppliers, marketing intermediaries, customers, competitors, and publics all are operating in a macro environment of forces and tendencies that show opportunities and pose threats. These “non-controllable” forces ought to be monitored by the company in which they must respond and typically include: political, social and economic forces; demography; cultural forces, and environment (Doyle, 2011).

The environment encirclements the company can be external and internal, the belated of which deals with processes within the company. Hence, we can view the company as a composition of various sub-systems, which must be corresponded for effective functioning. It is noteworthy to mention that the way internal processes are conducted with some influences and speed of companies dealing with external factors (Wetherly and Otter, 2008).

2.8 Social-Cultural Environment

In international operations is one of the keys to success is assimilation, which is the process to become familiar with and adjusting to certain culture. The main in this process is to handle differences in values, behavioral patterns and attitudes.

For better understanding of global segments, marketers must study the social-cultural environment, or dimension of behaviors and relationships in which people involve to understand the main drivers for certain behaviors, to find out existing similarities or the ways how to achieve them through marketing. It is like an interaction bridge between the society and business (Czinkota and Ronkainen, 2007).

2.9 Economic and Demographic Environment

Before penetration the new foreign market, it is crucial for the company to find out the extent to which the country accepts aforementioned entry and it will be estimated by analyzing the degree of foreign direct investment according to industries in a given market, together with the rules of carrying out such investments.

Evaluation process of a foreign market environment begins with examining economic variable about the size and nature of markets. Population figures must be subcategorized according to age, income, ethnicity, education levels and many more, in order to take a better advantage of the analysis and make suitable projections. Overall, shows specific characteristics of population's specific markets, depend on the marketer's interest.

The next essential economic indicator is the purchasing power- function of income, savings, prices and credit availability. Income is the most decisive indicator of market potential for the majority of products and services. In spite of, to gross national products, marketers must further knowledge about income distribution (Czinkota and Ronkainen, 2001).

2.10 Financial Environment

To find how to operate in international market company must analyze financial environment and find ways how to enter within its demands. In the international business company can meet the main financial risks as follow: commercial, political, foreign exchange risks and others such as those related to inflation. The explanations are below as follow:

(a) Commercial risk, which is arising from a possibility that an overseas borrower will not fulfill repayment commitments owing to bankruptcy or other business events. (b) Non-commercial, or political risk, refers to risks other than commercial factors such as war, internal turbulence and governmental interference and the losses brought about to investors in their investment. (c) Foreign exchange risk is created because of movement in exchange rates and usually affects businesses that export and/or import, but it can also affect investors making international investments. For instance, if money must be converted to another currency to make a certain investment, then any changes in the currency exchange rate will cause that investment's value to either decrease or increase when the investment is sold and converted back into the original currency.

Furthermore, by modifying risk can be avoided all currency –related risk, such as incurring local debt, manipulating terms of import and export payments while expecting certain currency fluctuations, or by risk shifting, such as accessing futures and options (Czinkota and Ronkainen, 2001).

2.11 International Political and Legal Environment

No business entity can ignore the regulations and policies of the country. Unconcerned of the location, companies are affected by government policies and the legal system. However, these regulations cannot address international marketing issues (e.g. minimum wage legislation, restrictions on promotion, the cost of domestic safety regulations), they might have a efficient impact on a company's opportunity to succeed. Likewise, political decisions can effectively impact businesses either by enabling or restraining certain activities.

Companies might face serious limitations aimed at international players through export and import controls, necessity of licensing, tariffs and others. For stimulation of domestic industry development, rarely but, countries cut off imports from some products. Due to political pressures in some countries, governments control prices on imported products, mostly

in sectors considered to be sensitive from political point of view, such as food and health care. In this case, exceptionally if the country suffers from high inflation or frequent decreases the international firm can be obliged to stop its operations or continue at a loss. At the same time, home countries can apply special regulations about ensuring the international business behavior of their companies are done within ethical, legal and moral boundaries. In spite of it is very difficult to understand properly another country's political and legal system fully; the manager must try to work with people who understand how foreign company can operate within this system (Czinkota and Ronkainen, 2001).

3 GLOBAL STRATEGIC PLANNING

Global Strategic Planning is a process of evaluating the external and internal environment by multinational organizations, through which they set their short-term and long-term goals; they implement a particular plan of action to achieve those objectives. GSP is dissimilar from normal domestic strategic planning; due to, in this case, organizations consider internal as well as external environments. In fact, the external environment is more sufficient to consider when are operating at a global level because at a domestic level competition is very optimized and directional, but at international level the competition is necessarily important to be considered, otherwise survival is not at all possible at global level (thegeminigeek.com).

3.1 Product and Service Management

Product and/or services are the inner point of any marketing campaign. Product lines must be managed for the biggest possible effect locally, regionally and globally. The measuring for product adaptation affect is most common units, packaging, labeling, instructions and sometimes logos or brand names (Czinkota and Ronkainen, 2001).

Product management is an activity of product ownership from conception to de-standardization. Its function promotes efficiency, effectiveness and team harmony throughout the organization. In a world class business environment it is paramount for new products to achieve all expectations, successful Product Management is a Key success factor in making this happen (productmanager.co.uk).

Products and services collaborate and complement each other. Managers must know that different target groups will often view product/service syntheses in different ways and usage type will influence evaluation of the market offering. For instance, 15 minutes delay will be evaluated adversely by a person arriving at his final destination at a time when by a person who is under threat to miss the next train. Hence, for stimulating demand, adjustment possibilities can be used as strategic tools (Czinkota and et al., 2005).

3.2 International Pricing

The price that a company has to charge in specific country depends on many factors, including economic conditions, law and regulations, competitive situations development of the wholesaling and retailing system. Consumer perceptions and preferences also will be different from country to country, calling for different prices and company also will have different marketing objectives in various world markets, which require changes in pricing strategy (Armstrong and Kotler, 2011).

3.2.1 Export Pricing

To establish an overseas price, company need to consider many of the same factors involved in pricing for the domestic market. These factors contain competition; costs such as production, packaging, transportations and handling, promotion and selling expenses; demand for company's product/service and the maximum price that the market is willing to pay (susta.org).

3.2.2 Foreign Market Pricing

Pricing within individual markets and foreign market pricing can set and driven by: (a) objectives of the corporation, (b) expanses, (c) market conditions and consumer behavior, (d) structure of the markets, and (e) environmental compulsion. These features differ from society to society and thus, the pricing policies of international corporations must vary respectively (Czinkota and et al., 2005).

3.2.3 Transfer Pricing

Appropriate establishment of transfer pricing helps company to achieve competitiveness in the international marketplace, manage cash flows, reduce taxes and tariffs, minimize foreign exchange risks and avoid conflicts with governments and many internal concerns.

There are two choices to set transfer prices. First, the cost approach, using a calculated cost and adding a markup and second, the market price approach, which is based on market

selling price, and the products are sold for that price minus some discount to allow profit for the buying division (Czinkota and Ronkainen, 2001).

3.3 Marketing Communications Strategy for Promotion

For promotion the company, the international marketing manager must specify systematically a communication strategy. Promotion helps company for communicating information between the seller and potential buyer and others in the channel to influence attitudes and behavior. Managing the communication aspect of an offering involves six key decisions as follows:

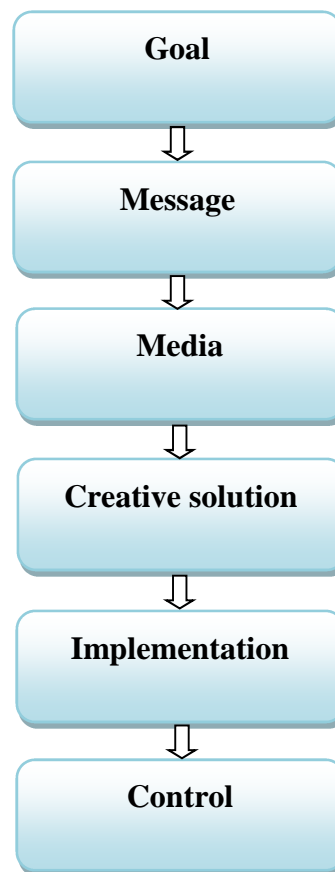


Figure 6: Planning a Communication Campaign

(Source: Chernev 2009)

- The **goal** identifies the criteria to be achieved by the communication campaign within a given time frame.
- The **message** determines the information to be communicated to target customers.
- The **media** describes the means used by the company to convey its message and it involves three aspects: budget, media type and scheduling.
- The **creative solution** involves the execution of the company's message in a given media with appeal type (e.g., information-based or emotion-based) and execution style (e.g., text, format, and layout).
- The **implementation** aspect of marketing communications identifies logistics and the timeline of executing the message, media, and creative decisions.
- The **control** involves evaluating the success of the communication campaign with respect to achieving its goals (Chernev, 2009).

3.4 Social Responsibility

Being socially responsible means people and organizations must behave ethically and with sensitivity toward cultural, social, economic and environmental issues. In international business, one must remember that social responsibility differs from culture to culture. Only the common concept is to address the overall societal, economic and environmental needs. There is not any definition to what extent the company should voluntarily be socially responsible, but there is an opinion the government must set social goals for the companies to follow. Still, the population has expectation from businesses to do more than just follow those law requirements.

A socially responsible company with widespread private ownership, as minimum objectives should set the following: to maximize profits; to conduct its operations according to the owners' desires; to comply with the laws and correspond to the ethical values in the home and host countries. Suitable knowledge of the home and foreign markets is efficient for setting the appropriate code of behavior for any situation faced. (Albaum and Duerr, 2008).

4 MARKET PENETRATION

Market penetration means when a company enters/penetrates a market in which current products already exist. Penetration can be a measurement of number of who buy a specific brand or a category of goods at least once in a given period, divided by the size of the relevant market population (wikipedia.org, 2012). Despite of, there are barriers to overcome, such as finding a place for warehouse/branch office, identifying foreign business entities and targeting customers. These impediments can be costly and time-consuming.

Over and above exporting experience, the company moves through various levels of commitment, between them enthusiasm, awareness, attempt, evaluation, and adaptation of this international outlook as a component of the corporate strategy. At the beginning of international operations it is important for management to be dynamic and committed. It is crucial to express high degree of international orientation (Czinkota, et al., 2005).

4.1 Motivations

For achieving success, the company should not be risk taker, but must realize that satisfactory accomplishments will take time. It will be achieved through efficiency, effectiveness or competitive strength. Effectiveness is the capability of producing a desired result. Efficiency relates to the use of all inputs in producing any given output, including personal time and energy. Competitive strength interprets as the company's contrasting position with other companies in the industry and its probability to grow because of benefits of international experience. The firm going overseas must keep in mind two crucial factors: dimensions of time and performance in order to control short-term obstacles for the behalf of long-term success (Czinkota, et al., 2005).

4.2 Market Entry Modes

A mode of entry into an international market is the channel where an organization employs to gain entry to a new international market. Foreign market entry modes are different with its degree of risk they present, the control and commitment of resources they need and the return on investment they promise (wikipedia.org, 2012). There are two types of entry modes, which are also subdivided according to several criteria. For instance, equity modes

division contains fully owned subsidiaries and joint ventures, while non-equity modes division integrates contractual and export agreements.

In order to distinguish the modes from each other according to their degree of risk, control and flexibility, below will be divided market entry modes into the following categories: (1) export modes, (2) Vertical/foreign direct investment mode; and (3) Horizontal/foreign direct investment mode.

4.2.1 Export Entry Mode

Through exporting entering a foreign market by selling goods produced in the company's home country, often with little modification is the simplest way to enter a foreign market. It involves the least change in the company's product lines, organization, investments, or mission.

Generally, companies start with *indirect exporting* (involves less investment), working through independent international marketing intermediaries. It is also involves less risk. International marketing intermediaries, agents, cooperative organizations and export-management companies bring know-how and services to the relationship, so the seller normally makes fewer mistakes. And eventually sellers move to *direct exporting*, where the risk is greater. There are several ways to be conducted direct investments by the companies: (a) to set up a domestic export department that carries out export activities; (b) it also can set up an overseas sales branch that handles sales, distribution and perhaps promotion; (c) and finally, the company can do its exporting either through foreign-based distributors who buy and own the goods or through foreign-based agents who sell the goods on behalf of the company (Armstrong and Kotler, 2011).

4.2.2 Vertical/Foreign Direct Investment

Vertical integration is the expansion of a company into a stage of the production process other than that of the original business. It takes place when a company through FDI moves upstream or downstream in different value chains i.e., when companies perform value-adding activities stage by stage in a vertical fashion in a host country (wikipedia.org, 2012).

Unlike horizontal FDI, with vertical FDI firms engage in both FDI and exports, whereas in horizontal FDI models, the two countries are often anticipated of as being similar size, in vertical FDI models, the home country is usually thought of as being much larger than host country.

4.2.3 Horizontal/Foreign Direct Investment

Horizontal FDI is FDI in the same industry abroad as that in which a firm operated at home. Comparing to exporting or licensing, FDI is both expensive and risky. Expensive due to the firm is exactly starting from scratch to build a new enterprise in a foreign country, unless it has bought a going concern. And risky, because of the problems to arise in a different culture and also due to distance and communication problems (Daniels, J. D., Radebaugh, L. H. and Sullivan, 2004).

The horizontal FDI framework is more representative of a pair of developed countries, whereas the vertical FDI framework is like a developed source country and a developing host country.

A company must find expensive to reduce or close down its operations in order to the host country might require substantial severance pay to the employees.

4.3 International Intermediaries

Intermediaries fulfill a key role in international business transactions. Basic types of international intermediaries are trading companies and export management companies.

Trading companies connect buyers and sellers across the countries without getting involved in owning or accumulating of products, while export management companies practice performing international business services as commission representatives or distributors (Czinkota, et al., 2005).

4.4 Inter-Firm Cooperation

Due to stronger competition, integrated markets, managers of multinational organizations have become more realistic about getting successful in the international market. Companies started forming strategic friendly associations with their customers, suppliers, even competitors and companies in other industries to achieve various objectives. Agreements/partnerships can be either formal or informal.

Forms of inter-firm are obvious in terms of degree of control and commitment. There might be: informal cooperation, where partner companions work together without a conclusive agreement; contractual agreements, where partners join forces for joint R&D/production/marketing; equity participation, where minority ownerships in companies have strategic significance for them to make secure supplier ability to build formal/informal working relationships; joint ventures, while sharing risks, companies contributing equity or assets; and consortia, to endure high costs and risks (Czinkota, et al., 2005).

4.4.1 Managerial Considerations

To join two corporate cultures it requires constant interaction at three levels: the top management, the operational leaders and the workforce. Inter-firm collaborations must constantly adjust with changing marketing conditions. And the adjustments among them should allow for changes in the fundamental concept so that they can expand. Knowing which party takes care of which complications is most important reaching for a common goal (Czinkota, et al., 2005).

4.5 Competitive Advantage

Competitive advantage occurs when company sustains profits that surpass the average for its industry over rivals. Generally, the goal of all business strategies is to achieve a sustainable competitive advantage.

By Michael Porter are identified two basic types of competitive advantage as follows:

Cost advantage, occurs when a company is able to deliver the same benefits as competitors but at a lower cost, and second is:

Differentiation advantage, occurs when a firm is able to obtain from its differentiation a price premium in the market that exceeds the cost of providing the differentiation

(quickmba.com).

The significance of differentiation advantage is to increase the perceived value of offering to the buyer either more effectively or at lower cost than do competitors.

II. ANALYSIS

5 PROFILE OF INDIAN “SUPER TANNERY LIMITED”

Super Tannery the buyer driven organization, was founded by Ch. Ehsan Kareem with convection to bring distant people closer, promotes understanding, friendship and co-operation among nations. This name is reckoned in the international leather forums for fusing new knowledge and technologies to create new products for the benefit of all mankind. He promoted foreign corporation and understanding, laying foundation of the company with the vision and principal for generations to follow steadfastly.

Working harmoniously with the environment ever alert to concerns of pollution and always promoting a clean and healthy way of life.

Supper Tannery Limited is one of the oldest and well reputed business houses in North India. It owns and operates 5 independent manufacturing facilities, producing articles of the highest quality for leading European and American brands such as: HX London, Worktoes and Blackmans.

STL is using indigenous technology and is developing in house technology and is not dependant on any outside technology/sources. The company is engaged in a constant endeavor to set the highest standards in quality, performance, reliability and professionalism.

Super Tannery Ltd is accredited to ISO9001:2000, ISO14001:2004 and SA8000:2001. STL's main export markets are United Kingdom, France, Germany, Italy, Poland, *Czech Republic*, Slovak Republic, Russia, Ireland, Sweden, Australia, South Africa, Egypt, United Arab Emirates, Oman and Ukraine. Company also has an office / Warehouse in the Luton, United Kingdom and Sharjah, United Arab Emirates also in Malaysia and China.

Some of STL's main clients in the United Kingdom are: Wrangler, IKON, Shoe Studio, Briggs and ASDA.

Leather manufacturing company STL specialize mainly in Men's Footwear including formals, casuals, moccasins, and also sandals. Majority of the leather used, is made in company's own Tannery Division, producing a wide range of leathers from Cow, Suede and Buffalo. STL has a close link with three Tanneries also making Goat leather.

Company dedicated and committed marketing and technical team is always working in close relationship to give best value for their customers. Their weekly capacity to manufacture Footwear is:

- Shoes (Cemented) 5000 pairs/ weekly
- Sandals (Cemented) 5000 pairs/ weekly
- Moccasin 3000 pairs/ weekly

STL also has an in-built production for leather soles, TPR, PU and PVC soles. In addition, company has close links with sole manufactures of Rubber as well as built up soles. There are also some steps for manufacturing process (shoe upper, full shoe, unit shoe and finished leather) and each process requires several types of machinery operation.

5.1 Evolution and Current Situation

Safety shoes, military boots or specialty leather for industrial application and upholsteries Super Tannery second nature is to lead from the front in the innovative ventures. Past five decades have recorded the company's growth on a 40.000 square meters plot of land. Not just in terms of sheds, yards, machines and structures but with in the form of pioneers who build goodwill for leather ware internationally.

Super Tannery Ltd (STL) started operations by processing 50 Buffalo hides per day, converting them into Vegetable Tanned Leather for shoe soles. Since then, the company, well guided by a professional approach, has marked an important name for itself in the world leather map.

Company employees more than 2000 people, with annual sales of over USD55 million, and it has already had its customers more than 40 countries.

The Company is striving high to capture over Global Market. In respect of leather and leather products STL has taken various steps to promote company's products all over the world and it is being done in line with global trends to enhance scale, global competitiveness and financial flexibility and also to contribute towards achievement of company's objective and to increase revenue, production volume, market shares and shareholder's returns.

Super Tannery Ltd (STL) in view of the competitive scenario has taken various steps to meet these challenges and also capitalize on burgeoning opportunities available. The company is regularly carrying out detailed analysis of leather industry and has been making all possible efforts to understand the various minutiae of the emerging market scenario (indiaonline.com).

Footwear Division- manufactures shoes for export;

Production Division- carries of production of leather, in tanning area and it provides leather for export as well as footwear division;

Administration Unit- takes care of personnel of the company, staff as well as workers in the factory;

Export Section- carries out export operations, basically varieties of finishes leather. This is done by maintaining a regular customer base and bringing new customers simultaneously;

Accounts and Finance Division- looks after financial condition of the company;

Import Section- it sees to the requirement of the production division as well as footwear division as to fulfill whatever is needed for the processes to be accomplished smoothly.

5.1.1 Customer Offering

Product details are sent to prospective customers via e-mails and they are kept in touch and if the offering matches with the customer's requirement, sales executive places the order after negotiating on the prices and terms and conditions of the payment and delivery.

In other case customer sends in their sample of their requirement and asks company if they can send that. Leather as in the sample is tried to develop and sent to customer. If approved, the order is placed, after negotiation of prices and fixing terms and conditions of the payment and delivery (indiainfoline.com).

5.1.2 Marketing

It is the process involved in getting awareness of the need of active market which is to be fulfilled, and then making products according to the need of the customer and then finally making them aware of their products and why customer should prefer their product rather than the competitors' product which involves advertising and sales promotion. And the whole process is based on trust which is to be developed in the mindset of the customer.

The information about the market is provided by the people who already are the trusted customers from a very long period. Sometimes this work is done by the commission agents who are working in order to bring buyer and seller on the same platform. This information is also collected by participating various events related to leather in different countries like leather fairs.

Then they have their range of products like various prints of safety lather, various kinds of leathers and many such about which they keep on informing to their customer or prospective customers. If customer is in need of some different kind of leather, they ask the production if they can get that kind of leather developed by sending free sample to the company. If satisfied, they negotiate on the price and terms and conditions of the deal. Then comes the role of advertising and sales promotion, and this part is taken care by active export section members. Being B2B, they have themselves limited to certain things which are conventional to do like:

- Participating in various leather fairs around the world
- Advertising in Magazines
- Direct selling via Internet checking on prospective customers

That's all about the marketing process undertaken by the Super Tannery Limited (indiainfo.com).

5.1.3 Export Section

In Export Section, in case of already existing customers, they send some samples to tell what they want in leather regarding color, texture, thickness, softness etc. those samples are developed according to the customer's sample and sent to him/her back. If satisfied he/she finalizes the deal after negotiating prices, credit days etc, which are done by the department and then the production takes place and pre-shipment papers are prepared simultaneously (commercial invoice, packing list, Shipping Instruction, Exchange control copy, Export Declaration, A copy of buyer's contract and a letter of credit if required. This department also deals with the government for export duty like duty drawback. It also negotiates the documents with the bank. Once the leather is produced, it is shipped to the country concerned to buyer. Then the post shipment documents are prepared like Commercial Invoice, Packing list, Bill of lading, and Airway bill, certificate of origin, Insurance certificate, Original L/C, and Exchange Control Copy. When buyer declares the receipt of goods, payment is followed. After receiving payment, Export data are compiled along with bills and file maintained (indiainfo.com).

5.2 Research and Development (R&D)

STL has been investing considerable amount of funds on its Research & Development programmes in order to enrich and improve the quality of products. STL is committed in technological innovation, physical and chemical standardization and improvement to achieve high standards of product quality and customer satisfaction.

There are several key factors to keep the company one step ahead:

- Extensive interaction with the latest technological developments.
- Presence in all major trade fairs, seminars and workshops for optimum knowledge up gradation.
- Well qualified and progressive workforce.

Laboratory: The tannery units of the company work under guidance of a well equipped laboratory conducting physical and chemical tests. It also has a pilot tannery to conduct trials of new leathers at a small scale before its implementation in bulk production. The laboratory has all the requisites to perform tests of leather as per EN, ISO and DIN standards. STL was among the first companies from Kanpur to provide certification as per the REACH guidelines of European Chemicals Agency.

Design Studio: The footwear units of the company conduct their production as per the guidance of a newly built, state of the art designing cell, lead by well qualified shoe technologists and designers. Due to a rapid change in the product profile over the past few years, this studio was installed keeping in mind, the ever changing tastes and preferences of the customers, while keeping time frame into consideration.

Quality Assurance: A major factor which keeps the company ahead is its obsession with total quality, which includes products of the highest standards, quick and efficient customer service, leading to complete customer satisfaction. Factors like these help the company to retain customers, some of them, for as long as 30 years (indiainfoline.com).

5.3 Financial highlights and risk management

Effective working management is regularly concentrating to reduce the cost of debt as much as possible. Prudent cash management endeavor to utilize the optimum Working

Capital in order to reduce the interest cost and also to avoid the bottleneck of company's operation.

Table 2: Financial Highlights at 2008-2011 'in Cr¹

	2008	2009	2010	2011
Income	232,93	234,14	179,67	263,42
NET Profit/loss	3,52	4,66	4,05	5,27

(Source: *supertannery.com*)

According to available information, STL provided stable growing financial operations. STL's income from 2008 to 2011 increased Cr 45,735 and net profit also increasing with Cr 2,625. As regards low income and also low profit in 2010 reason is fallow:

- European market slowdown led to few orders from European buyer (As Europe is biggest market for STL);
- Unavailability of sufficient raw material, increased in raw materials price such as raw hides;
- Due to skyrocketed price in raw materials, STL lost some of its business to country like China.

It is noteworthy that income in 2010-2011 from the export STL got quite high 63%.

STL company does not perceive any serious threat, still company is taking care against the risk of growing pressure of prices, foreign exchange rates variation, current and future litigation, working capital management, bad debts, etc.

Foreign exchange liabilities / revenues are mainly concerned with the company's operation Regular monitoring of movement of foreign exchange rates is carried out and decisions are taken as to when outstanding are to be covered and payments are to be made Working Cap-

¹ Cr = 10 000 000; 1 Euro = 67.9 INR

ital requirement are to be kept at minimum level in order to maintain the lowest possible interest rate.

Company has strongly prepared itself to meet cutthroat competition in global market by adhering to international quality standards of its product.

In addition, above mentioned company has overall risk management strategy, follows such practices and policies that are framework of efficient management to count the risk in advance.

5.4 Internet Control System and Their Adequacy

STL has made sufficient arrangement for internal control system and its monitoring for keeping proper record of the purchase of raw materials, stores, components, plant and machineries, equipments and all other assets for production and sale of finished leather and leather products. The company has clearly fixed rules and responsibilities for all management personnel and all operational activities are well controlled. The system ensures authorization of all transactions, records and the reports correctly and properly through computerized system.

The Audit committee of the Super Tannery Limited also re-examines adequacy of internal controls, systems of risk management policies adopted by the Company.

Company's Laws and Regulations are also reviewed by the internal Audit Team regularly from time to time and its report is submitted to the promoters and put up in every Board Meeting. In order to proved sufficient support for business promotion of the company, the finance and commercial functions have been properly set. The STL takes into account from time to time and Analysis its progress in accordance with the Laws and Regulations set by the internal auditors and report to the Board in every Board Meeting in support of best practices for internal control, standard operating norms and guidelines are being issued. The Company also incorporates all financial operating, and information technology systems are also evaluated from time to time (supertannery.com).

5.5 Corporate Social Responsibility

STL is developing corporate social responsibility in all areas of activities. Company tries to preserve the social and natural environment by believing in total commitment to society. The company runs an organization known as AMIN WELFARE TRUST (AWT), which follows the motto of "Promoting Hope in Life."

This trust has taken up a number of social causes in the field of EDUCATION & HEALTHCARE.

Education: AWT is about to launch (Jan '10) a state of the art educational institution to be known as Super International School with an aim to provide world class education at a reasonable cost. The school is proposed to be affiliated with the C.B.S.E board and is equipped with the latest infrastructure required for a healthy and constructive approach to education.

Healthcare: AWT operates a hospital known as Chaudhry Ehsan Kareem Hospital, well equipped with the most modern machinery and infrastructure, in the industrial area of Jajmau in Kanpur City, providing healthcare facilities in a number of fields including Neurology, Vision, Endocrinology, Dentistry and Pre/Post Maternal Care (supertannery.com).

5.6 Health, Safety and Environment

When the leather industry has started developing, the pollution of air and water increased and the stage reached where the scientists made a decision of better use or reuse of material which caused pollution keeping in mind the economical factor else no industrialist would accept the change.

Special emphasis has been laid on use of low waste technology with minimum possible expenditure and maximum quality production because it is natural for any industrialists to avoid a change unless it is likely to give better quality production with least expenditure. Pollution is given the last priority by them whereas the STL gives it the first priority.

At Super Tannery, they are very careful about pollution. Company has its own water treatment and chrome recovery plant in which they collect the leak water full of nickel,

chromium and many more harmful substances. Company's deep interest is in green and clean environment.

The chrome is used in the processing of skins in which 65% is consumed during the process while 35% goes waste. The presence of chrome in the discharged water of tanneries is dangerous for public health as its excessive use can cause severe skin diseases. To minimize the danger STL has water treatment plant to purify water to its maximum possible level.

Super Tannery is an eco friendly tannery. Company is committed to provide a safe and healthy working environment for their employees by adopting a proactive approach.

It is part of company's work ethic to ensure that safety, health and environment safeguards are in place right from the inception to the execution stage.

Super Tannery Ltd accepts the need for constant up gradation of safety and health standards commensurate with the rapid changing technology in production (supertannery.com).

5.7 Industrial Relations and Human Resources Development

The Company gives much importance to maintain good relations with its employees ensuring that employees feel valued and energetic in creating an atmosphere and culture so that they can maximize their contribution in increasing the growth and further development of the company, and in turn the Company thinks of individual growth of its employees for their dedicated participation in organizational development.

The company's priority is to reduce the employee's turnover ratio. STL's approach and efforts are to create familiar work environment for individual growth, which enables the development of whole organization. Relationship with the employees remains cordial throughout the year. The company has a team of over 500 dedicated employees working towards the company's mission. The Company also has started with collaboration of U.P. Leather Industries Association a training centre for recruiting trained labors

(supertannery.com)

5.8 Future Plans

Company has been planning to introduce two new area of functioning into which it was not earlier. These are:

- Opening a Fashion Shoe Division
- Use of Buffalo and Cow leather for Casual and Fashion Shoe

Company has taken various steps to step into new area smoothly and successfully. Super Tannery Ltd also plans to penetrate new market in Europe and the main objective is to penetrate the market with opening the office/warehouse in the heart of the Europe, in the Czech Republic. STL is already exporting its own products in the Czech Republic and in the future, company will keep its strategy focused on B2B marketing.

After company builds its reputation in the Czech Republic by then it will be proper time for STL to penetrate the neighbor countries with office/warehouses as well.

Future plan of STL is also to continue invest in R&D for faster introduction of new products.

6 ANALYSIS OF THE CZECH REPUBLIC

6.1 Introduction to the Czech Republic

On 1 January 1993, the country underwent a "velvet divorce" into its two national components, the Czech Republic and Slovakia. The Czech Republic is located in Central Europe. Country is surrounded by Germany, Poland, Slovakia and Austria. The total area is 78,866 square kilometers (49,007 square miles).

The Czech Republic features 3 primary regions: Bohemia to the west, Moravia to the southeast, and Silesia to the northeast. In 2000 the population was estimated at 10,272,179.

Of the emerging democracies in central and Eastern Europe, the Czech Republic has one of the most developed industrialized economies. It is one of the most stable and prosperous of the post-Communist states of Central and Eastern Europe.

From the cultural aspect one of the most underlying and inherent features of the Czech culture is their polite and humble approach to life. In czech business culture, the preliminary stages of negotiation can be slow and detailed. This is a direct outcome of the Czech tendency to avoid the unknown. Establishing and securing trust is a crucial element of the negotiation process, even up to the closing of a business deal (communicaid.com).

As a result of the hierarchical system of czech business, decision-making power is centralized and is rarely questioned or challenged by those of a lower rank.

The Czech legal system is a civil law system based on the Austro-Hungarian codes. Legal code modified to bring it in line with Organization on Security and Cooperation in Europe (OSCE) obligations and to expunge Marxist-Leninist legal theory.

The financial structure of Czech companies combines, in a unique manner, the weaknesses and disadvantages of the "advanced" finance model and the Russian model from the 1990s. Unlike companies in developed countries, Czech firms do not have large retained profits. Czech firms are heavily dependent on banks and are prone to financial and banking crises (kb.cz/en).

In terms of public debt as a fraction of the Gross Domestic Product, Czech Republic contracted 0.1 % in the third quarter of 2011 over the previous quarter.

By international comparison the ratio of households' debt to disposable income in the Czech Republic is currently lower than in the EU (75%) and Hungary (28.2%). What diffe-

rentiates the Czech Republic from others is the fact that Czech Republic national currency still is Czech Crowns (koruna). Due to this fact, the country did not suffer from compressed money supply in the U.S. dollars in comparison with other countries.

Below I will present the PEST analysis of the Czech Republic, which will be provided a deeper insight of countries present situation.

6.2 PEST analysis of the Czech Republic

PEST analysis is one tool of strategic management which scans the business and market environment to enable the firm to understand the surroundings in which it is operating or which it intends to enter. Let's take a look at all these building blocks of a business environment separately.

Political: Czech Republic is a multi-part parliamentary representative democratic republic. The president Vaclav Klaus is the head of the state but it is mostly representative while the Prime Minister Petr Nečas is the head of government and the genuine ruler of the country.

There are three classical powers of the state: the executive (the president of the Czech Republic and the government), Legislature (the parliament of the Czech Republic) and the Judiciary (civil and criminal, administrative and the constitutional courts).

The Government is the supreme body of executive power which consists of the Prime Minister and is appointed by the President. The Government is accountable to the Chamber of Deputies (Poslanecká sněmovna), which is responsible for voting for its confidence to the Government (vlada.cz/en).

Legislative power in the Czech Republic resides in the parliament. The parliament is divided into two chambers, the chamber of Deputies which has 200 members and is elected for four year terms and the Senate with 81 members who are elected every six years, one third of them every two years. No one may be a member of both chambers simultaneously. The chambers are able to vote when at least one third of the members are present. To pass a bill, a simple majority of the senators or deputies present is necessary (parliament.cz).

There are other central authorities, independent of the government and are guaranteed by the special way of appointing the head of the body with financial independence. There are: The Supreme Auditing Office, the Czech National Bank, the Ombudsperson and territorial self-governing units, like municipalities (nyulawglobal.org).

For the social policy, social security, employment, labor legislation, occupational safety and health, migration and integration of foreigners, European Social Fund and other social or labor related issues are under the responsibility of the Ministry of Labor and Social Affairs (mpsv.cz/en).

Economical: Due to the Czech Republic has an advantageous location and also it is the member of European Union this all creates very attractive features for Foreign Direct Investment (FDI). Since 1993 country's inflow was more than USD 80 billion in FDIs. After the recovery the country is continuing favorably and focusing on growth from net exports to domestic demand.

Below the table help us for visual perception of main Macroeconomic indicators:

Table 3: Main Macroeconomic Indicators

		2009	2010	2011	2012 est.	2013 est.
GDP	<i>growth in %</i>	-4.7	2.7	1.7	0.2	1.3
Consumption of households	<i>growth in %</i>	-0.4	0.6	-0.5	-0.4	0.2
Consumption of government	<i>growth in %</i>	3.8	0.6	-1.4	-3.7	-0.5
Average inflation rate	<i>per cent</i>	1.0	1.5	1.9	3.3	2.3
Employment	<i>growth in %</i>	-1.4	-1.0	0.4	-0.5	0.1
Unemployment rate	<i>average in %</i>	6.7	7.3	6.7	7.0	7.2
Wage bill (domestic concept)	<i>growth in %</i>	-2.1	-0.4	1.1	1.5	2.6
Exchange rate CZK/EUR		26.4	25.3	24.6	25.1	24.9

(Source: Financial Policy Department of the Czech Ministry of Finance, 2012)

By the estimation of Financial Policy Department of the Czech Ministry of Finance in 2010 real GDP grew by 2.7%, with the main contribution to that growth probably coming from gross capital formation related to providing inventories and to a lesser degree, household consumption. There was QoQ decline in GDP of 0.1%, and the Czech economy

formally found itself in technical recession, however, for this year, the country expects slight GDP of 0.2%, while in 2013 economic output should grow by 1.3%.

Growth in the wage bill compared to 2010 it increased to 1.1% in 2011 and in 2013 it will reach 2.6% due to the rise in employment and in average wages in the private sector. The situation on the labor market should reflect the slow economic growth and intensify uncertainty concerning future development. Employment should decrease by 0.5% this year and from the forecast it will be slight increase 0.1% in 2013. The unemployment rate (LFS) seemingly peaked in 2010, and it moderately decreased in 2011 but another slight increase in unemployment may occur in this year and in 2013.

Furthermore, by the several rating agencies the Czech Republic has been evaluated the results out of the biggest three agencies, which are shown below:

Table 4: Foreign Currency Long-Term Sovereign Debt Ratings

STANDARD & POOR'S		FITCH		MOODY'S	
<i>Investment Grades</i>					
		A+	<i>Czech Republic</i>	A1	<i>Czech Republic</i>
A	<i>Czech Republic</i>				

(Source: czechinvest.org/en)

Standard & Poor's is known to investors worldwide as a leader of financial- market intelligence. By this agency, the Czech Republic is evaluated as "A" standing for a strong capacity to meet its financial commitments (standardandpoors.com).

Fitch Ratings is a global rating agency dedicated to providing value beyond the rating through objective and balanced credit opinions, research and data, gave the mark "A+" to the Czech Republic (fitchratings.com).

Moody's is also credit rating agency, which is the closest competitor of Standard & Poor's and Fitch Group but in fact rate bonds differently; Moody's rating seek to measure the expected losses in the event of a default. It gives "A1" mark to Czech Republic, meaning rated as upper-medium grade and low credit risk (moodys.com).

From above it seems, the country shows a quite strong economical standing.

Social/Demographical: The population of the Czech Republic is 10.527 million persons, which keeps increasing and seems very good indicator. Below table depicts the demography as of 1st of January, 2011.

Table 5: The Czech Republic Demography (in thousands of persons)

	2010	2011	2012	2013	2014
			Estimate	Forecast	Forecast
Total Population	10 507	10 526	10 560	10 594	10 625
		<i>Age Structure</i>			
(0-14)	1,494	1,512	1,538	1,563	1,586
Growth in %	1.0	1.2	1.7	1.6	1.5
(15-64)	7,414	7,380	7,324	7,264	7,211
Growth in %	-0.2	-0.5	-0.8	-0.8	-0.7
(65+)	1,599	1,634	1,699	1,767	1,828
Growth in %	2.7	2.2	4.0	4.0	3.5
Natural increase	10	9	8	7	6

(Source: *mfcz.cz*)

The dynamics/range of age groups show that Czech population at present is a quite stable. If we based on 2007 year's estimation the number of younger people than 15 years was lower than the number of people in the 65+ age category. In Future, as we can see from the demographic structure the number of seniors in the population will rise. The structural proportion of persons over 64 years of age in the total population, which was just below 15% in early 2009, should increase to nearly 20% by the beginning of 2020.

Of the analysis we have to take into consideration a positive increase of the Czech population, indicating a greater birth-rate over deaths (mortality). This is explained in the table growth reports of the first group (0-14).

It is worth to mention the Czech Republic spends around 7.6% of its GDP on health (figure from the year 2009). General government expenditure on health as a percentage of total expenditure on health (80.2%) is the reason of private expenditure is (16.6%), which is an indicator for a sound health system. Per capita Czech Republic spends approx. USD 1.031 on health-related issues (nationmaster.com; czechinvest.org/en).

Technological: The Czech Republic's spending on R&D has increased from 0.95% of GDP to 1.4%. Many multinationals are running Czech R&D or design centers, including Panasonic, Honeywell, Mercedes-Benz, Motorola, Rockwell Automation and Visteon.

According to the 2011-2011 Global Competitiveness Report published by the World Economic Forum, the Czech Republic ranks 36th among 139 world economies in competitiveness, while it ranks the 25th in Company spending on R&D and the 15th in FDI and technology transfer. Seems there is a trend of restructuring FDI's. So many investors and companies are moving their higher-added value development activities in technology centers such as Software and ICT services, Business support services, Aerospace industry, Advanced automotive, Industrial machinery, equipment and tools, Life sciences, Electrical engineering/electronics, Advanced renewable energy and Nanotechnology. If we compare three major production plants- Škoda, TPCA, and Hyundai, their full capacity produce more than 1.200.000 cars annually and above mentioned sectors are developing and using more advanced technological benefits (czechinvest.org/en).

6.3 Legal background in the Czech Republic

The Czech legal system is a "continental" legal system, more precisely, due to common historical roots; it belongs to the "Germanic" legal culture. There are some characteristics of the legal system as follow:

- Procedure and major areas of law are codified; (Codes of Criminal, Civil and Criminal Codes, Civil and Administrative Procedure etc.);
- The system of legal sources is hierarchical, forming a pyramidal structure of legal force within the legal system;
- Only written (legislature) law is recognized as a source of law.

The Constitution of the Czech Republic adopted by the Czech National Council in 1992 and defines the Czech Republic as a sovereign, unitary and democratic state governed by

the rule of law, founded on respect for the rights and freedoms of man and of citizens. Most important part of the Constitution is the Charter of Fundamental Rights and Basic Freedoms.

Since 2004, the Czech Republic is the member of European Union, community law and its legislative sources (primary law, secondary law- regulation, directives, decisions, etc.) became part of the Czech legal order as well.

Legislation: Constitutional laws are legislative acts of the highest force. They are passed by a special majority being necessary in both Chambers of Parliament and with the agreement of both chambers. There is a plurality of constitutional laws, all the constitutional laws forming the so-called constitutional order of the Czech Republic.

International treaties take precedence over simple laws, meaning that in case of conflict between a provision of a law and a provision of an international treaty, the latter shall prevail. The most important treaty in this category is the Council of Europe's Convention for the Protection of Human Rights and Fundamental Freedoms.

For a legislation to be valid, it must be properly promulgated. All the abstract legal acts of general application must be published in the Collection of Laws. All the international laws by which the Czech Republic is bound must be published in the Collection of International Treaties, where the authoritative foreign version, also the Czech version, is published simultaneously. They are also fully accessible online in a "PDF" format. The only authentic version of Czech legislation is in the Czech language and no systematic official translations of the legislation in force into English (nyulawglobal.org; ec.europa.eu).

6.4 Commercial Code

The Czech Commercial Code covers the fundamental provisions of Division I (Fundamental Provisions), Division II (Foreign Persons' Capital Interests in Czech Legal Entities) and Division III (Protection of the Capital Interests of Foreign Persons Carrying on Business Activities in the Czech Republic). In nutshell a summary is as follow:

Foreign individuals and entities may engage in business activities on the territory of the Czech Republic under the same conditions and the same extent as Czech persons. For the purposes of this Code, "business activity by a foreign person on the territory of the Czech

Republic” defines as business activity by foreign person who has an enterprise, or an organizational component of such, located on the territory of the Czech Republic.

A foreign person's authorization to carry on a business activity on the territory of the Czech Republic takes effect on the day as of which that person, or that person's organizational component, is recorded in the (Czech) Commercial Register. Such foreign person is authorized to engage in the range of business activities specified in his (its) entry in the Commercial Register. The application for this is filed by the foreign person concerned. The provisions of subsection shall not apply to individuals who have a permanent residential address in a member state of the European Union or in some other state of the European Economic Area if such individuals carry on business activity on the territory of the Czech Republic.

A legal entity may be only established under Czech law and foreign persons enjoy the same rights and have the same obligations as Czech persons in the matters specified in subsection.

Foreign persons' and Czech persons' proprietary interests are protected and may only be expropriated in the Czech Republic, or restricted in respect of its ownership rights, on the basis of law and in the public interest, if such public interest cannot be otherwise satisfied. An appeal against such decision may be field with the court. If measures under subsection are taken, compensation must be provided without delay and equal to the full value of the property. It must be freely transferable abroad in a foreign currency (hg.org)

6.5 Treaty on the Functioning of the EU

It is about to get more information and deeper details on the role, policies and operation of the EU. Article 54 covers the internal actions and union policies and it is examined below. All companies or firms formed with the law of a Member State and have their registered office, central administration or principal place of business within the EU must be treated in the same way as natural persons who are the nationals of Member States.

Member states must treat the other Member States in the same way as their own nationals in regards to participation in the firms or capital companies without prejudice to the application of the other provisions of the Treaties.

6.6 Labor Code

Sources of labor law in the Czech Republic is the constitutional act and the most important with international treaties particularly ILO Conventions and EC Law, acts and regulations to implement acts published in the Collection of Laws of the Czech Republic, normative provisions of collective agreements and individual employment contracts. International treaties include International Covenant on Economic, Social and Cultural Rights and International Covenant on Civil and Political Rights, which represent a basis for the legal status of citizens and trade unions in employment relationships.

Labor Code was the first systematic set of labor regulations in the former Czechoslovakia with effect as from 1966 although, it has been modified to fit the changed environment, forms of employment and labor relations. The code gives trade unions and employers greater space to negotiate working conditions which are more suitable to their needs.

Contract of Employment: the employment relationship plays a dominant role in Czech labor relations, which covers the both in respect of frequency of occurrence and in respect of volume of work. The employee protection provided by the Labor Code is based on international standards, by which the Czech Republic is bound, in particular the ILO Conventions, the UN Covenants on human rights and economic, social and cultural rights, the European social charter and EC legislation and case law.

An employment relationship is based on a contract between an employer and an employee. In accordance with section 29 of the Labor Code, a contract of employment must include certain type of work to be performed by the employee, the place of work and the starting date. Although the Labor Code requires employers to provide employees with written statement of the terms and conditions of employment and both parties must agree on the whole content of the contract (permanent and fixed-term, the probation (which must not exceed 3 months by the agreement)).

Termination of the employment relationship: in accordance with the legislation, termination of employment is accomplished by the following legal acts: Immediate cancellation, Notice of dismissal, Agreement concerning severance of employment relationship and Cancellation during the probation period. The Labor Code defines each of them in detail.

Working time: is the period of time during which an employee is required to perform work for his or her employer. The length and distribution of working time are among the various working conditions the employer is required to observe. According to EC Law the regular hours of work must not exceed 40 hours a week and overtime does not exceed 48 hours on average throughout a timeframe of four months. Under the Labor Code the maximum length of a shift is restricted to 9 hours within an even distribution of shifts and 12 hours in the case of an uneven distribution of shifts. Labor Code also provides for shorter working hours below 40 a week, in respect of specific working environments in which employees perform their job (underground work, etc.). Workers below 16 years of age are allowed to work for at most 30 hours a week and the length of their shift must not exceed 6 hours in individual days.

The code also defines the cases of overtime, night work and work on public holidays, impediments to work and etc.

Maternity protection and leave: Working conditions of pregnant women and employees who have given birth are regulated by chapter VII of the Labor Code. There is prohibition of certain types of work for biological/social reasons, when a woman usually performs this type of work; she is entitled to a transfer to other work. There are also adjustments about business trips and the working time.

In accordance with section 161 of the Labor Code, the employer is obliged to grant a breastfeeding mother, in addition to breaks for meals and rest, additional daily breaks for breastfeeding. In general, a woman-worker is entitled to maternity leave for a period of 28 weeks.

Further, there are some issues related to minimum age and protection of young workers, prohibition of discrimination, equal treatment of all employees, sexual harassment and mobbing, as well as pay issues (minimum wage, determination of pay in both, private and public sectors).

Trade unions and works councils: in accordance with Czech law, trade unions and trade union bodies are the only legitimate representative bodies of employees in labor relations that have the right to collective bargaining. Since 2001, the Labor Code has introduced a new type of employee representation in organizations where there are no trade unions. These employees can establish works councils, which can mediate in relations between the employers and employees and are called upon to enforce the right of employees to infor-

mation and consultation. The European Works Council enables employees of multinational companies meeting certain conditions to have access to information regarding the company and to discuss it with the employer. The Labor Code also includes explanation of settlement of collective/individual labor disputes (mediation, arbitration, strikes and lock-outs, illegal strikes, etc.). The institution of labor inspection in Czech Republic does not exist. In accordance with Act, some controlling activities are performed by public employment services (by labor offices) (ilo.org; mpsv.cz).

6.7 Tax Code

Income Tax: a foreign resident who is employed in the Czech Republic pays tax only income earned in the Republic. The tax year in the Czech Republic is the calendar year, which ends on the 31st of December and the annual return must be submitted by 31st of March. In case, there is delay in submitting an annual return will entail fines of 10% of the tax payable. Czech Republic Corporate tax in 2010 was 19%. In order to encourage economic activity, the rate of corporate tax is constantly reduced. In general, capital gains in the Czech Republic are taxed as income for companies and individuals (worldwide-tax.com)

VAT: from 1st of January, 2010, VAT is payable and the reduced rate is 10% and the basic VAT rate is 20%. In the Czech Republic subjects, whose turnover achieves the sum of one million crowns for the 12 calendar months, are obliged to become VAT payers. The subject must submit an application for registration as a VAT payer within 15 days. If it does not do so the Tax Office is required to impose a fine of 10% of all income for the period for which it should have been a payer and was not.

Another alternative is to become a voluntary VAT payer, meaning a company/individual applies as a VAT payer, despite the fact that its turnover must not exceed one million crowns. The reporting periods for business are quarterly/monthly and the tax must be paid by the 25th day after the end of the taxation period.

Among the free receipts from VAT are: television and radio, financial institutions like banks and insurance companies, postal services, export, lotteries, non-profit making institutions and health and welfare services. There are also other taxes such as: gift taxes and inheritance, the road taxes, real estate taxes, etc.

Under the Tax Provisions (the Treaty on the Functioning of the EU), any Member State shall not impose on the products of other Member States any internal taxation of any kind in excess of that imposed directly/indirectly on similar domestic products. Furthermore, it is also prohibited to protect certain products against others for the protecting purposes. On the base of Article 26 the EU Parliament and the Council must acting in accordance with the ordinary legislative procedure and after consulting the Economic and Social Committee adopt provisions for agreeable of legislation about turnover taxes and other forms of taxation (indirect). Such agreeable is important for establishment and functioning of the internal market. It also ensures to avoid contortion of competition (unhcr.org).

6.8 Leather manufacturing sector in the Czech Republic

Generally, leather manufacturing industry in Czech Republic is an export-oriented branch in a long-term, which is corroborated by the fact that a significant part of income (about 40%) is income from sales of leather goods for export. The leather industry belongs to branches with lowest share of income from sale of own services and products, value added and number of employees as well. Last ten years position of the leather branch with manufacturing was constantly decreasing.

Table 6: Footwear Industry

	Value		Quantity		Prices
	Million USD	World Rank	Million Pairs	World Rank	USD
2010					
Exports	434	22	39	24	11.15
Imports	641	25	140	15	4.58
Production	99		4		22.55
Consumption			105	27	

(Source: coka.cz)

At present, the Czech Footwear and Leather Association (CFLA), which was created as a voluntary group, incorporates around 55 companies and institutions concerned with manufacture, sale as well as research and testing of shoe materials and components and footwear

in the territory of the Czech Republic. CFLA is also a main information centre for businessmen in the leather industry within the project of the Czech Republic’s Economic Chamber. It is also a member of the European Confederation of the Shoe Retailers ‘Associations (CEDDEC) and the member of the International Union of Shoe Industry Technicians (UITIC) (coka.cz).

Nowadays, the Czech footwear industry is concentrated in the area around Zlin. In 2010 Czech exports achieved a new maximum. The country’s main clients are neighboring markets such as Germany, Slovakia, and Austria but exports to the United Kingdom have also grown substantially in the last five years. Below is shown the data in 2010 from where we can easily say that plastic and rubber footwear represents half of Czech exports, which explains its relatively low average price by European standards.

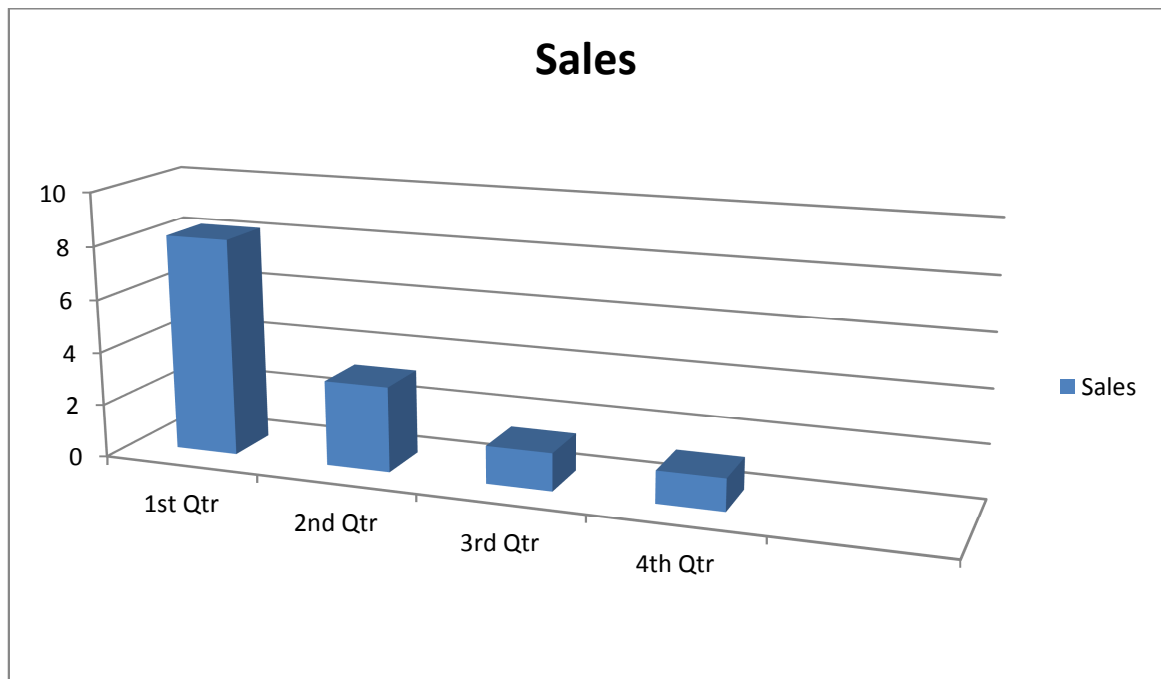


Figure 7: Types of footwear traded 2010 (quantity);

(Source: coka.cz)

Imports have also recovered from the 2009 fall but are still below 2008’s level.

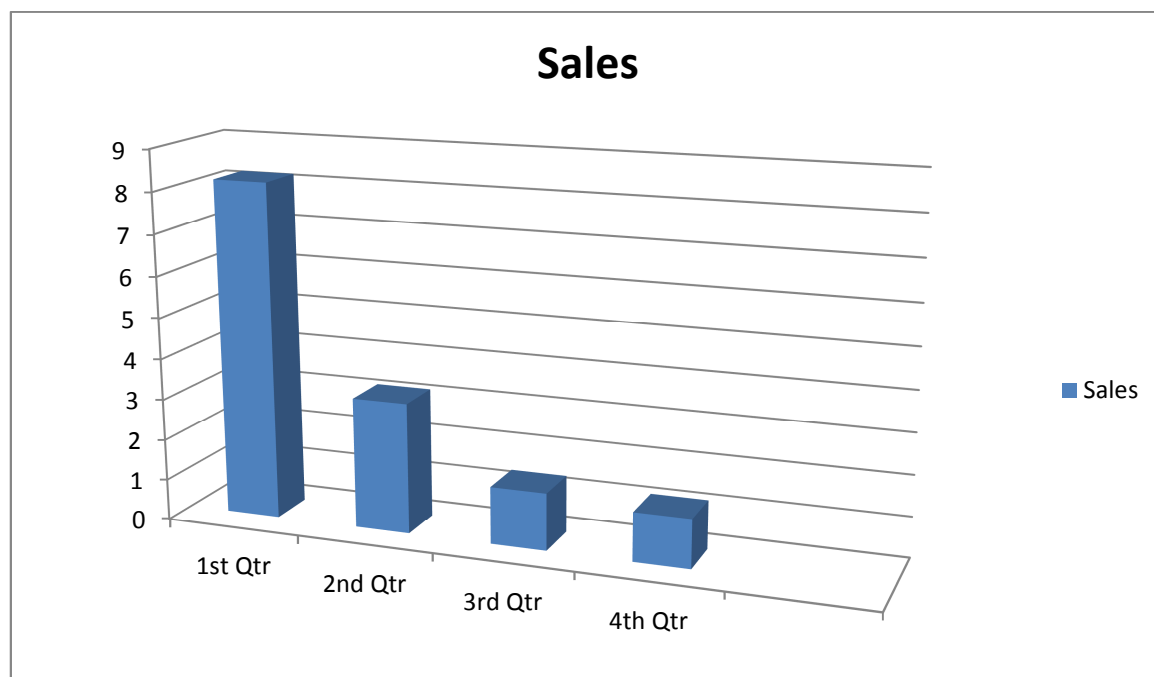


Figure 8: Types of footwear traded 2010 (quantity);

(Source: coka.cz)

Table 7: Balance of production and employment trends in the footwear industry (Export, Import and Consumption of footwear) in the Czech Republic;

<i>Czech Republic</i>		2010	2011
Total prod. Of shoes in the Czech Rep.		1 998 *	1 997 *
	Mil. Thousand pairs	4 489 *	4 438 *
Export of Footwear		8 148	9 844
	Mil. Thousand pairs	43 017	50 916
Import of Footwear		11 636	16 579
	Mil. Thousand pairs	140 169	182 978
Number of Employees	People	3450 *	3400 *
Footwear Consumption	Pairs	9.2 **	12.04 **

(Source: coka.cz)

* A qualified estimate ČOKA (Czech Footwear and Leather Association)

** This is the apparent consumption of footwear on a per capita, real consumption is around 3.5 to 4.5 pairs of shoes per year for per person.

Despite the decline of footwear manufacturing industry and lost production in tanneries and other supplying industries, also decreased production of some intermediate products and components for footwear (soles, reinforcing elements, fabric, interchangeable materials and etc.), these difficult conditions today successfully operated a number of smaller firms and family-type businesses that focus on specialized products and perfect customer service. The above table also shows, however, the all sorts of economic pressures, the Czech shoe industry can be considered as good and efficient exporter.

6.8.1 Short profiles of potential competitors to Super Tannery Limited in Czech Republic

The most threatening competitor is considered by most companies from China (60%), EU 15 (10%), domestic competitors (6%), South Med (3%). Also other Asian countries- India and Pakistan as well as the former Yugoslavia countries are identified as strong competitors.

BAŤA, a.s., Zlín is a large, family-owned shoe company, which was founded in 1894 by Tomáš Bata and currently headquartered in Lausanne, Switzerland, with 3 business units.

- **Bata Metro Markets**, Lausanne
- **Bata Emerging Markets**, Singapore
- **Bata Branded Business**, Best, Netherlands

Current shoe brands are:

- **Bata** (Baťa in former Czechoslovakia)
- **Bata Premium** (handcrafted dress shoes)
- **Bata Industrials** (safety footwear)
- **Bubblegummers** (children)
- **Power** (athletic shoes)
- **Marie Claire** (women)

- **Hush Puppies** (Premium) [Hush Puppies is owned by Wolverine Worldwide and not Bata]
- **North Star** (youth)
- **Weinbrenner** (Premium Outdoor Shoes)

According to Bata, in 2007, the company served 1 million customers per day, employed over 40,000 people, operated 4,600 retail stores, managed a retail presence in over 50 countries and had 40 production facilities across 26 countries.

Bata, a.s., comprises sale and manufacturing divisions. Nowadays, the sale division operates more than 60 sales outlets in the whole of the Czech Republic. The product range sold in the shop network is intended primarily for town customers.

The product line produced by the manufacturing division at Dolní Němčí covers solely the CASUAL type of shoes, which is footwear for leisure intended primarily for younger people. The shoes have been designed in co-operation with Italian designers. Though the largest part of the CASUAL footwear is produced in men's sizes, the manufacturer offers the same shoe models also in ladies' and children's sizes (en.wikipedia.org; coka.cz).

CIL, výrobní družstvo has been engaged in footwear manufacturing since its formation in 1953. From the beginning it was textile footwear, later on leather indoor and summer outdoor footwear. Company has produced mainly summer and winter leather outdoor men, ladies and children footwear since 1991. Footwear is manufactured by glued technology on International and USM machines. Footwear intended for high working load and for extreme conditions, means work shoes or footwear suitable for military and similar services is manufactured by sewed on technology of sole parts. The major part of the co-operative's output is formed by cemented (stuck-on) footwear. In total, the co-operative manufactures approximately 100 thousand pairs per annum. Company delivers its products firstly to west and central European countries. The co-operative's minor products are foot supports made of leather and natural materials. The co-operative's product line includes also fancy leather goods and also ready-made clothes.

CIL, výrobní družstvo, is accredited to ISO 9001:2008, and also is certified with special police footwear industrial design owner and work, protective and security footwear designs (cilpv.cz).

FLEXIKO CZ, s.r.o., Lhota u Malenovic, was founded in 1992 and since its foundation; it has been specializing in manufacture of stitch down footwear. The shoe production covers

the entire manufacturing cycle starting from sampling clicking and preparing of semi-finished products (shoe components), stitching, shoe bottoming to the final product.

The company is producing walking (street) shoes and work boots (tested by the Testing and Certification Institute a.s. in Zlín).

The product range comprises light-weight hiking boots for young people (known as “pioneer boots” in the Czech Republic), higher upper boots known as “farmer boots”, boots with “Vibram” type sole, light-weight white color prophylactic shoes, glassmakers footwear, hiking boots and leisure footwear, etc. The main specialty of the company is manufacture of shoes using two technologies: the lining is lasted using cementing process while upper is lasted employing the stitch down technology. Already produced footwear by the FLEXIKO Company includes predominantly leather upper, textile lining and rubber soles. As regards to service properties of this footwear are solely high: all the shoes are strong and the same time very flexible, comfortable and is given by the stitch down manufacturing method. During its existence the company has built a network of loyalty customers, which are mainly firms recognizing quality of Czech products.

In 2006 a new department for export was created for the Eastern European markets as an independent company CEBU TRADE s.r.o. and it is already operates in Slovakia, Hungary, Slovenia, Croatia, Federation of Bosnia and Herzegovina, Serbia, Bulgaria, Romania, Estonia, Latvia, Lithuania, Belarus, Russia, Ukraine, Moldavia, Kazakhstan, Kyrgyzstan, Poland, Tajikistan, Uzbekistan, Azerbaijan.

The footwear is supplied not only to the domestic market, also to UK, Italy, France, Slovenia, Hungary, USA and other countries.

FLEXIKO CZ, s.r.o., is certified with six quality certificate which is company’s main advantages. Furthermore, traditional production, own development, Czech product, professional service, special technology, footwear made to order, shoes in extra large sizes /48-50/ FLEXIKO CZ, s.r.o. considers as a company’s main advantages (flexiko.cz).

Faraon sandals, s.r.o., deals with import and sale of hand sewn shoes from 100% leather. Each model is an original that cannot get elsewhere. Company is producing sandals, slippers, Christ’s sandals, gladiator sandals, hippies and other summer shoes. FARAON Sandals are exceptional not only for its simple and elegant design, but also good quality leather, from which they are made. Company is working with leading manufacturers, as well as material suppliers, which also guarantees the quality and long durability of products.

For the company Faraon sandals Ltd. are those shoes made in India, Greece and Palestine. Only Faraon sandals Ltd. sells that kind of shoes in Central Europe (faraon-sandals.cz).

FARE, spol. s r.o., was founded in 1991 when it began with labor hired. FARE is dominant manufacturer in the Czech Republic. First it went about working for some Italian shoe companies and later, after having achieved professional level, the main customer was an Austrian company and the best teacher for FARE Ltd. Collection of FARE shoes has now more than 400 models mainly in the full-leather design. Company is focusing on the developing and producing of the casual yearlong, winter and summer shoes. The advantage of these shoes is the spring-loaded plant grade, reshaped stiffener, sole waist support and precise manufacturing. The Thomas heel, which is highly recommended by orthopedically specialists, is also worth mentioning.

Another important product line of the FARE Company in Valašské Klobouky is men's, boys and children's trekking footwear made under the TrekKing trademark. The FARE Company has received many awards and top quality certificates. All models fulfill the main function to protect feet, but very important is also the good look of shoes (fare.cz/en).

NOVÁK ŠTĚPÁN – REJNOK is a primarily a retailer of footwear and leather haberdashery which was founded by Mr. and Mrs. Novaks in 1991. Since 1966, it has been operating in total 6 shops where predominantly footwear supplied by Czech wholesalers is offered. The imports account for about 20 percent of the company's turnover. Since 1995, the company has been a member of the Garant-Moda association in Zlín.

The company REJNOK imports footwear particularly from the European Union countries. In 2002, the company spread the commercial zone and completed construction of a multi-functional building housing two shops in f Karlovy Vary – Rybaře (rejnokobuv.cz).

ŠNOBL JIŘÍ, Třebíč was founded in 2000, which concentrates on activities in the footwear field. The company's major business is purchase of footwear for the purpose of its subsequent deliveries to certain target groups. The main products lines are men's and woman's summer, winter and all-season outdoor exclusive shoes. A priority is given to footwear made from quality calf, cattle as well as goat natural leathers. A strong point of the shoes offered is also good workmanship and quality materials assuring pleasant wearing.

The company uses the following trademarks for presentation of its products:

- The men's footwear is presented under the „RICCARDO“trademark
- The ladies' shoes are presented under the „MACCIONI“trademark (coka.cz).

Z-STYLE CZ a.s., continues the long tradition of shoe manufacture in Zlín. It develops and distributes work and safety footwear of own brands BENNON a ADAMANT, work and free time footwear MOLEDA, and rubber footwear and supplementary products. The company's business activities comprise not only design and distribution of work and safety boots but also provision of comprehensive services aimed at consultancy in the field of footwear.

The company Z-Style CZ a. s. aims at providing customers with work, safety and leisure footwear manufactured from modern materials by a technology capable of delivering the users the necessary protection and wearing comfort while meeting their price requirements [61].

STL must take into account, that Chinese product which is imported in the Czech Republic and gain quite high market share from the market, makes threat to all other export companies. Czech people prefer to buy high quality shoes with cheap price. Hence, STL has to start penetration after deeper analysis of the Czech market.

6.8.2 SWOT Analysis

By providing SWOT analysis will help Super Tannery Limited to match its capabilities to the competitive environment in which it will operate. It will help the company for developing and confirming its own goals and marketing strategy. SWOT analysis is imperative to ensure us not to waste time and energy on a product which is not needed or wanted in the marketplace. Additionally, it will enable Super Tannery Limited to analyze its internal and external factors.

Strengths:

- Leading leather manufacturer in India
- Ready availability of highly skilled and cheap manpower
- Large raw material base
- Capability to assimilate new technologies and handle large projects

- Company is Government recognized Export house
- Participating in various leather fairs around the world
- Established and highly reputable brand, STL is continually developing its own labeled products and services in order to increase market perception and awareness.
- Still has a large production capacity. It can produce a variety of finished leather.
- Developed marketing mix ...
- Strong management team with efficient networks.
- Meets standards of ISO and strict regulation of safety and security.
- Not much competition on international basis from India.
- Well spread distribution channels.
- Most qualified personnel in the leather industry.
- STLs website is all-embracing, fully informative and available in English language.

Weaknesses:

- Production wastage is not utilizing very much effectively
- International price fluctuation
- More individuality in staff than conformity with the company's goal
- Lack of advertising and promotion on local basis

Opportunities:

- Ability for customers to make an order by Internet
- Further expansion of the leather manufacturers are not well-saturated
- UK and Asia area: STL's present strategic orientation is mainly on UK and Asian countries. By expanding its operations into Czech market, simultaneously company will start operations in Europe, in Schengen countries.
- Implementing STLs existing strengths in the Czech Republic.

Threats:

- Fluctuation in exchange rates
- Stricter international standards
- High competition from East European countries and other Asian countries
- Negative changes in macroeconomic factors
- Political Risk

- The effects of the weather on the sales

After determination of SWOTs facing Super Tannery Limited, the objective of penetrating the Czech market is achievable with identifying areas for development and the probability of higher success.

6.8.3 Porter’s five forces

For developing the company’s objectives and to study the market as a whole the best model is Porter’s five forces model. For making a qualitative evaluation of Super Tannery Limited’s strategic position, this model can be considered as a starting point. The five forces model is not designed for industry sector level analysis or industry group, it is much well-conducted when it is used at the line-of-business industry level. To get the desired outcome, an expanded company like Super Tannery Limited should develop for each line of business its own, industry specific, five forces analysis. Porter referred to these forces as the micro environment, to contrast it with the more general term macro environments, which consist of the forces close to a company that affects its ability to serve its consumers and make a profit. After all, to understand the structure by defending against the competitive forces and forming them into the company’s favor is decisive to Super Tannery Limited’s effective strategic planning.

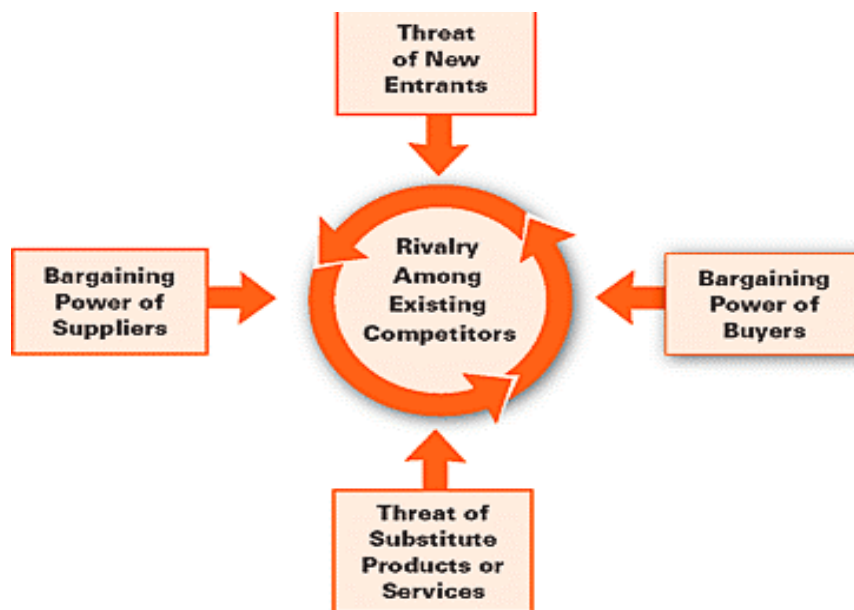


Figure 9: Porter’s five forces, shaping industry competition

(Source: hbr.org)

The analysis starts with focusing on Super Tannery Limited's "vertical" competition and on the leather manufacturing market.

Threat of new entrants: to overcome the barriers for starting up a showroom warehouse are not impossible. In the Czech Republic productivity decreased in manufacturing level and we have to look for the reason in slow sluggish state of economy. The ability to establish beneficial supply contracts, leases and to be competitive is becoming harder and harder.

The threat for new entrants is customer's loyalty to the already existed brands. A potential entrant must either rise above the uniqueness of already established products or determine likewise differentiated products at a lower price to increase value for consumers.

The bargaining power of suppliers: in the leather (shoe) manufacturing industry, noteworthy is that shoes are manufactured primarily from raw materials, including leather, rubber, and etc. These materials could be classified as commodities, where the manufacturing process adds to their value. For this main reason, the suppliers have limited bargaining power, and little impact on profit potential.

The bargaining power of buyers: the bargaining power of buyers must be very strong in the Czech Republic, as the main goal of the leather manufacturing sector is to identify, develop and maintain them.

Buyers have high switching costs in regards to opportunity cost. If a shoe retailer decided to drop one of the popular shoe brands, their sales would fall due to high customer brand loyalty. Most buyers have a medium profit margin to price sensitivity of buyers is moderate. In the leather shoe industry, price increases pass to the buyers.

Super Tannery Limited is aware of its consumers and treats them with high level of attention (e.g. if buyers have any complaints are promptly solved and etc.). It is also trying to make buyers feel special in its shops. Increasing their loyalty finally results in higher collaboration and in some cases, may even reduce buyers' sensitivity to price changes. Therefore, STL will attempt to satisfy its buyer preferences in the Czech Republic in ways that no competitor can.

Threat of substitute products: For Super Tannery Limited the presence of manufacturers in the Czech Republic could be viewed as a threat standpoint substitute products from buyers' perspective. Furthermore, all substitute products with other manufacturers' own brand represents a threat because of the fact that other companies (national/international) have al-

ready established their position in the country and possess certain level of reputation. They are familiar to the Czech target markets and their own branded products are linked with their brands. STL's brand is new occurrence here.

Conversely, STL can have a dissimilar or absolute advantage over its competitors for products that are unique. Step by step, with rising STL brand loyalty, differentiated products may effectively be separated from substitutes. Without brand loyalty, buyers may shift to substitutes that offer similar features at a lower price or to brands offering more attractive features at the same price. Meaning to achieve customer loyalty is to differentiate brands in ways that are important to buyers/customers. In case of brand loyalty, customers are less sensitive to price increases. While STL will satisfy the differentiated need of loyal customers, it will be separated even from price-based competition.

Rivalry among existing competitors: Generally, shoe industry, corporations are mutually dependent. A competitive move by one company directly affects competitors and forcing retaliation. (E.g. Reebok's expansion of the women's walking shoe inspired other firms to follow).

The number of competitors is stable, incompletely due to high entry barriers. Manufacturers watch each other carefully and make appropriate countermoves to match a competitor's move.

In the Czech Republic, there is less presence of threat of rivalry. It is clear fact that in India there are about double dozen of leather manufacturing companies directly competing with each other and controlling approximately 70% of the market share, while in Czech Republic top two or three leather manufacturers control around 60% of the total market.

Low exit barriers and diversity among competitors has minimal impact on profit potential. If the leather shoe industry becomes too unprofitable, companies could switch to other shoe markets. Noteworthy, diversity among companies is small because every company follows one another. The rivalry among existing companies is high where weak companies are easily acquired by fierce competitors. This may have a high impact on profit potential.

After identifying beneficial and unfavorable forces for Super Tannery Limited's future performance in the Czech Republic as well as the industry's attractiveness, it is significant to analyze the situation and examine the impacts of the forces. After precise analyze will enable STL to apply its core competencies and their business model.

Nonetheless, the framework of Porter's Five Forces with its critical aspects and its static nature, the competitive environment is changing turbulently. Therefore, STL's corporate strategist should find the position in the industry where Super Tannery Limited will be able to best assert itself against these forces and, besides, influence them in its good turn. Company has to use opportunity to identify the strength of the position and the ability to make a sustained profit in the leather manufacturing industry.

In the project part, it would be advantageous for Super Tannery Limited to complete other elements of Porter's forces model, like generic strategies and value chain.

7 PROJECT FOR MARKET PENETRATION INTO THE CZECH REPUBLIC

The main goal of this project is to define the essential steps required for the Indian leather manufacturing Super Tannery Limited to penetrate the Czech market with opening branch office/warehouse. The aim of the project is to provide and develop marketing strategy for Super Tannery Limited in the Czech Republic and after all evaluate the proposed project against uncertainties and potential risks.

The project starts with the identification of STL's objectives, mission and goals, followed by the characterization of a relevant entry mode in the Czech Republic within the legal framework. The project lasts with the comprehensive analysis of the marketing mix, where it will be focused on the needs of targeted audiences and the strategy is fit to the Czech Republic.

At the last part of the project emphasizes barriers of market entry into the Czech Republic and designate threats and potential risks, followed by methods and approaches how to reject the risk.

Overall, for the market penetration, the risk and time analysis will be helpful. The project is also completed with total evaluation.

7.1 Marketing Strategy

7.1.1 Mission-strategic goals and objectives

Super Tannery Limited's mission in the Czech Republic will be: to identify a specific set of customers, to grow and diversify its own business and also every new venture has to be supported by employees and owners as it develops. Company will be oriented to have demands from Czech population and help them to get high satisfaction with their making decision process.

Super Tannery Limited's *strategic goals and objectives* in the Czech Republic are:

- Firstly, to avoid new market panic, meaning to start penetrating when revenue will be grown, otherwise when revenue starts to shrink, panic sets in.
- To rank among top 5 leather manufacturers within the first 3 years of operations;

- Step by step process to develop service level related to their customer loyalty system.
- To consolidate ranking among top 5 leather manufacturers in the Czech Republic within 10 years of operations;
- In 10 year's time to have 10-15% of target market share in the Czech Republic.

7.1.2 Entry mode

Choosing the right approach requires deep research and will depend on the country (in this case in the Czech Republic) company wish to enter and its product or services. STL will decide to own in the foreign venture and the potential risks it is going to face. Hence, there is a choice either acquires an existing company, or set up a new venture, i.e., perform a Greenfield investment in the Czech Republic. The general perspective on this choice stipulates that takeovers are less risky than Greenfield investments, but yield a lower expected rate of return; accordingly, STL would become more willing to perform Greenfield investments as greater capabilities and international experience increase its ability to handle risks.

Super Tannery Limited is large leather manufacturing company with annual sales of over USD 55 Million and it should focus from the beginning on larger markets. Furthermore, company has enough capacity to face more risks, such as falling markets, restricted or devalued currencies or government changes.

There is a choice between either horizontal FDI or vertical FDI modes of entry by the Super Tannery Limited. Vertical FDI occurs, when a multinational company fragments the production process internationally, thereby locating each stage of production in the country where it can be done at the least cost, which might keep STL's involvement at minimum. But using vertical FDI entry mode may reduce company's potential and its market benefits. Overall, vertical FDI might be preferred when there is a perceived low market growth potential. Based on aforesaid and keeping in mind Super Tannery's capital availability and international strategy, the company prefers the Horizontal FDI entry mode; arise when a company supplanted its home country-based activities at the same value chain stage in a host country through FDI.

This method has been successfully proved in the countries, where STL has penetrated till present (China, UK, Malaysia and United Arab Emirates). However, in the case of entering

the Czech market, this model will not be reiteration for already penetrated markets, but only the analyzing the essential factors present in the Czech Republic.

The horizontal investment entry is the most applicable mode in the current situation for Super Tannery Limited to penetrate the Czech Market. The best possible option for the manufacturer will be to acquire space for building branch office, with approximately 10-15 square meters of real estate property. The program mix will be included the divisions as follows: 90 square meters will be intended for: (a) STL's warehouse/branch office which will offer own-labeled leather footwear for both genders. STL will have contractual agreements with local business entities, which/who are already working with the existing leather footwear industry in the Czech Republic.

Initially, STL will have exact amount of "start-up" costs connected with establishment and presentation activities; this of course, is acquiring the space and building an office. Testing the Czech market by establishing with warehouse/branch office, company gives a message to Czech market that after 3-5 years after penetrating, company will open its own-labeled leather footwear shop. Overall, the start-up of operations would comprise high human and financial capital that will be from the initial stage focused on the long-run functioning and success.

In accordance with roughly proposed estimation, STL can invest approximately CZK 1 million in starting its operations in the Czech Republic. By the time of actual decision to penetrate the market, this amount will be revised.

7.1.3 Reporting and registration requirements

Start entering the Czech Republic, there will be a set of reporting requirement for Super Tannery Limited to follow. There exist some key principles set by the Commercial Code that have to be followed. Accordingly, there is a core framework for the accounting law, established by the accounting Act, supported by the chart of accounts and procedures. Income Taxes Act and VAT Act govern the main tax laws in the Czech Republic, among them the corporate tax and personal income tax laws (expats.cz).

A closer insight uncovers three basic steps that Super Tannery must follow:

First of all, STL must be registered in the Business (Commercial) Registry of the Regional Commercial Court to acquire the commercial license.

The Czech Commercial Code and the Czech Civil Procedure Act have been modified to accede with the European Community Law (effective since 1st July, 2005) and to make it faster, simpler and in that way, more convenient to register in the Commercial Register.

The changes in the codes implicated the following:

- Introducing standard forms of applications;
- Abating the number of participants to the proceedings;
- Setting a time –saving procedure for registration, during which the data is entered without substantial review for certain entry types;
- Providing information about exact time limits necessary for decision and their issuance and entries;
- Introducing the “silence-is-consent“ rule;
- Setting limits for implementing the complete electronic administration of the Commercial Register.

Starting on the 1st of July, 2006, the time limit for the court to decide on registration in the Czech Republic is five working days.

When STL will file an application for registering in the Commercial Register, it will need to enclose the documents as follows: (1) the company’s articles (memorandum) of association in the form a notarized deed; (2) the documents affirming the company’s title to the premises in which its seat is located (in India); (3) a confirmation from the administrator of the contributions into the company’s registered capital, which is confirming that each founder paid up at least 30% of his/her monetary capital contribution and that the total paid up capital contributions amount at least 100.000,- CZK; (4) a confirmation from the corresponding bank that the capital contributions are held in the company’s special bank account for the registered capital; (5) the documents on the company managers and the executive; and (6) the executive’s written legal declaration (affidavit) with the notarized signature, his/her sample signature, and his/her consent to heir registration in the commercial Register. The cost of the registration amounts to 5.000, - CZK, which must be paid in the form of court stamps. The registration process is concluded in seven days.

Secondly, Super Tannery Limited must be registered for taxes before starting its operations in the Czech Republic. Below are the deadlines for registering within the Tax Office:

- General registration and income tax take thirty days. In case of any predicted changes, statement must be made within the first fifteen days;
- Hiding tax and payroll tax registration submit fifteen days;
- For the VAT obligatory registration the situation is as follows: Since the 1st of January, 2010, amendment (# 362/2009) to the Act on VAT took effect. From this date on, every company is obligated to submit its VAT registration form within fifteen days rest the end of the month in which the conditions are met, or in some cases, within fifteen days following the date when the company automatically becomes a VAT payer.

On submitting the application for income tax registration, STL will receive a tax identification number (precisely the same number as for the VAT and the Income tax). The registration procedure is free of charge and the process of registration is finished within one working day.

Thirdly, Super Tannery Limited must be registered for the social security and also for the health insurance. The company ought to make this registration within eight days since the date when the first employee will enter into work (the employee's and employer's registration in practice are made at the same time). The registration for both services is free of charge and that process requires one working day and can be done simultaneously with the previous procedure (doingbusiness.org)

7.1.4 Strategy in the Czech Republic

For analyzing Super Tannery Limited's positioning within the Czech Republic, it is necessary to focus on what marketing strategies company ought to implement upon entering the country. It must be deliberated if there will be any similarities between the strategies had used in India or similar to STL's international marketing strategies. Determinative factor for STL's success in the Czech Republic will be a strong readiness to adapt to the local market without losing its core identity, more precisely, to implement the *glocalisation* strategy. Super Tannery Limited must combine local realities together with global tendencies. This must be the core strategy of the company, applying to the idea of the STL's approaching the new market differently, responding and understanding to local needs, which covers the needs of the final buyers, competitors and the broader macro environment.

STL cannot survive just by doing a good job. It has to be excellent to succeed and survive in the competitive Czech market where suppliers are abundant. The key of profitability is to satisfy target customers with competitively superior offers.

Super Tannery Limited will keep the various stages of the two different marketing approaches – Traditional and improved strategies, which covers as follows:

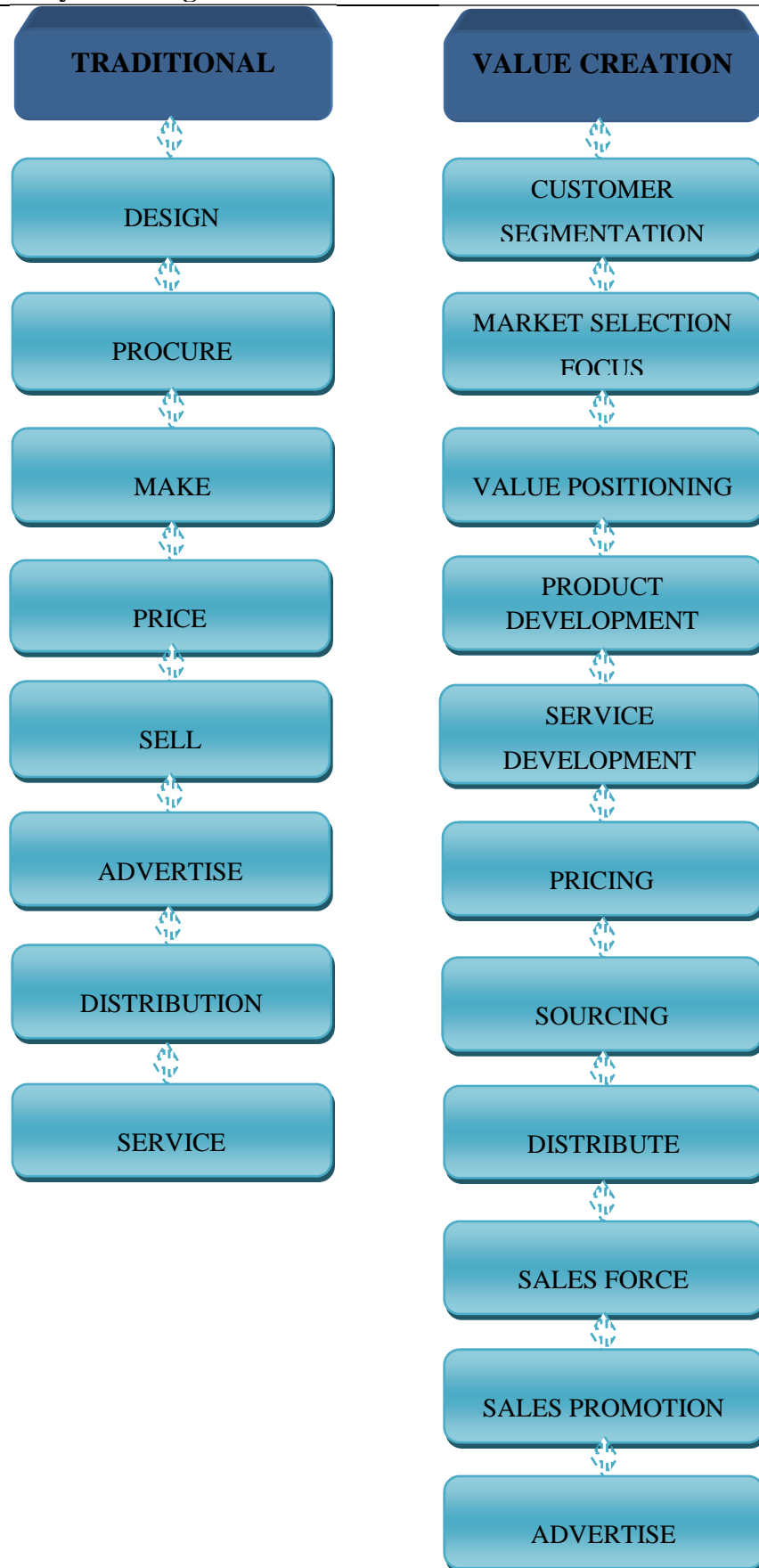


Figure 10 Marketing approaches

(Source: Secondary Data, GUPTA, S., Project Report)

With the prioritize of value creation, STL will deploy capital better than its competitors, meaning company will be able to know how to grow, which is enormous advantage in building STL's ability to achieve profitable and long-lasting growth.

STL's next steps are depending on a market orientation which will be combined with the proper environment factors, such as *economics*, *government* and *competition*. For the adaptation to local needs, company must have accomplishments and it also has to be flexible regarding to the macro environment changes (e.g. tax changes, new laws, trade barriers, demographic change and government policy changes as well).

To cope with the competition, it is decisive to keep up a differentiation strategy and a strong brand image. Between the marketing processes Super Tannery Limited must take some measures as follows: (a) ensure the quality of products that it offers – it will achieve by taking company's starting point and making it better. STL ought to always provide the best quality outputs and also it must conduct continual monitoring; (b) ensure stable price competitiveness – it will be achieved by offering the consumer a greater value than the competitors, such as by offering lower prices or providing quality services or other benefits that justify a higher price. This will also be achieved by cost leadership, differentiation, and focus; (c) ensure innovative offer – this will be achieved by tapping into both internal and external knowledge. Super Tannery Limited must also offer innovations in both, products and services (e.g. company of Buffalo and Cow leather for Casual and Fashion Shoe); (d) sustainable development – Super Tannery Limited must keep participation in sponsorships, in various donations, investments in development; and (e) ensure increasing sales – this will be achieved by the customer loyalty, also STL has to make sure that stores/shoe shops which company collaborates are best sellers.

7.1.5 Marketing Mix

To effectively market a product or service there are four things STL need to get right. It will enable company to best serve and satisfy customers in the target markets. Combination of four P's will help the company to create a successful mix for the Czech Republic. It is crucial for Super Tannery Limited not to bet on company's future only on one mix, but to try and choose the most applicable one. A mix will be created by experience, market research and experimental steps. All of its elements will be the basic and tactical components of the marketing plan. Each element is described below:

Product and Place:

Product, that Super Tannery Limited offers will be viewed as having two rows of shoes (for men and women) with some lines of leather shoes. There is the core (casual leather shoes for both gender), the dress/formal shoes (for classy nights out, for both gender), Sandals, Safety and Military footwear for men. So, the main concern will be to offer to new Super Tannery Limited target customers the best quality leather shoes.

For better knowing of the Czech market, STL must conduct comprehensive target markets survey. Besides, the company must use the knowledge accomplished from the experience of already penetrated markets, which will help in applying customer feedback and the starting point for its newest warehouse/branch office. This is crucial for STL to be done in order to get closer to what customers will desire. One of the main objectives of Super Tannery Limited when penetrating new market is to develop its core identity based on high product quality and services with accessible prices.

Regards to brands and quality outputs, STL will gradually develop its brand image and will perceive recognition and satisfaction among customers.

In India and those countries where STL has penetrated markets, the percentage of the representation of the Company's distinctive niche labels is rising.

From the beginning stage of penetration, Super Tannery Limited will open a warehouse/branch office in the center of Prague, and will offer pleasant, friendly environment and convenient shopping experience for the buyers. With having own representatives in a target marketplace, for STL will be easier and better communications with the customers and, most importantly, with consumers from all economic levels - large, medium and small sized companies. From the perspective of the buyers in the Czech Republic (the target marketplace), this is a great convenience. They will have better access to product and service information, get prompter responses, and (in case if there is warehouse/branch office) they will get faster delivery of products.

It is noteworthy to mention, that web-shopping is very popular in Europe. Particularly, women and younger customers see it as quite often. STL will also add Czech Language on its website (www.supertanery.com/cz), which will be fully informative and what is very important Czech people prefer to get information in their language than in English. Orders and payments can be made via computers as well as cell phones or in the ware-

house/branch office and Czech customers will be able to receive their delivery either at home or away, more precisely at STL's partner shoe shops or at special locations.

As in India, STL will attempt to keep its strong consumer-oriented policy that will differentiate it from its competitors in Czech Republic.

Pricing strategy and Promotion:

Pricing strategy for a market penetration means that company has to set the price of a product/service as low as possible to facilitate rapid sales. It is likewise to succeed in large, growing markets and is most often used in new product introductions. A penetration price is generally chosen when the marketer's goal is to achieve high market share.

Pricing strategy is oriented towards bringing Super Tannery Limited turnover. Rest of the P's are linked with costs in one way or another (it costs to produce a product, to promote it, to distribute it). While pricing strategy creates a significant advantage for a company that can identify and act on this type of price sensitivity. Pricing often has the effect of blocking, or at least delaying competition.

Discussing the pricing strategy STL will take into account its own pricing objectives (offering relevant higher quality leather shoes at reasonable prices) and existing competition in the Czech Republic (all of the above mentioned competitors) and their pricing strategies. Accordingly, the best way for STL will be to adopt a number of pricing strategies and allow themselves a certain degree of flexibility (company has to take into consideration the possibility that leather manufacturer companies present in the Czech Republic might lower their prices in order to get Super Tannery Limited out of business).

In order to be achieve the objectives by the STL, it will be targeted mainly all market groups (all business entities) in terms of purchasing power.

According to the Czech Footwear Association, there are broadly **three types of consumer**, using price and quality as the basis of segmentation:

- *The high quality buyers* who are looking for fashionable branded footwear at prices of € 60 and more. They tend to purchase from specialist shops. There is little brand loyalty and preferences depend on their taste at the moment. Younger people and the more affluent belong to this group, and this group is growing in size as the economy grows.

-*The middle group* that has changing preferences. They buy all types of shoes from high to low price, branded and unbranded. They are very price conscious and want a good deal from the transaction. This is the largest of the three groups. Consumers here tend to move up to higher quality fashionable footwear but still want value for money.

-*Cheap footwear buyers* who buy unbranded shoes for € 25 or less. These people buy at the lowest possible price and would tend to buy in supermarkets.

Overall, STL will penetrate the Czech Market with the leather shoes which will be aimed to all abovementioned consumers. Company has enough capability to satisfy all consumer segmentation.

STL is attempting to choose the best pricing strategy from three methods (competitive pricing, penetration pricing and price skimming) due to better position a product offering within the Czech market.

With competitive pricing strategy STL has to attempt to sell the most products at the lowest possible cost. With cost reduction as the primary objective, company takes into consideration all costs related to product delivery, which entails production, marketing and distribution costs. Competitive pricing works within whatever established price range exists among competitors and within the market as a whole. This pricing method would be better for mass products (such as bread, paper or candles that have many distribution channels).

As regards penetration strategy methods, STL focus on establishing a market share using the lowest price as a way to attract a large number of sales. The rationale behind this strategy attempts to compensate profit losses through high volume sales output. In the process, company can brand itself as a cost setter and establish its name in the marketplace. When used to position a single product, penetration pricing can also lure customers to other available product offerings in the shop, which can help cut down on advertising costs. Once market penetration occurs, STL can opt to gradually raise prices that are more in line with a product's market value.

When compared to penetration pricing, price skimming methods work the opposite end of the spectrum. With price skimming, products carry a higher price tag than competitors or prevailing market price ranges. In doing so, STL attempts to establish a high quality product and brand name and possibly targets the types of customers who are more apt to try new things regardless of the price range. In some cases, a high priced product can act as a type of quality indicator to customers when it is difficult to determine product value, in

which case a price skimming strategy could benefit. Company can also generate substantial profits and recoup costs off of a relatively low volume sales output.

Eventually, STL can make decision and penetrate the Czech market with the bundle of strategies (mix of price skimming methods and penetration pricing methods).

Indian Super Tannery brands itself as a cost setter and establishes its name in the marketplace. This is most important for the company to gain its own customers who will be loyal of the brand. As company's objective is to greater its own business in Czech Republic and open its own shops in a new future in the Europe, it is necessary to start establish its own name from the beginning in the marketplace. In spite of STL attempts to provide a high quality products and brand name and possibly target the types of customers company starts operation in Czech market with lower prices comparison to competitors established prices in the Czech Republic. Only after two, three years STL can establish higher prices on products and it will act as a type of quality indicator to customers and on the other hand this strategy could benefit.

Overall, the bundle pricing strategies will help Super Tannery to gain all target customers (business entities) and thus, offer advantages to all parties.

It is not enough for a business to have good products sold at attractive prices. To generate sales and profits, the benefits of products have to be communicated to customers. In marketing, this is commonly known as "promotion". Customers expectation is more from shopping than just affordable pricies. They expect attractive promotional campaigns, high product quality, friendly service and attractive shopping environment.

Super Tannery Limited must maintain a strong brand image in similarity to India. STL's promotion mix in the Czech Republic will be apart of its consistent compaign, which will be comprised of advertising, sales promotion, personal selling, direct mail and publicity.

As STL does not know whether or not result will justify the cost of putting he team together and getting the product into people's hand, company attampts to use all legal way to promote.

Before STL opens own warehouse/branch office in the Czech Republic, people must know about their brand name. Outdoor advertising is a great way to get the word out about company's business. Busy traffic intersections as it is in Prague offer the opportunity to have a large number of potential custoemers learn about STL products every day.

STL will use Billboards (Euro size 5,1x2,4m) on the central roadway, which also covered in phone numbers and website addresses. It is ideal for brand-building and supporting a campaign, but it just cannot do the heavy lifting. Therefore, STL will also use mail marketing and other online media marketing as a part of company's print advertising package. STL will make an advertisement in famous Czech newspapers such as *Hospodářské Noviny* (Business News), specialized paper focusing on economic and political news. STL will devote considerable amount to advertising through collective communications media (e.g. on certain TV shows and networks, purchasing ad-space for 30 seconds), as it will serve as an informative, persuasive and reminding tool, with broad coverage, aimed at customers.

Apart from media sources, STL will be oriented on promoting via social networks (not only website or Internet). This specific tool would be mostly aimed at building brand awareness and customer's perception. The important issue will be to identify where Super Tannery Limited can differentiate itself from its competitors. A relevant aspect will be to find connections/links which will support the profile of STL and establish a direct connection to the company's website. Social network will serve STL as a promoting tool.

Numerous promotional tools will be used in order to attract new customers and achieve existing one, some of them being linked with seasonal activities (e.g. New Year, Easter, Christmas, etc.). At the grand opening of the first Super Tannery Limited warehouse/branch office, company will offer special programme to their current and potential customers about first cooperation. Company will provide them with product without prepayment and STL will give them one month (without interest) experimental time for selling. This will be beneficial for business entities in Czech Republic as well as good starting steps from Indian company's side in the new market.

Overall, the timing and organizational aspect to set a warehouse/branch office will build awareness for STL Group and create a friendliness for the target markets.

STL will carefully analyze each promotion's cost and compare them the next best alternative. Hence, direct mail is widely thought of as the most effective medium to achieve a customer sales response. There are large number of mailing database available that allow STL to send direct mailing to potential customers based on household income, interests, occupation and other variables. Direct mailing campaigns are less visible to competitors and it makes possible for STL to be more creative, for longer.

Hence, STL will attempt to promote well in the Czech Republic which will be guarantee to gain more and more customers and simultaneously, to increase company's profit.

7.1.6 Barriers of entry and eliminating unfavorable situations

To be competitively in the Czech market, Super Tannery Limited has to be able to enter it. Between the strongest incentives for STL are the measures of market growth, the measure of profitability and etc... In spite of, there are barriers to entry, which are both endogenous and exogenous in character. Below are discussed major barriers as follow:

- Availability of warehouse/branch office locations;
- Quite high initial investment by Super Tannery Limited as well as capital requirements;
- To the less relevant extent, a barrier of entry for Super Tannery Limited is the language. Mainly, in the future negotiations with the government as well as other influential bodies, it is of essential importance to have a clear mutual understanding;

Upon penetration, STL will still be unprotected to certain risks, between them the most crucial being the following:

- Financial risk such as changes in foreign exchange rates. In this regard, STL will monitor the macroeconomic background of the changes in exchange rates and other related macroeconomic indicators and their trends. The choice of measures to abate block the foreign exchange risk will depend on their rightness or vitality, the nature of acknowledgment, planned operations and on the assumed economic effects of the measures considered. Furthermore, STL must keep internal financial reserve in the Czech Republic on a stable level and be able to provide adequate liquidity during hard economic conditions.
- Intellectual property protection and enforcement. IP can give STL the leverage needed to stay ahead of the competition. Whether it is unique design, formula, invention, system or process, IP can be one of company's most valuable assets. If it is protected, it can be a powerful barrier to competitors.
- Human resources such as business relationships with contractors, distributors and agents and employment practices overseas.

After entry into the Czech market, STL must additionally be careful towards the following issues in order to avoid complications and unfavorable situations. Below is given some points as follows:

- STL must be registered in the Czech Commercial Register;
- There are licenses/permits needed to engage in the commercial activity of selling manufacturing outlets;
- Non-Czech branch directors do not need a residence permit in the Czech Republic for the purposes of incorporation;
- There are certain measures in the Czech Republic to protect existing firms. This is a relatively new practice, resulted from increasing international competition;
- There are no specific regulations of a large outlet (iln.com).

From this broader picture is visible the favorable conditions for Super Tannery Limited to penetrate the Czech market.

7.1.7 Time analysis using PERT method

The penetration project for Super Tannery Limited encompasses many tasks and activities with varying levels of project importance. To make approximation of the project development and its completion in time, below are used Critical Path Method (CPM) which will be useful for a company to identify critical and non critical activities of project and to calculate shortest time by which the project could be completed.

- A. Deeper analysis of the Czech market (STL's representatives official visit to the Czech Republic);
- B. Searching for the space of potential warehouse/branch office;
- C. Company's registration and agreement from Czech Government;
- D. Designing and organizing the space;
- E. Searching/contacting the potential customers/business entities
- F. Establishing the website in Czech language;
- G. Design and testing of web-shopping;
- H. Starting with outdoor advertising (e.g., billboards for the forthcoming branch/warehouse grand opening);

- I. To make an advertisement in famous Czech newspapers as well as to advertising through collective communications media (TV shows and networks, purchasing ad-space for 30 seconds);
- J. Importing home products and filling the warehouse with products with only own label;
- K. The grand opening of the first Super Tannery Limited warehouse/branch office;
- L. Conducting sales promotional campaign;
- M. Start the web-shopping.

Below the table represents the activities together with their predecessors keeping in mind three probable scentaios- optimistic, most likely, and pessimistic times- in order to have contained all possible scenarios.

Table 8: Super Tannery Limited’s projected activities and time periods for three scenrios

Activity Number	Activity Name	Immediate Predecessor (list number/name, separated by ',')	Optimistic time (a)	Most likely time (m)	Pessimistic time (b)
1	A		8	8	10
2	B	A	2	3	5
3	C	B	2	2	2
4	D	C	5	6	9
5	E	C	2	4	7
6	F	D,E	4	4	6
7	G	F	4	5	6
8	H	G	12	12	14
9	I	G	4	4	6
10	J	G	3	3	6
11	K	J	2	4	6
12	L	K	1	2	3
13	M	K	1	1	2

Timing presented for the promotional and advertising campaigns and starting with the outdoor advertising then making advertisement in famous Czech newspaper as well as to advertising through collective communications media and overall are roughly estimated in time-periods for making the first impression and increasing awareness among the people. After first steps, all abovementioned activities will be conducted regularly which also figures out of future ongoing actions.

The result and solution of PERT analysis is presented in Appendix I, where is presented all activities that are important in terms of timing for Super Tannery Limited. The table also shows the earliest and latest possible starting and finishing times for the activities. Lastly,

the analysis describes the project completion time, which is roughly 42 weeks (10.5 month).

Below, another table depicts the number of critical paths. Meaning of this is, that in order for STL to finish the project in 42 weeks, the company can choose among two variations of timing for its planned activities and be able to complete the project in this time.

Table 9: Two critical paths for completing the project

04-16-2012	Critical Path 1
1	A
2	B
3	C
4	D
5	F
6	G
7	H
Completion Time	41.50
Std. Dev.	1.07

Furthermore, PERT analysis displays the graphical solution of the project completion and exhibits of activities of the Gantt chart, which shows the start and finish times for each activity that will be conducted by Mercator. The solutions of this graphical tool are presented in the Appendices II and III.

7.1.8 Cost Analysis

Marketing cost analysis is another important tool of marketing control. It typically includes costs for promotion, advertising and public relations. Overall, Super Tannery Limited must plan the marketing budget for the first year of operation moreover initial investment to penetrate Czech market.

The marketing budget is evaluated monthly, according to the monthly activities as well as evaluated quarterly based on the sales development.

Below, table shows all the expanses of necessary activities for one year operating in the Czech Republic.

Table 10: Marketing budget for the first year operating in Czech Republic

	Items	Description	Price	Quantity	Total
1	Outdoor advertising	Billboards (size 5,1x2,4m)	18,000	3	54,000
2	Print advertising package	Czech daily newspaper "Hospodářské Noviny"	75,000	4	300,000
3	Communication media	Advertising for 30 seconds	900	12	10,800
4	Company's registration	Company's registered capital and registration	105,000	1	105,000
5	Official visit to Czech Republic	For deep market analysis	28,000	2	56,000
6	Grand Opening	65 guests; 5 stars Hotel	1,000	65	65,000
7	Labor cost	4 staffs	162,500	12	1,950,000
8	Rental space	branch office/warehouse, 90m2	18,000	12	216,000
9	Additional fees		20,000	1	20,000
Total					2,776,800
Reserve fee			10%		277,680
Total					3,054,480

(Source: Own elaboration)

7.1.9 Risk Analysis

Risk analysis refers to define and analyze the dangers, their impacts and measures to reduce the probability of risk factors and identify countermeasures to successfully deals with these constraints when they develop to avoid possible negative effects on the competitiveness of the company.

Below given list of possible risk analysis that STL can face in Czech Republic.

I. Stricter international standards

II. High competition from European and from other Asian countries

III. Fluctuation in exchange rates

IV. Low interest rate

V. Negative changes in macroeconomic factors

VI. The effects of external factors on production country

VII. High storage cost for unsold products

VIII. Political risk

IX. The effects of the weather on the sales

After examining the risks, the STL can evaluate overall of their probabilities and impacts of the all abovementioned risks by Risk Analysis Matrix.

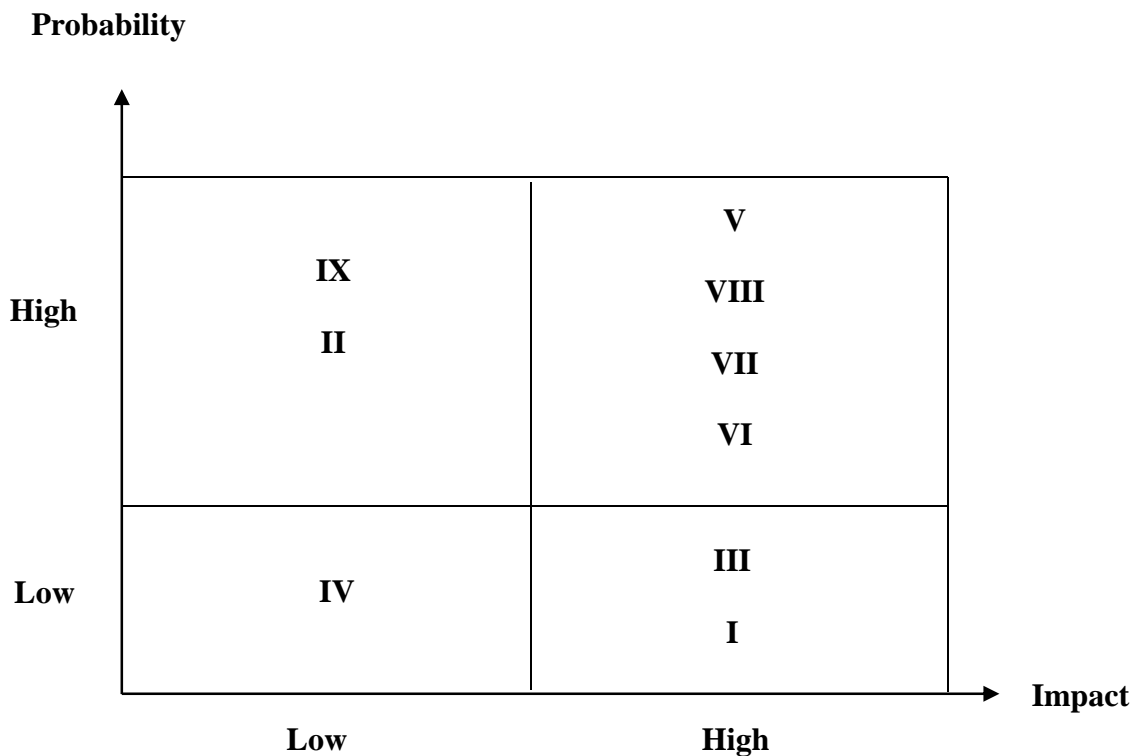


Figure 11: Super Tannery Limited Analysis Matrix

(Source: Own elaboration)

Action plan of risk elimination:

I. International standards are used by a process of modifying an international standard to suit local conditions. It is the one way of overcoming technical barriers in international commerce caused by differences among technical regulations and standards developed independently and separated by each nation, national standards organization or company. In case of stricter international standards, for the STL it will be difficult to keep operating in a new market.

II. Mostly in Czech Republic all the products related to leather shoe industry are imported from Europe and Asia (China, India and etc.). For Super Tannery Ltd. will be very difficult to gain customer loyalty, to gain market share. To identify the target customers, STL must use price and quality as the basis of segmentation. Such as: the shoes for the high quality buyers, for the middle group and for the cheap footwear buyers. Overall, company must spend huge effort to be competitiveness in a new market.

III. An international company must adjust its planning process to cover various currencies and fluctuations in exchange rates. The exchange rate between Euro and Czech Crown is quite stable (Table 2) and the next two years as it seems from the forecast it will be kept in the same level but due to higher risk of inflation rate, STL must be aware of prepare solutions for this changes to avoid it which will affect the company's profit and growth.

IV. Czech Republic's average interest rate was 6.63% reaching at historical high of 39% in June of 1997 and a record low of 0.75% in May of 2010. When interest rates fall, economic expansion usually follows and this will also have an effect on a company's strategy. The low interest rate in Czech Republic will decrease the interest income but this disadvantage will not have strong impact on net income in the first year of operation.

V. Due to constant moving situation in Czech Republic, the negative changes in Macroeconomics will affect on unemployment rate, wage growth, inflation rate and etc. It will also change the customers' purchasing power and their behavior. Hence, STL should make flexible buying model/economic model, customer and psychological models which will fit the company's core objectives and in the same time it will adapt to all abovementioned changes.

VI. There are some kinds of changes in external factors in production country such as, price of raw materials, transportation cost and etc., will affect on the production cost of Super Tannery Limited, and also will have direct impact on the product prices in the Czech Republic. Indian company must be ready to monitor the situation deeply and prepare the strategies deals with such changes.

VII. The threat which may appear as a high storage cost for unsold products, STL must have strict control over its own storage in Czech Republic. In order to avoid this risk, company should have the strategy related to the best prices offering to their customers.

VIII. Political risk totally depends on the government's actions. It is one of the most crucial determinants in investment decision making. Managing political risk directly impacts

performance. STL has to keep monitoring such as risk routinely in support of ongoing operations. Company's management should establish a program for actively monitoring and managing political risk, such a process would operate across business lines, establishing effective, formal procedures for gathering, interpreting and evaluating political information from multiple sources.

IX. STL has to be aware of this threat; due to in India mostly is good/sunny weather compare to Czech Republic. The company must have special line of leather shoes which will be water resistant and comfortable for walking. STL must be ready in advance to avoid all causes provoked from weather changes.

7.2 Project Evaluation

The project presented above planning processes by the Super Tannery Limited and includes the initial stage of all the steps which company attempts to conduct. All the essential issues are addressed and defined; between them are historical background of Super Tannery Limited, its project description, goals and objectives, the implementation schedule, project starting and completion times-periods, environmental, technical and economic evaluation of the Czech Republic, as well as the social analysis of the environment.

Due to the current schedule for executing plans by the company, Super Tannery Limited ignoring the exact starting time. Despite of, it is firmly recommended to start accomplishing this project in the short run. Hence, yet brief evaluation highlights the agreeable situation present in the Czech Republic for the market penetration for Super Tannery Limited.

CONCLUSION

This thesis analyzed the suitability of the extant economic and market situation in the Czech Republic, directed attention to the specific characteristics of the leather shoe manufacturing market and market penetration into it. Through this analysis, the company has utilized some marketing concept to be able to be competitive in the Czech market and to make their product be marketable.

The profile of the Indian leather manufacturer Super Tannery Limited characterized its features and present positioning with future ambitions. The company affirmed to have a healthy internal structure and management, prepared for global invasion and successful operation.

The SWOT analysis emphasizes all four features of the analysis with a highlight on the opportunities and threats for the new potential market with the conducted analysis, market research, and the project planning, the importance of positive market entry was apparently examined.

As regards to the future orientation of STL, it is noteworthy to mention, that Super Tannery Limited's strategic orientation is essentially aimed towards the central and south European markets. For the beginning Czech market seems the best start-up for the future possible markets if STL will afterward decide to target the all above mentioned markets.

While penetration of Czech market, STL conducts promotional activities, attracting customers with some loyalty programs; it will undertake efforts to strengthening its position constantly. Attractive promotional campaigns, high product quality, friendly service and attractive shopping environment will help the company for building customer loyalty.

STL also offers special programme to their current and potential customers and gives them product without pre-payment (without interest) and one month experimental time for selling, which is quite beneficial for business entities in the Czech Republic and on the other hand company builds positive, trustworthy relationships among company and customer as well as and most crucial, company builds brand image, which is foundation of every successful company.

STL's economies of scale will keep increasing as the company will carry through growth across the central Europe and undoubtedly internationally.

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LIST OF ABBREVIATIONS

VAT Value Added Tax

GSP Global Strategic Planning

FDI Foreign Direct Investment

U.P. Urban Planning

ISO International Standards Organization

ILO International Labor Organization

EC European Commission

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APPENDICES

Appendix I: Project completion time

Appendix II: Graphical representation of Super Tannery Limited's projected activities

Appendix III: Gantt chart for STL's projected activities

APPENDIX I: PROJECT COMPLETION TIME

04-16-2012 18:02:45	Activity Name	On Critical Path	Activity Mean Time	Earliest Start	Earliest Finish	Latest Start	Latest Finish	Slack (LS-ES)	Activity Time Distribution	Standard Deviation
1	A	Yes	8.3333	0	8.3333	0	8.3333	0	3-Time estimate	0.3333
2	B	Yes	3.1667	8.3333	11.5	8.3333	11.5	0	3-Time estimate	0.5
3	C	Yes	2	11.5	13.5	11.5	13.5	0	3-Time estimate	0
4	D	Yes	6.3333	13.5	19.8333	13.5	19.8333	0	3-Time estimate	0.6667
5	E	no	4.1667	13.5	17.6667	15.6667	19.8333	2.1667	3-Time estimate	0.8333
6	F	Yes	4.3333	19.8333	24.1667	19.8333	24.1667	0	3-Time estimate	0.3333
7	G	Yes	5	24.1667	29.1667	24.1667	29.1667	0	3-Time estimate	0.3333
8	H	Yes	12.3333	29.1667	41.5	29.1667	41.5	0	3-Time estimate	0.3333
9	I	no	4.3333	29.1667	33.5	37.1667	41.5	8	3-Time estimate	0.3333
10	J	no	3.5	29.1667	32.6667	32	35.5	2.8333	3-Time estimate	0.5
11	K	no	4	32.6667	36.6667	35.5	39.5	2.8333	3-Time estimate	0.6667
12	L	no	2	36.6667	38.6667	39.5	41.5	2.8333	3-Time estimate	0.3333
13	M	no	1.1667	36.6667	37.8333	40.3333	41.5	3.6667	3-Time estimate	0.1667
	Project	Completion	Time	=	41.50	weeks				
	Number of	Critical	Path(s)	=	1					

APPENDIX III: GANTT CHART FOR SUPER TANNERY LIMITED'S PROJECTED ACTIVITIES

