VYSOKÉ UČENÍ TECHNICKÉ V BRNĚ

BRNO UNIVERSITY OF TECHNOLOGY

FAKULTA PODNIKATELSKÁ
ÚSTAV EKONOMIKY

FACULTY OF BUSINESS AND MANAGEMENT
INSTITUTE OF ECONOMICS

ENTRY OF THE NOBILIS TILIA CO., LTD TO THE GERMAN BEAUTY INDUSTRY

VSTUP FIRMY NOBILIS TILIA, S.R.O. NA NĚMECKÝ TRH S KOSMETIKOU

DIPLOMOVÁ PRÁCE
MASTER'S THESIS

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BRNO 2010

Brno University of Technology
Faculty of Business and Management

Academic year: 2009/10
Institute of Economics

Diploma Thesis Assignment

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European Business and Finance (6208T150)

Pursuant to Act. No. 111/1998 Coll., on Higher Education Institutions, and in accordance with the Rules for Studies and Examinations of the Brno University of Technology an Dean's Directive on Realization of Bachelor and Master Degree Programs, the director of the Institute of is submitting you a diploma thesis of the following title:

Entry of the Nobilis Tilia Co., Ltd to the German Beauty Industry

In the Czech language:

Vstup firmy Nobilis Tilia s.r.o. na německý trh s kosmetikou

Instructions:

Introduction
Definition of problem, objective of thesis
Theoretical starting points
Analysis of problem and contemporary situation
Proposal of solution, contributions of solutions
Conclusion
Literature
Appendix

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Literature / Sources:

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The supervisor of diploma thesis: Ing. Robert Zich, Ph.D.

The deadline for submission for the diploma thesis is given by the Schedule of the Academic year 2009/10.

VYSOKÉ UČENÍ TECHNICKÉ V BRNĚ
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Brno, 7.4.2010

ABSTRACT

The main topic of my diploma thesis assignment is to evaluate whether the Nobilis Tilia Co., Ltd should extend its action of enterprise by expanding to another country, to be exact, to German beauty market. The whole work is subsequently divided into three essential parts – theoretical, analytical and project one. In the theoretical part literary sources focused on strategic enterprise management are evaluated. The analytical part of the thesis is bent on the Company Nobilis Tilia, Ltd, its history and range of products. In the next part the entrepreneurial environment analysis, Porter analysis and SWOT analysis of the German market will be mentioned. The project part will be concentrated at the recommendations given, based on the analysis results.

Key words: strategy, strategic management, internal analysis, external analysis, SWOT analysis, competitive advantage, competitiveness, export, Germany

ABSTRAKT

Hlavnou témou mojej diplomovej práce je zhodnotenie, či má firma Nobilis Tilia, s.r.o. rozšíriť svoje podnikateľské aktivity na zahraničné trhy, konkrétne na nemecký trh s kozmetikou. Celá práca je postupne rozdelená do troch hlavných častí – na teoretickú, analytickú a návrhovú. V teoretickej časti sú zhodnotené poznatky získané z literárnych zdrojov zameraných na strategický management firiem. Analytická časť sa zaoberá firmou Nobilis Tilia, s.r.o., jej históriou a portfóliom produktov. Následne je spracovaná analýza vonkajšieho obecného prostredia, Porterova Analýza Piatich Síl, SWOT analýza nemeckého trhu s kozmetikou. Návrhová časť práce ponúka prehľad odporúčaní, založených na výsledkoch spomínaných analýz.

Kľúčové slová: stratégia, strategický management, analýza vnútorného prostredia, analýza vonkajšieho prostredia, SWOT analýza, konkurenčná výhoda, konkurencieschopnosť, Nemecko, vývoz

TARGETS SETTING

As a topic of my diploma thesis assignment I chose an estimation of the possible entry of the Nobilis Tilia Co., Ltd to the German cosmetics market. To fulfill the task I am obliged to respond to these issues:

- Why is it necessary to elaborate analyses as an entrepreneurial environment analysis, SWOT analysis, Porter's Five Forces and eventually others?
- What are the most important findings from these analyses for the Company?
- What kind of strategy is held in this Company nowadays? What are the eminencies and weaknesses of it?
- What strategy should the Company follow to compete on international level successfully?
- What are my proposals for the Company (based on the analytical part of the work)?

WORK METHODOLOGY

For elaboration of my master thesis I drew the information from scientific publications borrowed mainly from Moravian Library and Libraries and Learning Resources of Nottingham Trent University. Another information channel I have used frequently was the internet. I was trying to avoid the untrustworthy sources and concentrated at first-rate servers. I have focused my attention on German cosmetics market, global competitiveness reports, and economic circumstances of Germany etc. Very important and helpful sources of advice were internal materials from the Company Nobilis Tilia.

The contents of my independent work consisted of study of the borrowed publications, internet articles and internal materials associated with my topic. Examination and selection of suitable information followed. Further step of my task was to make analyses based on the materials collected. The last part of the thesis belongs to my interpretation of the results and recommendations given to the Company.

Bibliographic citation

DUDROVÁ, L. *Vstup firmy Nobilis Tilia s.r.o. na německý trh s kosmetikou* . Brno: Vysoké učení technické v Brně, Fakulta podnikatelská, 2010. 143 s. Vedoucí diplomové práce Ing. Robert Zich, Ph.D.

Statutory declaration

Herewith I declare that submitted diploma thesis 'Entry of the Nobilis Tilia Co., Ltd to the German Beauty Industry' is authentic and written independently. I also pronounce that citation of resources used in this thesis is complete, in compliance with norm ISO 690 and copyrights are not infringed (in the sense of Act. No. 121/2000 Coll., on Copyright Act. and on laws related to copyright Act.).

In Brno, 31st August 2010 ______________________________________

Personal signature of the Author

Acknowledgments

I would like to express my thanks to Ing. Robert Zich, Ph.D. for his admirable willingness and patience during the tutorials, his guidance was exemplary. My acknowledgments are also pointed to Magda Pýchová, the Managing Director of Nobilis Tilia, Ltd., for the useful internal information about the Company.

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INTRODUCTION

MOTTO:

"Business is like a car. It will not run by itself except downhill."[1]

Activities which overreach the borders of the country are always a huge challenge for the companies. Networking of national economies is supported by building-up an Economic and Monetary Union, lowering the customs duties, greater mobility of the traders and new communication channels. One can get an idea that exporting activities should be a matter of course at the present time. However, many companies got to the bad just because they underrated the power of the international business.

I have always been attracted by international strategic management as a discipline. It is really fascinating for me to read case studies of the firms which compete on international stage successfully. Company Nobilis Tilia, Ltd. has expressed a requirement of evaluating if they should extend its action of enterprise by expanding to the Germany. It is an appeal for me to be a quasi-part of business department assessing this international affair.

German marketplace is spacious and highly attractive for the firms. What are the risks of entering such a giant market? Does German cosmetics market maintain a potential for this Company? How many strong competitors are waiting behind the border? I will try to thrash out all these topics and find out the answers.

[1] American saying

I. THEORETICAL PART

1. ANALYSIS OF THE COMPANY

According to Hitt, Ireland and Hoskisson (2007) resources and capabilities of the company are valuable only in case that the firm can bring a competitive advantage from its activities. Traditional factors such as labour costs, access to raw materials and financial resources as well as protected or regulated market are routinely considered as sources of competitive advantage. The degree of these factors descends with the ability of the company to make the best of its core competencies. Traditional sources can be surmounted by applying a successful international strategy. Strickland (2004) stresses that observant and continuous analyses of internal and external environment of the company bring to the managers a firm bottom for creating a reliable company's strategy.

1.1 Analysis of internal environment

Kotler et al. (2008) state that principal actors in micro environment of the company from the marketing point of view are company departments, suppliers, customers, competitors, marketing intermediaries and various publics.

Competitive position of the company as well as the composition of its customers belongs to the most important factors of the firm's micro environment. An operation has more control on its internal environment than on the external environment. Due to this fact, operators and marketers can be more interactive with customers and competitors than with the politics and technology. (Hsu and Powers, 2001)

1.1.1 Framework of McKinsey

Peters and Waterman (1982) elaborated a concept called "7-S" of the McKinsey Company. This model consists of seven dependent variables which interact between each other:

- **S**tructure **–** "organizational structure and authority relationships"
- **S**trategy **–** "systematic action and allocation of resources to achieve company goals"
- **S**ystems – "procedures and processes such as information system, manufacturing processes, budgeting and control processes"

- **S**tyle – “the way the management behaves and collectively spends its time to achieve organizational goals”
- **S**taff – the people in the organization and their socialization into the corporate culture”
- **S**kills – “the distinctive capabilities of the organization”
- **S**hared values – “beliefs and attitudes of the company”

  (Hassard, 1993: p. 46)

1.2 Analysis of external environment

Daft and Marcic (2008) consider corporate culture as the major part of the company's internal environment. However, they admit that corporate culture is mostly shaped by the external environment of the company. Authors define external environment as all elements being out of the boundary of the firm that have the potential to influence the organization.

1.2.1 General environment analysis

According to Hitt, Ireland and Hoskisson (2007) external environment consists of six segments which affect each industry and its firms:

- <u>Demographic Segment</u> – population size, age structure, income data
- <u>Sociocultural Segment</u> - society's attitudes and cultural values
- <u>Technological Segment</u> – products, communications, data management, software, applications of knowledge
- <u>Global Segment</u> – world political events, global product markets, global material availability, societal values of other countries
- <u>Economic Segment</u> – inflation, interest rates, unemployment, saving rates
- <u>Political / Legal Segment</u> – employment law, antitrust law, taxation, environmental legislation, political climate and agendas, educational and deregulation philosophies

1.2.2 MAP analysis

Keřkovský and Vykypěl (2003) analyze an external environment of the firm using MAP method. This term derivates from initials of three words: **monitor, analyze** and **predict**.

Orderliness is the main advantage of this method. MAP method analyses macro environment from three sectors – socioeconomic, technological and government one. The left column identifies factors which can possibly influent the strategy of the company. The middle column is focused on retrospective analyses of these factors. Third column (on the right side) presents perspective analyses with the potential judgment of future trends.

- Socioeconomic Sector
- Technological Sector
- Government Sector

1.2.3 Analysis of industrial environment

Keřkovský and Vykypěl (2003) identified so called "3Cs" analysis used for evaluating an environment of the companies occurring on the same field:

- **C**onsumers - purchasing public, customers
- **C**ollaborators - co-workers, middlemen, suppliers
- **C**ompetitors – rivals, competitors

Results from this analysis should be respected but the company itself can involve the development of these factors. (Porter, cited in Smejkal and Rais, 2006: p. 69)

1.2.4 Industrial attractiveness

The MAP framework provides the first step in environmental analysis. Awareness of Porter's five forces (1985) can markedly help the company to understand the structure of its industry and delimitate a position that is more profitable and less assailable to attack. (Porter, 2008)

Porter (1985) states that competition in the industry is dedicated not only by the existence of the competitors but also by the availability of substitute products or services, strength of buyers and suppliers as well as by the ability of new entrants to embark on industry.

- Bargaining power of buyers

  Buyers are strongly influential if they have negotiating leverage pertaining to industry participants. Their power amplifies if they are price sensitive. (Porter, 2008)

- Bargaining power of suppliers

  Grant (1998) states that commodities supplied by small companies to larger manufacturing enterprises (raw materials, semi-finished products and components) tent to have lack of bargaining power.

- Threat of new entrants

  According to Grant (1998) industry acts a magnet to firms if it earns a return on capital in excess of its cost of capital.

- Rivalry among existing competitors

  Porter (2008) defined forms of rivalry between existing competitors as price discounting, advertising promotion, product's quality increase, introduction of brand new product and service improvements. Author stresses that it can be especially destructive if the rivalry is focused solely on price. Price competition results in profits which are transferred straight from an industry to its customers. Boddy (2002) finds a connection between highly competitive markets, high threats of new entrants and substitution as well as strong power of suppliers and buyers.

- Competition from substitutes

  Porter defines substitute product as a product from other industry that can perform the same function as the original product. (Porter, cited in Boddy, 2002: p. 85)

1.3 Key success factors

"Every business has a number of key success factors that measure and determine its success of failure." (Tracy, 2000: p. 97) When identifying key success factors of the industry, we need to answer two main questions:

1. What do our customers want?
2. How does a firm survive competition?
   (Grant, 1998)

Tracy (2000) identifies the most common key success factors as leadership, product quality, service, sales, marketing, manufacturing, distribution, finance and accounting. McLoughlin and Aaker (2010) recognize two types of key success factors: strategic necessities and strategic strengths. Authors define strategic necessities as factors which are not unique, but their lack will lead to considerable weakness. Strategic strengths are those at which the company surpasses its competitors.
With reference to a theory of Harvard Business School Press (2007) key success factors are defined as:

- Breakeven point
- Advantages in sourcing materials
- Technological innovations in the manufacturing or distribution process
- A favourable geographical location
- Access to skilled employees or inexpensive labour
- An effective pricing strategy

1.4 SWOT analysis

Griffin (2007) considers SWOT analysis as a starting point when formulating strategy. SWOT is an acronym that stands for:

- Strengths
- Opportunities
- Weaknesses
- Threats

SWOT analysis is an evaluation of internal company's strengths and weaknesses as well as its environmental threats and opportunities. According to Ferrell and Hartline (2007) SWOT analysis is a universal tool in strategic planning. If used correctly, SWOT analysis can provide a viable mechanism for identifying weaknesses that they need to strengthen. (Boddy, 2002)

Vaštíková (2008) introduce a new approach of evaluating of the particular factors included in SWOT analysis. This method is called Plus/minus Matrix and offers evaluation of SWOT analysis by paired comparison of the factors. The result of this matrix is sequence of the factors arranged in order of priority. Relationships between the factors are valued by following instructions:

++	Strong mutual positive relationship
- -	Strong mutual negative relationship
+	Weaker positive relationship
-	Weaker negative relationship
0	No mutual relationship

Total of values of individual matrix lines (S1 – Sn; W1 – Wn) as well as matrix columns (O1 – On; T1 – Tn) determines the order of key factors. When setting a strategy, the factors with the high value should be crucial.

2. STRATEGY

Michael Porter proclaimed that twenty years ago many organizations thought that strategy was a fad. They considered strategic planning as a waste of time. Porter stresses an importance to distinguish strategy from vision as well as mission statement. Managers often confuse strategy with operational effectiveness. (Bansal, 2008) "Strategy is about competitive advantage, about how the company serves customers differently from its competitors." (Porter, cited in Bansal, 2008: p. 19)

The implementation of strategy is a definition of organizational purpose. Companies express the direction and commission of themselves by their strategy. (Boddy, 2002) In 1980, strategy was defined as follows: "Strategy is the pattern or plan that integrates an organization's major goals, policies and action sequences into a cohesive whole. A well-formulated strategy helps marshal and allocates an organization's resources into a unique and viable posture based upon its relative internal competencies and shortcomings, anticipated changes in the environment, and contingent moves by intelligent opponents." (Quinn, cited in Grant, 2000: p. 15) Chandler and Hikino (2004: p. 13) describe strategy as "the determination of the basic long-term goals and objectives of an enterprise." Sutton (1980) distinguishes two main features of the strategy – its long-time character and the need of precise meaning due to its unpredictable trend. Undoubtedly, there are thousands sententious definitions and explanations of the strategy. However, the question arises whether the strategy is really only on long-term basis and how important strategy is to the organization?

Flouris and Oswald (2006) stress that having a strategy is substantial to corporate survival. Authors state that the company without strategy is like a piece of driftwood floating through the river without any evident direction. Companies which behave this way generally end up answering to moves of their competition and set off the way of mediocrity. There is no place for mediocrity in today's highly competitive environment. Authors agree that strategy is a very useful tool to organizational performance and provides the scope for operational rationale.

Johnson, Scholes and Whittington (2008: p. 9) present their explanation of the main terms used in relation to strategy:
Mission: "Overriding purpose in line with the values or expectations of stakeholders."
Vision (or strategic intent): "Desired future state – the aspiration of the future organization."
Goal: "General statement of aim or purpose."
Objective: "Quantification (if possible) or more precise statement of the goal."

2.1 Strategy hierarchy

According to Meyer and Wit (2005) there are three levels of strategy within an enterprise:

- Corporate-level strategy

  John Sutton, a professor at the London School of Economics, define strategy at the corporate level as "long-term survival and growth of business organizations." (Sutton, 1980: p. 1) Bratton and Gold (2001) define corporate strategy by answering following question: "What business are we in?" Johnson, Scholes and Whittington (2008) state that corporate strategy is relevant to overall scope and purpose of the company as well as decisions about how the value is going to be added to the individual business units of the organization.

- Business-level strategy

  Based on work of Bratton and Gold (2001), business strategy unravels the question "How do we compete?" Johnson, Scholes and Whittington (2008) state that from that reason business-level strategy is often called 'competitive strategy'. This level of strategy defines how the company should compete successfully in a particular market. Corporate strategy affects the decisions about the firm as a whole and business strategy involve strategic decisions related to individual strategic business units (SBU's).

- Functional-level strategy

  Functional strategy responds the question "How do we support the business-level strategy?" (Bratton and Gold, 2001) Lowson (2002) characterize functional-level strategy as decisions made in field of core competencies, technologies, processes and capabilities, resources as well as key tactical moves needed to create and deliver product and service to the customer. According to Johnson, Scholes and Whittington (2008), this level of strategy is also called an 'operational-level strategy'. Authors stress that success of business-level strategy highly depend on activities and decisions made in operational-level strategy.

Boddy (2002) distinguishes three main stages: corporate strategy, divisional plans and operational strategy. Author defines corporate strategy as a long-term strategic planning for the organization as a whole. Conversely, operational strategies are shorter-term oriented operational plans dealing with constituent parts (see Figure 1).

		Plan/Strategy type		
		Strategic or corporate plans	**Divisional/Business unit plans**	**Operational plans**
Factors	**Level**	Organizational wide	Particular market	Functions/Departments
	Focus	Scope, direction and strategy for organization as a whole	Scope, direction and strategies for particular market	Operational strategies: resources and actions needed to deliver corporate objectives
	Nature of decisions	Complex	Complex	More routine; action oriented
	Timescale	Long term	Long term	Shorter term

Figure 1 The planning and strategy hierarchy; Source: Mintzberg and Quinn, 1991: p.

2.2 Strategies on Stage of Operations

According to traditional division, industries were categorizes as being in the primary (raw materials extraction), secondary (manufacturing) or tertiary (services) stage of operations. Later, the favored form of description has been stage in the "stream":

- Upstream Business Strategy

  The flow of the product tends to diverse, from a basic material (aluminium, wood) to a plenty of uses for it. Upstream business inclines to be more technology and capital oriented than people intensive. Low costs and high margins are thought to be the main advantage. (Galbraith, 1983)

- Midstream Business Strategy

  The organization draws a variety of inputs into a single production process out of which the product is distributed to a variety of users. (Mintzberg and Quinn, 1991)

- <u>Downstream Business Strategy</u>

  Mintzberg and Quinn (1991) state that Downstream business strategy is characterized by the many products sold by a department store.

2.3 Generic competitive strategies

Porter (1985) identifies two main types of competitive advantage: differentiation or low cost. Later on, he develops his idea and adds a focus (Figure 2). Cost leadership is a strategy when the company's aim is to deliver products or services at prices lower than its competitor. (Boddy, 2002) Differentiation occurs when the firm offers product or service that is distinctive from competitor's ones. Important is the customer's perception and valuation. Focus represents a strategy aimed on the particular market segment. (Mintzberg and Quinn, 1991)

		Competitive Advantage	
		Lower Cost	**Differentiation**
Competitive Scope	**Broad Target**	Cost Leadership	Differentiation
	Narrow Target	Cost Focus	Focused Differentiation

Figure 2 Porter's Generic Strategies; Source: Porter, 1985: p. 12.

Mintzberg and Quinn (1991) distinguish core business by two types of strategies – strategies of differentiation and strategies of scope. Authors agree with the main idea of Porter (1985) therefore the strategies they present take their lead from his concept, but depart in some respects.

2.3.1 Strategies of differentiation

- <u>Price Differentiation Strategy</u>

  The product or service differs from others solely in price. All the other aspects of the product or service remain the same. The producer simply faces up to lost margin or gets it under control through a higher volume of sales. Porter (2008) advises that it can be especially destructive if the rivalry is focused solely on price. Due to price competition profits are transferred straight from an industry to its customers.

- Image Differentiation Strategy

  Marketing is often used to simulate differentiation where it does not exist – a different image is coined for the product. Image differentiation also includes cosmetic changes to a product which do not necessarily extend its performance.

- Support Differentiation Strategy

  Levitt (1980) points out that no matter how difficult it is to achieve differentiation by design, there is always a platform to achieve another considerable of differentiation by support. Support differentiation strategy is represented by some basis of support which goes alongside the product. "This may have to do with selling product (such as special credit or 24-hour delivery), servicing the product (such as exceptional after-sales services), or providing a related product or service alongside the basic one (paddling lessons with the canoe you buy)." (Mintzberg and Quinn, 1991: p. 75)

- Quality Differentiation Strategy

  This strategy is characterized by changing the features of the product that make it better. The product gains the greater initial reliability, greater long-term durability and/or superior performance.

- Design Differentiation Strategy

  Differentiation on the basis of design offers something really different from preponderant design. Sometimes producer link the different design with providing unique features.

- Undifferentiation Strategy

  Mintzberg and Quinn (1991) stress that having no platform for differentiation is a strategy as well. Findings of authors' observations testify that this strategy is a common one and often pursued deliberately. By giving the room in a market and management without the capability or the will to differentiate what it sells, there can form a place for copycats.

2.3.2 Scope Strategies

- <u>Unsegmentation Strategy</u>

  Authors define Unsegmentation strategy by the watch-word "One size fits all.“ It is even hard to find a product nowadays which is not segmented in some way. The core concept of this strategy lies down in the endeavour of the firm to possess of wide part of the market with a basic configuration of the product.

- <u>Segmentation Strategies</u>

  Organizations can decide whether they will follow comprehensive strategy (to serve all segments – department store, large manufacturers) or selective strategy (targeting only certain segments). Authors distinguish a range of the possible degrees of segmentation, from a simple segmentation strategy (four basic sizes of diaries) to a hyperfine segmentation strategy (as in designer lighting). Webster (1995) warns that segmentation strategies are often based on sales representative's intuition rather than on proper marketing planning.

- <u>Niche Strategy</u>

  Mintzberg and Quinn (1991) define niche strategy as focus on a single segment. Authors consider niche market as highly standardised offerings in a unique place. Grünig and Kühn (2005), inspired by Michael Porter, present two forms of niche strategy – niche differentiation strategy and niche price strategy. "An important requirement for the niche is a sufficient size combined with above average growth." (Porter, 1985: p 285) "In a sense, all strategies are in some sense niche, characterized as much by what they exlude as by what they include." (Mintzberg and Quinn, 1991: p.77)

- <u>Customizing Strategies</u>

  Customization is the limiting case of segmentation – disintegration of the market to the point where individual customers represent a unique segment. Authors distinguish three types of customization: pure customization (product is delivered in a personal way, fabricated or assembled to order, designed for the individual customer), tailored customization (a basic design is modified to the special needs of customer) as well as standardized customization (final products are assembled to individual orders for standard components). (Mintzberg and Quinn, 1991)

2.4 Strategies of entry

One of the most important decisions in running a business is how to enter a new international market. This is crucial task especially in case of small and medium companies. On the other hand, established enterprises focus on exploiting opportunities more efficiently in connection with their existing international activities. There is no ideal foreign entry strategy. Companies vary one from each other and they need individual attitude in setting up their foreign entry mode. (Doole and Lowe, 2008)

2.4.1 Global strategy

Companies are interested how to expand their market participation and how to develop an integrated worldwide strategy. (Yip, cited in Mintzberg and Quinn, 1991) The term of global strategy seems to be relevant only in case of MNEs from developed economics – foremost in Japan, North America and Europe. These three regions of developed economies are commonly referred to as the Triad. On the other hand, there is Russia, Brazil, India and China, called BRIC, which command one third of the worldwide FDI[2] flow and half of the GDP[3] measured at purchasing power parity. (Peng, 2008) Figure 3 depicts three steps necessary in developing total global strategy. (Mintzberg and Quinn, 1991)

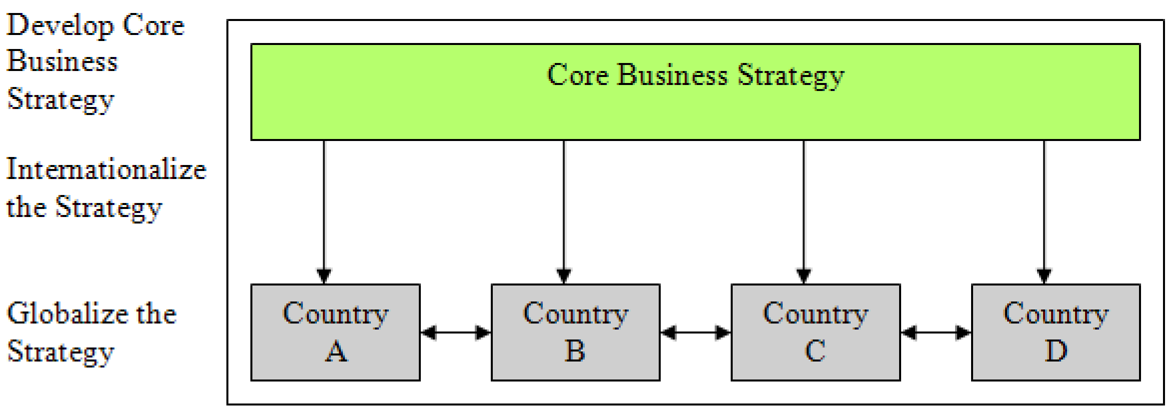

Figure 3 Total Global Strategy; Source: Mintzberg and Quinn, 1991: p. 693

[2] FDI – Foreign direct investment
[3] GDP – Gross domestic product

Core business strategy is usually developed in home country and brings the base of sustainable competitive advantage. Internationalization starts when expanding the activities to foreign countries. Global strategy comes into being by integration of the strategies across countries. (Mintzberg and Quinn, 1991)

Industry globalization drivers are externally determined factors which create a potential for MNEs to achieve the benefits of global strategy. According to Mintzberg and Quinn (1991, p. 694), we recognize:

- Market factors
- Cost factors
- Environmental factors
- Competitive factors

2.4.2 Internationalization

It is much more difficult to develop multinational strategy than a strategy for only one country. Company operating in a single country has to deal with only one government, one legal system, one accounting system and one currency. Differences in language, culture and habits are indispensable to take into account as well. (Lymbersky, 2008)

Factor	**Single country (Germany)**	**Multinational operations**
Language	German	Different countries require different languages
Culture	Relatively homogenous	Diverse between and within countries
Labour	Skilled and well trained labour available	Special training and redesign of production methods might be required
Labour relations	Collective bargaining	Layoff of workers might be easy or, in contrast, impossible; workers might seek change through political process
Economy	Relatively uniform	Wide variation among countries and within countries possible
Politics	Stable and relatively	Often volatile and of decisive importance

	unimportant	
Governmental interference	Minimal and reasonably predictable	Often extensive and subject to rapid change
Financing	Well developed financial markets with different sources available	Capital flows are in some countries subject to government control and are sometimes poorly developed
Market Research	Data are easy to collect	Data are sometimes difficult and expensive to collect
Money	Euro used thorough Eurozone	Changes do currency possible, problems can arise because of exchange rates and government policies
Advertising	Only few restrictions, many media available	Media might be limited, many restrictions possible, low literacy rates rule out print media in some countries
Transportation	Quick and effective	Often inadequate, can be dangerous or slow in some countries
Contracts	Backed up by legal system, binding once signed	Might be voided and renegotiated if one party becomes dissatisfied
Control	Always a problem, but centralized control will help	A worse problem; must walk a tightrope between overcentralizing and losing control through too much decentralizing

Figure 4 Differences between single country operations and international operations; Source: Lymbersky, 2008: p. 25

2.4.3 Foreign market entry modes

According to Grant (2000) a company can access the resources and skills available for producing in a foreign country either by transaction or by direct investment (see Figures 5 and 6). Author sees two main motivating reasons in overseas production: to access raw materials and cheap labour and to offer local production to overseas markets. In case of direct investment by multinational firms, an incentive factor can be a desire to access technology.

TRANSACTIONS				
Exporting: Spot transactions	Exporting: Long-term contract	Exporting: with foreign distributor/agent	Licensing technology and trademarks	Franchising

Figure 5 Overseas Market Entry: Transactions; Source: Grant, 2000: p. 346

DIRECT INVESTMENT			
Joint venture		Wholly owned subsidiary	
Marketing and distribution only	Fully integrated	Marketing and sales only	Fully integrated

Figure 6 Overseas Market Entry: Direct Investment; Source: Grant, 2000: p. 346

Whether to use the method of transaction or direct investment, the company needs to consider following points:

- The size of the company
- The nature of the products
- Previous export experience and expertise
- Business conditions in the selected overseas market.

  (Daley and Scott, 2000: p. 19)

Using the framework established by Grant (2000), transactions are explained as the first and direct investments subsequently. The individual transaction methods of entering the foreign market are defined as followed:

Transactions

- <u>Exporting</u>

  Pike and Neale (2006: p. 632) define exporting as "sale of goods and services to a foreign customer." The level of involvement of the company into exporting process determines different forms of exporting. There are four basic approaches to distinguish in exporting. Their combinations are often used as well. (Daley and Scott, 2000)

1. **Passively filling the orders from domestic buyers who then export the product**
   As far the domestic seller is concerned, all the sales are unrecognizable from the regular domestic ones. Another, third party sees that product has a potential to succeed on a foreign market and takes a steps to offer it there. That party takes all the risks and arranges all the exporting duties.

2. **Seeking out domestic buyers who represent foreign end users and customers**
   "Many U.S. and foreign corporations, general contractors, foreign trading companies, foreign government agencies, foreign distributors and retailers and others in United States purchase for export." (Daley and Scott, 2000: p. 19) That kind of buyers represents a huge market for a wide range of products and services. The company may have information that their product is being exported. However, the risk is absorbed by buyer as well as the details of exporting.

3. **Exporting indirectly through intermediaries**
   The enterprise engages a company for finding foreign markets for its products. International trade consultants, agents, export management companies, export trading companies and other intermediaries can give an exporter the access to trade contracts and expertise needed. This approach allows an exporter to hold a significant level of control over the exporting process as well as to collect important information about new technologies, foreign competitors and other market opportunities.

4. **Exporting directly**
   The exporter himself holds all the risks and responsibilities over the exporting process, starting with market research and ending up with foreign distribution. Due to this fact, this approach is perceived as the most ambitious and difficult concerning export. On the other hand, if the management runs the exporting business well, it can bring a lucrative profit as well as long- term growth. This approach is suitable even for small or medium-sized companies on condition of providing enough staff and time the exporting process needs. Department of

Commerce, freight forwarders, state trade offices, international banks and other service groups can bring an important guidance and help to the exporting company. In case that the company is not able to make a commitment about the enough staff time to the effort, exporting through intermediaries should be due consideration. (Daley and Scott, 2000)

- Licensing technology and trademarks, franchising

Daley and Scott (2000: p. 35) define technology licensing as "contractual arrangement in which the licensor's patents, trademarks, service marks, copyrights, trade secrets, or other intellectual property may be sold or made available to a licensee for compensation that is negotiated in advance between the parties."

Technology licensing is a suitable way of entering a foreign market in case that the company would like to access it quickly and posses a fewer legal and financial risks than in case of participating in a overseas joint venture as well as owning and running a foreign manufacturing facility. In U.S., licensing permit the companies to overcome some of the tariff barriers.

It is important to stress that technology licensing is not limited to the manufacturing industry only. Franchising represents a form of licensing used in variety of sectors, very often used in service industries. "In franchising, the franchisor (licensor) permits the franchisee (licensee) to employ its trademark or service mark in a contractually specified manner for the marketing of goods and services." (Daley and Scott, 2000: p. 35) Usual practice is that franchisor carries on in support of operations as advertising, training, accounting and other services. Franchisor also often provides a supplement of products the franchisee needs.

Due to the transfer of the technology to an unaffiliated company, it is difficult to take a deep control over it. Another drawback is that licensing does not produce as much profit as in case of exporting approach. Problems of protecting the licensed technology from the unauthorized use by third parties occurred in some of the developing countries.

A potential licensor should bear in mind the host country's:

- foreign patent, trademarks and copyright laws
- exchange controls
- product liability laws
- possible countertrading or barter requirements
- antitrust and tax laws
- government attitudes toward repatriation of royalties and dividends.

(Daley and Scott, 2000)

Direct investments

- Joint venture

"Joint venture is a partnership at corporate level formed by two or more individuals sharing ownership and control." (Onkvisit and Shaw, 2004: p. 252) The world has noticed a huge upsurge in the quantity of joint ventures and other forms of strategic alliances across national borders from around 1985's. Due to this fact, cross border joint action of the firms is quite new phenomenon. During this time has international interfirm collaboration extend to many industries – aerospace, automobiles, information technology, pharmaceuticals as well as communications. Very usual motive for the companies from abroad is the desire to access resources and capabilities and to derive benefit from the time it takes to develop it. (Grant, 2000)

However, there are many of failures happening in international joint ventures cases. (Grant, 2000) "Joint ventures that share management responsibility are far more likely to fail than those with a dominant parent or with independent management." (Killing, 1982) It often happens when those firms are also competitors. In that case it is necessary to be placable to the individual national ways of doing business. Important part is to avoid conflicting objectives, divergent management styles as well as contentions over labour practices and quality.

Fisher and Fisher (1998) describe three main forms of joint venture:

1. **Unincorporated joint venture**

There are two known types of unincorporated joint venture. First one, the "pure" unincorporated joint venture is characterized by establishing solely by a contract among participants. Due to this fact it is often called contractual joint venture. Construction, engineering and consulting services are the main fields where this type of joint venture is used. The second known form of unincorporated joint venture is called partnership joint venture. (Fisher and Fisher, 1998) Partnership has been defined as the "relation which exists between persons carrying on a business in common with a view of profit." (Fisher and Fisher, 1998: p. 176) Partnerships are used when taxation system and liability issues call for it.

2. **The corporate joint venture**

The corporate joint venture features the cooperation between two or more enterprises with the goal to achieve an intended business goal. This form of joint venture differs from unincorporated one by specification of the goal which is typically limited to one project. Once the goal is fulfilled, the joint venture is terminated.

3. **The unit trust joint venture**

The joint venture in the form of unit trust is much more complex than the previous types of joint ventures. It is used mostly in property and resources sectors. Enterprises decide for this form of joint venture in case that they endeavor after protecting assets as well as creating an income stream. The unit trust joint venture should be used only in case that there is a compelling reason for it and should be based on taxation, legal and accounting advices. (Fisher and Fisher, 1998)

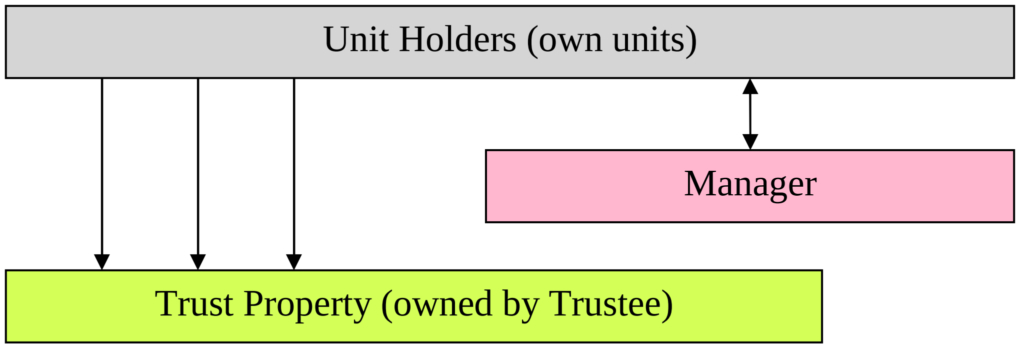

Figure 7 Structure of a unit trust; Source: Fisher and Fisher, 1998: p. 178

Fisher and Fisher (1998) introduce few commercial and legal factors which should be taken into account when thinking about internationalization by joint venture form:

- legal status of the joint venture investment vehicle
- restrictions of FDI – foreign investment rules
- investments guarantees
- registration requirements
- minimum capital contribution required
- foreign exchange regulations
- reporting, audit and accounting requirements
- taxation requirements including, tax incentives, depreciation, loss carry forward/back, treatment of transfer pricing, repatriation of profits and tax compliance requirements.

▪ Wholly owned subsidiary

Hill and Jones (2009) define wholly owned subsidiary as the enterprise in which the parent firm owns all of the subsidiary's stock. If the company decides to use this approach for its foreign activities, it has two options. The firm can either set up a brand new operation in the country or to purchase an established host-country company and utilize it to promote its products and services in the host market.

Authors stress the three main advantages wholly owned subsidiary offers. Firstly, if supposed that the major competitive advantage of the company is its control over the technological competency, the approach of fully owned subsidiary would be suitable due to the fact that it offers reducing the risk of loosing this control. This entry mode is preferred by high-tech, semiconductor, computer, electronics as well as pharmaceutical companies. Secondly, if the company plans to run its business globally, the wholly owned subsidiary brings an advantage of tight control over the individual operations in different foreign countries so the company can take profits from one country and transfer it to another. Third advantage rises in case that the company focuses on scale and location economies gained from producing a standardized product in single manufacturing plant. Due to this approach, the value added on every individual stage through the value chain can be maximized. In this case a high level of control over the operations of national branches is required.

However, the wholly owned subsidiary is the most expensive way of serving a foreign market.

Luo (1999) states that different entry mode grant a different levels of control over the strategic and functional decision making abroad. Fesyukov (2004) states that crucial about entry strategies is the fact that the risk rate grows proportionally with level of control gained (see Figure 8).

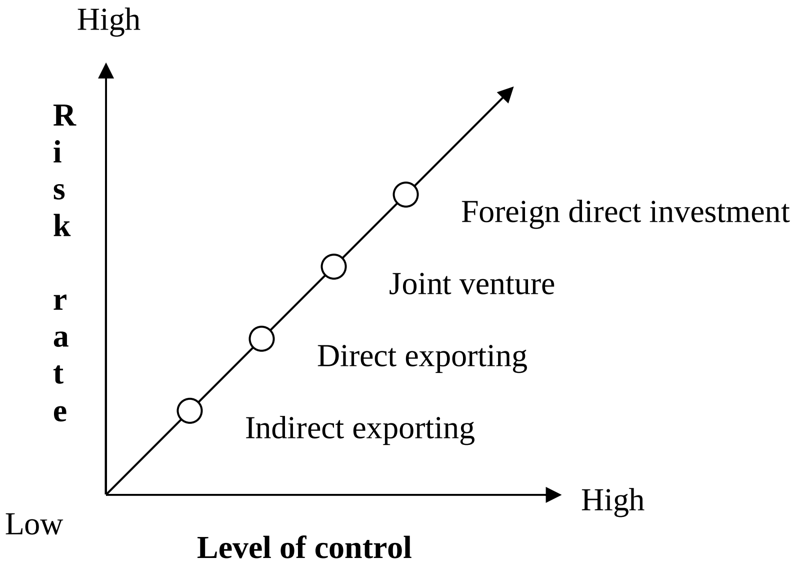

Figure 8 Strategy of entry; Source: Fesyukov, 2004

Indirect exporting represents low risk rate however the level of control is low as well. Foreign direct investment is characterizes by high level of control but high risk rate, too. "Different entry modes also require different levels of resource commitment." (Hill, Hwang and Kim, cited in Luo, 1999: p. 139) The level of commitment of resources is in case of licensing for MNE[4] very low. Licensee upholds the most of the costs of opening and maintaining the foreign market. However, wholly owned subsidiaries puts all the costs connected with opening and serving the foreign market to MNE. (Luo, 1999)

[4] MNE – Multinational Enterprise

Entry mode	Advantages	Disadvantages
Exporting	▪ Ability to realize location- and scale-based economies	▪ High transport costs ▪ Trade barriers ▪ Problems with local marketing agents
Licensing	▪ Low development costs and risks	▪ Inability to realize location- and scale-based economies ▪ Inability to engage in global strategic coordination ▪ Lack of control over technology
Franchising	▪ Low development costs and risks	▪ Inability to engage in global strategic coordination ▪ Lack of control over quality
Joint venture	▪ Access to local partner's knowledge ▪ Shared development costs and risks ▪ Political dependency	▪ Inability to realize location- and scale-based economies ▪ Inability to engage in global strategic coordination ▪ Lack of control over technology
Wholly owned subsidiary	▪ Protection of technology ▪ Ability to engage in global strategic coordination ▪ Ability to realize location- and scale-based economies	▪ High costs and risks

Figure 9 The Advantages and disadvantages of different entry modes;

Source: Hill and Jones, 2009: p. 270

2.4.4 How to choose the right entry strategy?

Grant (2000) frame an instruction for choosing the suitable market entry mode for the company. The weigh of the merit of individual entry strategies is evaluated according to the answers to the following five questions:

1. **Is the firm's competitive advantage based on firm-specific or country-specific resources?**

   The company should think of exploiting an overseas market by exporting in case that the company's competitive advantages are country-based. For example, Hyundai's competitive advantage in U.S. car market – Korean wage rates – was clocked by producing in Korea and exporting to the United States.

2. **Is the product tradable and what are the barriers to trade?**

In case that the transportation costs are too high or the import restrictions are too strict, then the company should look over the possibility to enter that market by investing in overseas production facilities or by licensing the use of key resources to local firms within the overseas market.

3. **Does the firm possess the full range of resources and capabilities for establishing a competitive advantage in the overseas market?**

When competing in an unfamiliar market, it becomes a significant advantage to establish a relationship with the companies in the overseas market (especially when acquiring additional resources and capabilities in terms of marketing and distributing in foreign market). If a company needs marketing and distribution, then it might ordain an agent or distributor with the sole tutorial rights. If the company's vision is to run a wide range of manufacturing and marketing in a foreign country, the firm might licence its production and/or its technology to a local manufacturer. In companies which are technologically-oriented, the resort can be exploiting their innovations internationally by licensing their technology to local firms. In marketing-oriented industries, companies can propose their brand to local firms through trademark licensing. Otherwise, a joint venture with a local manufacturing company can be used.

4. **Are the firm's resources appropriable?**

The use of firms' resources in foreign country can take a course of licensing, exporting or direct investment. In pharmaceutical and chemical industry, the patents protecting product innovations incline to offer strong legal protection. In that case an effective way of annexing the returns of local producers would be patent licensing. In computer software and equipment, the protection from patents and copyrights is freer and exporting appears as the most suitable option. The main concerns in licensing brand names rise for keeping the brand's reputation. The need to take a close control over use of company's trademarks, technologies and trade secrets can be solved by franchising system. In service industries, especially fast-food restaurants, franchising strategy is very common. (Grant, 2000)

5. **What transactions costs are involved?**

   "Transaction costs are costs incurred in overcoming obstacles to trade." (Casson, 2003: p. 163) It is often predicated that transaction costs are a reason of market failure but Casson (2003) states that this is not strictly correct. Transaction costs supervene to avoid a breakdown of trade. Grant (2000) specify that these costs occur in licensing of a company's trademarks or technology in activities as negotiating, monitoring as well as maintaining the terms of such agreement. Transport fees and tariffs, information costs as well as exchange rate risk are forms of transaction costs. Transaction costs affairs are substantial to the choices between the market entry modes.

According to Lymbersky (2008: p. 23), an international strategy has to answer the following questions:

- How and where will the company produce the products or services?
- What products and services does the company want to sell?
- Where does the company want to sell the products or services?
- How and where will the company get the necessary resources for the production process?
- How does the company want to compete with its competitors?
- What are the key success factors for that company and for that product or service?

The company should choose the entry strategy which provides the highest risk-adjusted return on investment. Behavioural factors, such as need for control as well as resource availability can also largely affect the choice of the company. (Luo, 1999) "The better prepared and the more committed the firm is, the better able the firm is to maximize business opportunities and succeed in the foreign market." (Fisher and Fisher, 1998: p. 178)

Fruitfulness of the entry to a foreign market depends on the proper timing. Campbell (2002) states that timing is one of the crucial factors when planning an expansion.

2.4.5 Competitive advantages from a global strategy

"Companies that compete on a national basis are highly vulnerable to companies that compete on a global basis." (Levitt, cited in Grant, 1998: p. 351) There are two assumptions that are responsible for the superiority of global strategies:

- Globalization of customer preferences

  Homogenizing forces of communication, travel and technology cause that regional and national preferences recede into the background. (Grant, 1998) Levitt (1993) states that products and services do not vary so much as in the past cause the world's preferences are more and more homogenized. It does not mean that customers are the same the world over. However, if the customer has a choice between a lower-priced globally standardized product and a higher-priced nationally discerned alternative, most of them favor the first option.

- Scale economies

  Benefits of economies of scale can increase the company's profits by the effectiveness of the processes in various departments. By moving the production to low-cost countries is the company able to exploit lower factor costs. Cutting costs can be also reached by exploiting flexibility. Company which operates manufacturing factories in several countries can decrease its cost by moving production from location to location on short notice. Global strategy can also cut costs by enhancing bargaining power with suppliers, workers as well as host governments. (Mintzberg and Quinn, 1991) Enterprises operating on the global market can access scale economies in various fields of their business as product development, manufacturing as well as marketing. Companies oriented on national or regional markets are not able to reach that kind of efficiency and significantly loose ground to global competitors. (Grant, 1998)

Mintzberg and Quinn (1991) defined following benefits which can be achieved by companies using global strategy levers:

- Cost reduction
- Improved quality of products and programs
- Enhanced customer preference
- Increased competitive leverage

The main goal of the companies is not only acquiring and leveraging of the competitive advantage, but primarily sustaining such advantages across regions and over time. (Peng, 2008)

2.4.6 Drawbacks and risks of the global strategy

Drawbacks

Enarsson (2006: p. 61) defines these possible drawbacks when the company implements a global strategy:

- Increased coordination costs
- Reduction in companies' effectiveness in individual countries, through over-centralization
- Struggles in penetrating a market, more in order to enhance the global competitive position for its own sake than to make money
- Product standardization which can result in a product that does not entirely satisfy any customer
- A globally-standardized product, but one which can seldom satisfy all needs in all countries
- Activity-concentration, which distances to customers resulting in lower responsiveness and flexibility
- Uniform marketing, which can reduce adaptation to local customer behaviour
- Integrated competitive moves, which can mean sacrificing revenues, profits or competitive positions (subsidiary can attack a global competitor)

Yip (2003) advises companies with global intentions to answer these points before entering the foreign market. Global strategy requires increased coordination, reporting demands and eventually, added staff. Due to these factors can the global strategy incur a considerable management costs. (Mintzberg and Quinn, 1991)

Possible risks of global entrepreneurship

Nelson (2000) states that there is always a risk in doing business and international business is not an exception. The certain level of risk is always present; however, much of this uncertainty can be limited by hedging, managing and controlling. Author recognizes four major types of risks:

- Commercial risk
  - not being paid
  - non delivery of goods
  - insolvency or protracted default by buyer
  - competition
  - disputes over product or warranty

  PRECAUTION: For exporter is very important to know how ho protect the company against not being paid. The problem of not getting paid can be solved according to the Figure 10. The author suggests different forms of payments in order to decreasing risk to exporter and increasing risk to importer.

- Foreign exchange
  - foreign exchange fluctuations

  PRECAUTION: This risk can be avoided by selection of suitable invoicing period. Foreign exchange risk can be protected for example by hedging. Translation exposure is a form of protection by force of converting assets and liabilities into foreign currency.

- Political
  - war, coup d'état, revolution
  - expropriation
  - expulsion
  - foreign exchange controls
  - cancellation of import/export licenses

PRECAUTION: Political risk factors can be limited by acquiring as much knowledge as it is possible about the foreign market, cooperation with the partners from the particular foreign country. Tax holidays protects the company against loses in consequence of immediate tax changes.

- <u>Shipping</u>
  - risk of damage and/or loss via transportation

PRECAUTION: Company can protect itself from shipping risk by the selection of suitable insurance. Incoterms[5] rules can be used as well.
(Nelson, 2000: p. 85 and BusinessInfo, 2010)

Comparison of various methods of payment				
Method	Goods available to buyers	Usual time of payment	Exporter risk	Importer risk
Open account	Before payment	As agreed	Most: relies on importer to pay account	Least
Consignment	Before payment	After sold	Maximum: exporter retains title	Minor inventory cost
Time draft	Before payment	On maturity of draft	High: relies on importer to pay draft	Minimal check of quantity / quality
Sight draft	After payment	On presenting draft to importer	If unpaid, goods are returned / disposed	Little if inspection report required
Authority to purchase	After payment	On presenting draft	Be caruful of recourse	Little if inspection report required
Letter of credit	After payment	When documents are available after shipment	None	None if inspection report required
Cash	After payment	Before shipment	Least	Most

Figure 10 Comparison of various methods of payments; Source: Nelson, 2000: p. 88

[5] INCOTERMS – International Commercial Terms (International Chamber of Commerce, 2010)

II. Analytical Part

3. INTRODUCTION OF THE COMPANY

3.1 Essential data about the Company

Name:	Nobilis Tilia, Ltd.
Date of record:	10 November 2004
Firm domicile:	Krásná Lípa, Vlčí Hora 147, Postcode 407 46, Czech Republic
VAT identification number:	25497006
Line of business:	production of cosmetics products; speciality retailer; inn holder services; masseur and regenerative services; production of food products

Figure 11 The logo of Nobilis Tilia, Ltd.; Source: Nobilis Tilia, 2010

3.2 Development of the Company in time

In 1994, PaedDr. Zbyněk Šedivý established the Nobilis Tilia Co., Ltd. which produces aromatherapy cosmetics. The name of the Company comes from the homeland Krásná Lípa which is located on the borders of Bohemian Switzerland. Two years later, Zbyněk Šedivý became a co-founder of The Association of Czech Aromatherapists and assisted at the conception of the first professional training institution in the field of the Institute of Aromatherapy.

In 2002, Mr. Šedivý has been conferred on honorary member of the Mediterranean Phototherapeutics Consortium based in Montpellier, France. In the same year, the Nobilis

Tilia entered on the cooperation with Ing. Arch. Dana Hejbalová and presents its brand new logo as well as the overall changes in Company's design.

During the next few years the Company started to sell its products in Slovakia, Great Britain, France, Japan and Taiwan. (Nobilis Tilia, 2010)

3.3 Product portfolio

- Face care
- Eczematous and psoriasis skin care
- Lip and oral cavity care
- Body care
- Natural deodorants
- Pregnancy and obstetrics
- Children's care
- Hair care
- Hands and feet care
- Shaving and depilation
- Sun protection and self-tanning products
- Natural drugstore
- Products for professionals
- Seed oils
- Essential oils
- Herb extracts and vitamins
- Food supplements
- Air refreshers
- Tisanes
- Gift packs
- Aromatic ceramics
- Books

Nobilis Tilia produces aromatherapy cosmetics and provides educational excursions as well as conferences focused on aromatherapy issues. As mentioned above, indispensable part of Company's business activities belongs to the services. However, my focus will be related purely to the cosmetic production considering the fact that the products itself are the subject of interest that the Company would like to offer abroad.

4. ANALYSIS OF INTERNAL ENVIRONMENT

4.1 Framework of McKinsey

For analysing the internal environment of the Nobilis Tilia Company I have decided to use the concept called "7S" of the McKinsey Company elaborated by Peters and Waterman (1982).

- **Structure**

  Nobilis Tilia has currently 21 employees. Ten people work in the sector of production and nine employees belong to the administrative part of the Company. Research and Development Department employs two staff members. Management system and organizational structure are changed due to widening opportunities and management's conception of strategy. The Company has not defined its Strategic Business Units (SBUs) yet.

  Working environment of head-office as well as production premises are more than presentable. Nobilis Tilia is situated on the borders of national park Bohemian Switzerland. The Company has its own aromatherapy centre, arboretum, tearoom as well as company store.

  Civil association called Nobilis Tilia has a character of not-for-profit organization and presents an inseparable part of the Company itself. The association has based the arboretum, provides an education focused on growing and processing of herbaceous plants, organizes thematic tours to France and arranges the traditional 'feast of herbs'.

  Company makes use of following distribution channels:

  - healthy lifestyle shops
  - cosmetic stores focused on natural & organic products
  - beauty and massage salons
  - pharmacies

  Pharmacies are considered as the target customer group. Nobilis Tilia pushes for an extension of this distribution channel. On the other hand, there is no interest to sell its products in chain stores and hypermarkets. An exception can be made in case that the chain store provides a separated part of its store to the natural and organic products (for example dm - drogerie markt).

- **Strategy**

  The Company has not defined its corporate strategy yet. However, there are divisional plans and strategic goals which are verbally presented to the employees. Manufacturing of products in BIO quality and achieving a particular standardization is one of them.

  Principles of Nobilis Tilia as well as basic vision can be found in printed form inside of every advertising brochure or in electronic form on Company's web page. Regular meetings are intended to render specific internal information to its employees.

- **Systems**

  Marketing department of Nobilis Tilia gets a regular feedback and information about the competitors from its sales promoters. The Company has a close relationship with its wholesale customers as well as beauty and massage salon which supplies. Internet forum on Nobilis Tilia's web page is used to find out the customer preferences and provide answers for their questions. Nobilis Tilia regularly issues its company magazine where the customers contribute, too.

- **Style**

  The management of Nobilis Tilia promotes a democratic style of leadership. Every investment proposal as well as changes in the organizational structure has to be ratified by the Head office of the Company.

- **Staff**

  Compensation packages match the industrial standards of Czech Republic. In case that the employees are asked to work overtime, they will be fairly paid for it. Employees can take advantage of the possibility to buy Nobilis Tilia's products with a discount. Success in revenues is reflected into a company benefits which are provided to both - production and administrative - employees. Grant in the amount of 5000 CZK is given on a yearly basis to every employee to buy a wellness or fitness activities as well as food supplements or vitamins.

- **Skills**

In 2009, the grant from European Union Funds gave an opportunity to Nobilis Tilia's employees to educate themselves in the field of English language. There are no regular trainings available to the employees, however education training are organized when necessary.

Graduation from university does not provide a significant comparative advantage for applicants for a situation. University education is not strictly required on any level of the organizational structure. Educational and working experiences as well as positive attitude to the principles and values of the Company are evaluated in a complex way.

- **Shared values**

It is very important for the Company to employ the people with the similar values and principles. Company cultivates and collects some plants ourselves making use of biorhythms principles. Nobilis Tilia makes the maximum use of organic farming ingredients. Making things by hand is an important part of Nobilis Tilia's philosophy; all ingredients are processed by hand and with the appropriate care. The Company rejects the principal of animal ingredients and testing on animals, the only animal ingredient in their products is beeswax.

Nobilis Tilia introduces original cosmetics procedures based on scientific knowledge, such as enzymatic regeneration or Aroma Duo treatment. The Company is the sole holder of a licence to use Pí-technology for the production of cosmetics.

External characters of the Nobilis Tilia Company are fully presented. Company's logo and motto appears on every product or promotional material. Leaflets, brochures, trade catalogues, cosmetic samples, T-shirts as well as towels for beauty and massage salons belong to the common form of advertising material. Maker's emblem is presented on the Company's fleet of vehicles, too. Nobilis Tilia owns three of these cars and propagates the Company all over the Czech Republic.

4.2 Financial position of the Company

Entering a foreign market demands financially stable company with an iron constitution. Nobilis Tilia records very good financial results, as can be seen on Figure 12 and 14. The trading income has fluctuated; however, its value has always reached a profit level. From 2007 the Company has adopted a different attitude to the advertising and promotion. Remarkable profit gained in 2008 was brought about by increasing number of orders and subsequent sale as a result of the marketing activities.

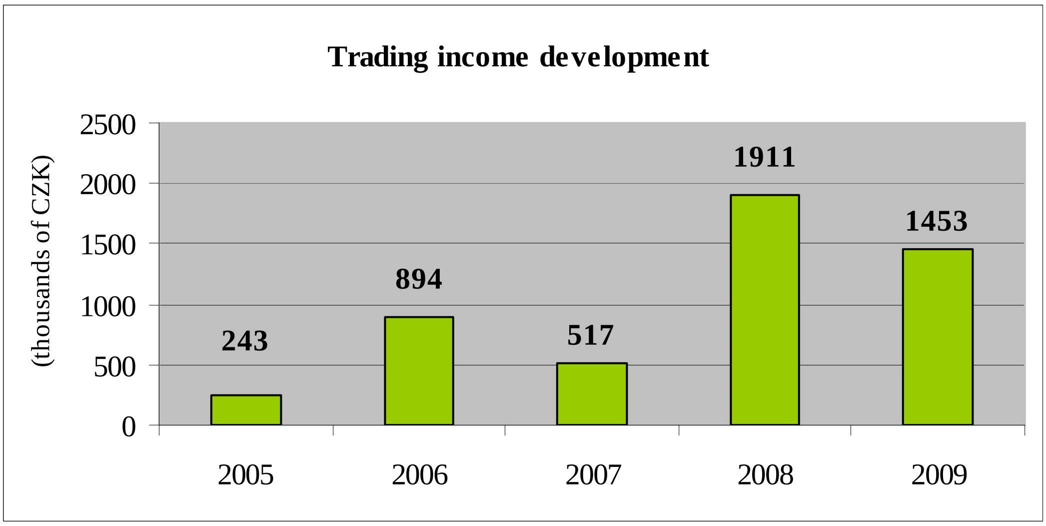

Figure 12 Development of trading income in period of 2005 – 2009;

Source: Internal materials of Nobilis Tilia, 2010

Liquidity and its ratios represent an important indicator of financial health of the company. Ministry of Industry and Trade (2002) has published a report concerning financial analysis. Among other things, the paper included recommended values of individual liquidity ratios (please see Figure 13).

Recommended values of liquidity ratios by MPO*	
Current ratio	1,5 - 2,5
Quick ratio	1 - 1,5
Cash ratio	0,2 - 0,5

* Ministry of Industry and Trade

Figure 13 Recommended values of liquidity ratios;

Source: Ministry of Industry and Trade, 2002

The current liquidity ratio of Nobilis Tilia can be assessed as relatively steady with exception of value attained in 2008, when gets on the upper boundary of recommended values of Ministry of Industry and Trade. High values of current liquidity ratios mean a positive auspice, however, from the point of short-term assets it represents so called 'mortified money' which do not provide earning to the company. Quick ratio should not drop to less than 1. If do so, the company has to rely upon the sale of their inventory. This situation occurred in 2005 but thenceforth the Company records recommended values. Cash ratio has a rising tendency, however, its values inhere in the recommended range.

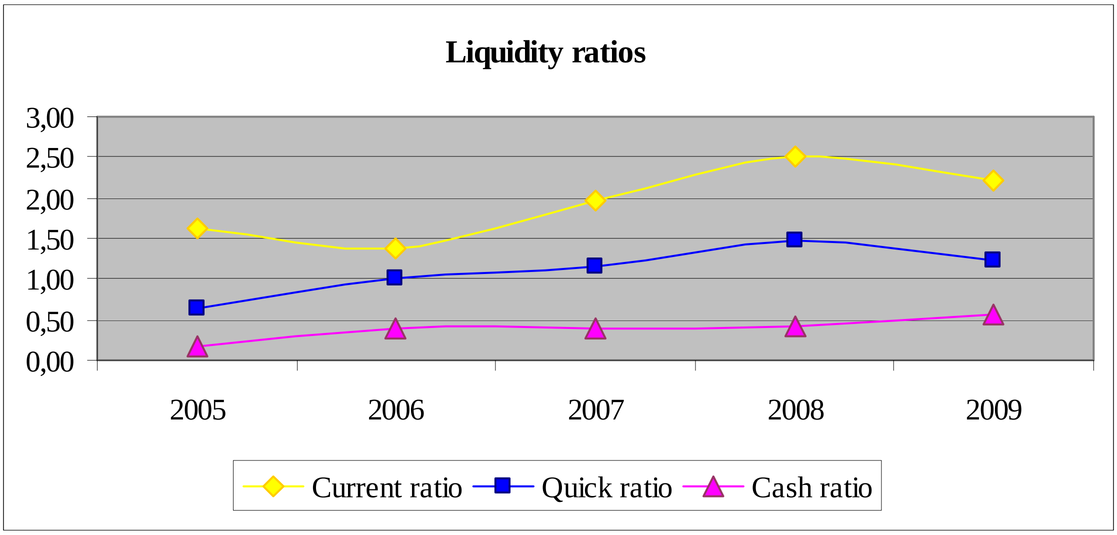

Figure 14 Development of liquidity in period of 2005 - 2009;

Source: Internal materials of Nobilis Tilia, 2010

At the basis of previous analysis, I would consider Nobilis Tilia as financially stable Company. Economic situation of the Company will not be limitation in case of entering a foreign market. Results of trading income show that Nobilis Tilia has a financial capital to take this step.

5. ANALYSIS OF EXTERNAL ENVIRONMENT

According to Classification of Economic Activities in the European Community (NACE classification), the subject of enterprise of Nobilis Tilia, Ltd. belongs to the item C – 20 called "Manufacture of chemicals and chemical products." In more detail, Company's focus is registered under these items:

20.4 Manufacture of soap and detergents, cleaning and polishing preparations, perfumes and toilet preparations

20. 5 Manufacture of other chemical products

(Eurostat, 2010)

5.1 Chemical industry overview

Although the NACE classification places the subject of enterprise of Nobilis Tilia, Ltd. into the chemical industry, the European Commission distinguishes cosmetics as an independent sector. (European Commission, 2010) To understand all the consequences linked to the cosmetic industry it is important to explain the development of chemical industry as well. Due to the fact, that Company has expressed a requirement to look into the possibilities of entry to the German market, the chemical and cosmetics industry of Europe and Germany will be examined.

5.1.1 Development of chemical industry in Germany

The chemical industry can be traced back to the Middle Eastern artisans, Phoenicians and the Chinese; however this specification is not relevant to the subject of my thesis. I consider the period after the Industrial Revolution as the starting point for the introduction of the chemical industry in Germany.

"In the twentieth century dyes, pharmaceuticals, photographic products, explosives, insecticides, fertilisers, synthetic rubber, fuels and fibers, plastics and other products have flowed out of the chemical industry and into the consumer economies, war machines, farms, and medical practices, of industrial societies." (Lesch, 2000, p. 1) English companies were leading in dyestuff industry until the 1860s. However, by the year 1913 Germany produced around 85 % of the global colouring substances. During that time, many oligopolies and cartels were concentrated in the market. The reaction of other countries was the implementation of anti-trust legislation, whereas Germany decided to legalize cartels, impose tariffs and cooperate with the state universities in research projects. Author argues that the key factor of development of German chemical industry was the oligopolistic structure. In successive steps, research laboratories in other industries were instituted as well. Germany came to dominate international chemicals' market. (Hirth, 2007)

Chemical industry in Germany played an important role in times of both world wars. "The world wars, especially the first, made the German chemical industry not only a model but also a source for the construction of chemical industries abroad through the direct transfer of patents, technical information, and physical plant to opposing nations." (Lesch, 2000, p. 3) In the post-World War II, Germany became a prominent player in a global economy. Three big three of BASF, Bayer and Hoechst were recovered and the post-war economic renewal of West Germany started off. Henkel, Degussa and I.G. Farbenindustrie has followed. The important role of German chemical industry does not solely inhere in the economic significance but in the impact of human life as well. Germany has been an inventor of many technological innovations which has notably changed the people's lives in the country and abroad. (Lesch, 2000)

5.2 Industrial attractiveness

Europe

Economy's development of individual countries reflects the demand for chemical products. In agriculturally-shaped developing economy is the call for chemical product markedly different than in modern services-oriented country. Global growth of chemical industry is centred on emerging economies, especially to Asia. In European countries, the growth rate in chemical sector is closely associated with GDP growth. Chemical industry is the biggest industrial user of energy. A huge challenge and duty at the same time is to reduce the energy and raw materials consumption. (European Commission, 2009)

"Progress in health is largely linked to progress in chemistry." (European Commission, 2009: p. 15) From technical point of view, the pharmaceutical industry is a part of the chemical industry, even though the official classification separates it. However, it should be mindful that the chemical industry provides active pharmaceutical ingredients for medicines. (European Commission, 2009)

The range of customers of the chemical industry extremely varies. "Only 30 % of the combined output of the chemicals and pharmaceuticals industries is sold to private households, and other end users. The rest goes to other industries, services and agriculture."

(European Commission, 2009: p. 16) Figure 15 shows the division of the chemical industry activities into three main parts as well as their percentage of total sales gained in 2009. Cosmetic sector is included in the part of consumer chemicals, which represented only 15 % of the total chemical market of Europe in 2009.

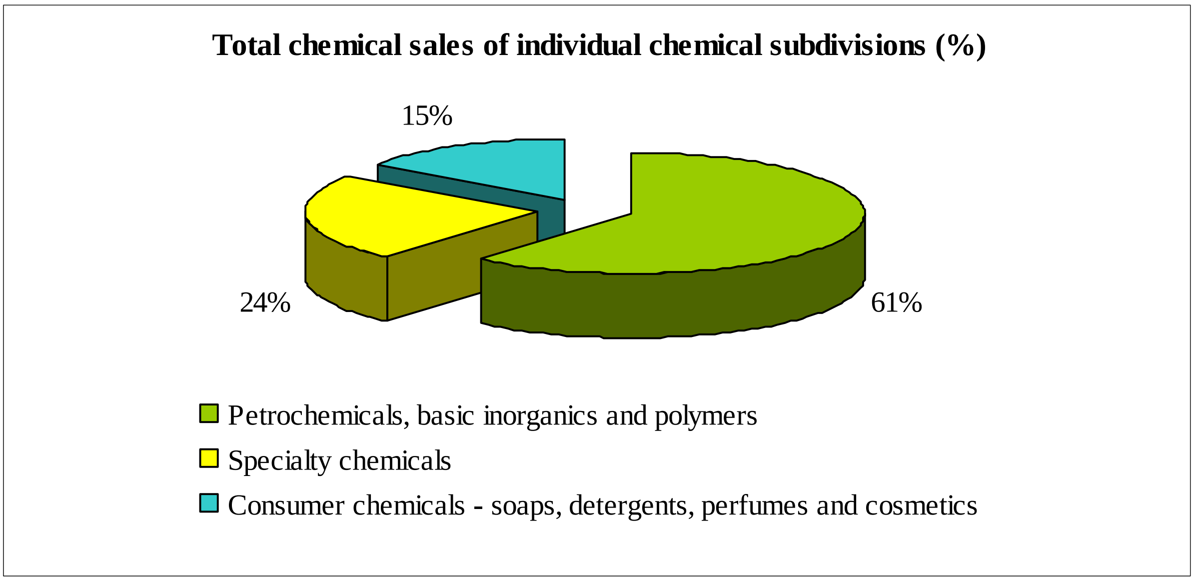

Figure 15 Division of sales in chemical industry; Source: European Commission, 2009

In 2009, the European Chemical Industry Council has published its final report and sum up the development of production growth of individual chemical subdivisions between years 2007 and 2009 (see Figure 16). The production of consumer chemicals, which responds to cosmetics sector, has significantly risen in 2007, however, was followed by huge underflow during next years. Marco Buti from DG Economic and Financial Affairs of European Commission states in his report that "the European economy is in the midst of the deepest recession since 1930s.“ (Buti, 2009: p. 5) It is obvious that this recession had a serious impact on the chemical industry as well.

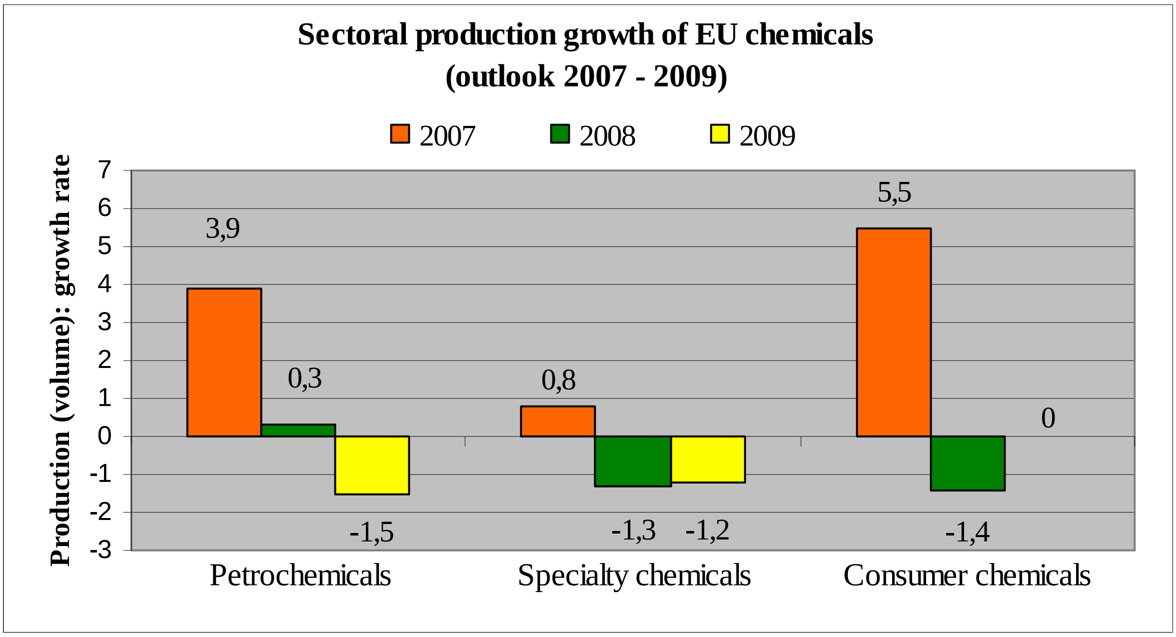

Figure 16 Sectoral growth of EU chemicals (outlook 2007 – 2009);

Source: European Chemical Industry Council, 2009

The chart displayed below (Figure 17) shows the growth measured over the period 2000 to 2006 in the EU 15 for the five major product categories. Demand after skin care products has grown markedly, followed by decorative cosmetics and perfumes.

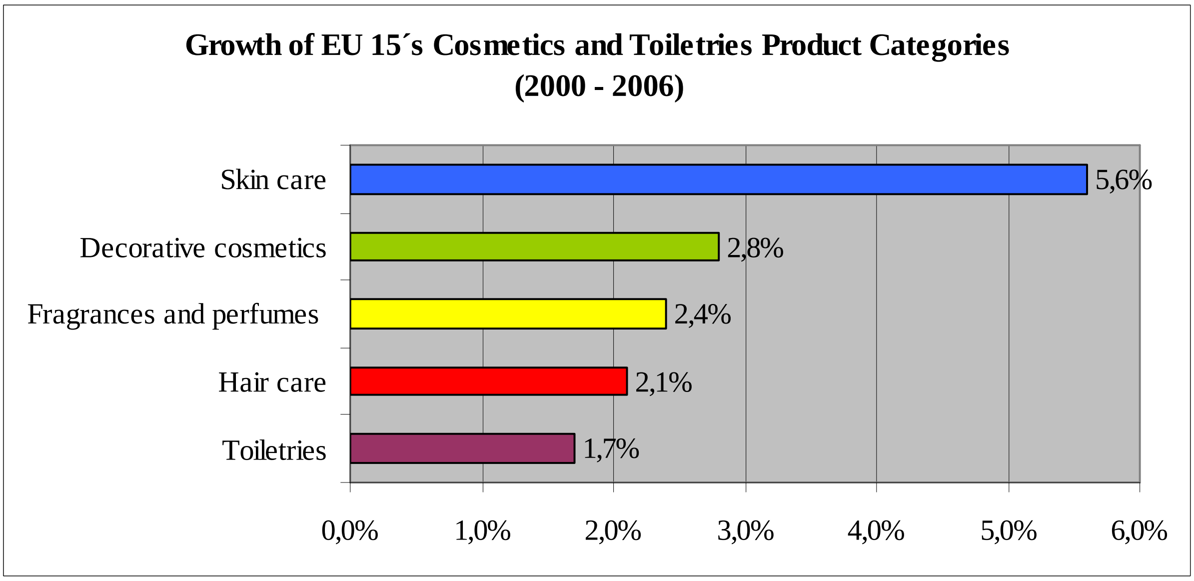

Figure 17 Growth of EU 15's Cosmetics and Toiletries Product Categories;

Source: Global Insight, 2007

European market is a maze of different cultures and traditions which causes assorted approaches in buying patterns. Findings and trends deduced from the study of Global Insight (2007):

- By virtue of enlightenment about skin cancer and exposure to harmful rays there is a growing demand after sun care products in most of the countries of EU.
- Customers from developed countries tend to have a high endearment in buying anti-aging and anti-cellulite products.
- Cosmetics for man, especially man fragrances, are in a great favour last few years.
- In most of the countries, there is a high run for organic and natural products.
- Demand for baby care products balances with birth rate. Declining birth rate causes in many of developed countries sinking of sales of baby cosmetics.
- Technologically-advanced products, such as self-tanning creams and lotions, became more and more popular.
- In countries with higher income level there is a high demand after so called 'masstige'[6] products, especially in the skin care sector.
- Spending on cosmetics differs from country to country. French citizens spend mostly on skin care products, while the British as well as Germans primarily purchase toiletries. Spain and Portugal spend a much lower share of their consumption basket on decorative cosmetics. Nordic countries (Norway, Sweden and Finland) spend much lower-than-average on fragrances.

Germany

Nobilis Tilia Company confronts with the decision whether to enter the foreign market or not and what entry strategy to decide for. The country of interest is Germany hence the analyses of industrial attractiveness are focused on German as well as European cosmetics industry.

Germany with its 81 571 000 inhabitants has the largest population from EU countries. The country is divided into 16 states (Bundesländer) with its total area of 356 840 km^2. Germany is a federal republic with democratic parliamentary state system using euro as its currency.

[6] Masstige – the conception of combination of mass market and prestige market. Masstige products has a prestige brand name and low prices at the same time. (Battersby and Grimes, 2010)

(Europa, 2010) The country is a founding member of EU. The official language is German, which is the most widely spoken first language in the EU. (The Deutschland Portal, 2010)

Germany is the third world's largest economy with its production of automobiles, electronic and communications equipment, chemicals, pharmaceuticals, precision engineering products and much more. (Europa, 2010)

According to a study of L'Oréal Germany elaborated for potential investors, the cosmetics market of Germany seems to be relatively stable (see Figure 18). Economic recession has started to show its impact in 2008. During this year, the growth in France and Spain has dropped significantly. On the other hand, the market of U.K. records very positive growth figures in monitored period of time.

	2005	2006	2007	2008
Germany	0,3%	2,9%	1,6%	1,2%
France	-1,5%	3,2%	2,3%	-0,5%
U.K.	2,2%	6,7%	4,6%	3,0%
Italy	-0,1%	1,9%	2,0%	0,7%
Spain	4,7%	4,5%	5,8%	0,4%

Figure 18 The Cosmetics Market of Western Europe Five Countries – Growth dynamic by country; Source: L'Oréal Germany, 2009

Comparison of selected countries from the point of view of usage of cosmetics shows significant differences (see Figure 19 and 20). 17 000 women were involved in this survey for one year period to find out the regular usage of the particular cosmetic products. While in U.K. 65 % of women use shampoo more than 3 times a week, in Italy it is just 29 % of women. Italian women tend to use shampoo less often; however, their usage of conditioners is comparable with other countries. British women are rewarding buyers of eye make-up products. Germany tends to keep the middle way in spending hair and eye make-up staff.

WOMEN	France	U.K.	Germany	Italy	Spain
Shampoo users (more than 3 times a week)	49%	65%	57%	29%	51%
Conditioner users	48%	67%	57%	45%	58%
Number of hair colour (per year, per user*)	6,4	5,4	5,6	9,0	8,1
Eye Make-up users	68%	71%	63%	55%	61%

* Hair colour in saloon or at home

Figure 19 Hair care & Make-up – Regular product usage in 12 past months –17 000 Women; Source: L'Oréal Germany, 2009

As shown on the Figure 22, hair and skin products represent the biggest part of the cosmetics market of Germany. 85 % of German women proclaim to use facial skin care products. These women use on average more than two cosmetic products every morning. The usage of moisturizers in Germany is very rampant, which represents a huge potential for every cosmetic company.

WOMEN	France	U.K.	Germany	Italy	Spain
Facial skin care users	85%	72%	85%	72%	75%
Number of products used every morning	2,4	2,6	2,4	1,7	2,1
Body Moisturizer users	62%	63%	79%	55%	74%

Figure 20 Skin Care – Regular product usage in 12 past months – 17 000 Women; Source: L'Oréal Germany, 2009

L'Oréal's U.K. 2010 Men's Grooming Report (2010) states that cosmetics designed for men reveal a huge potential. "The male cosmetics market in the UK is growing at double the rate of the women's category." (L'Oréal U.K., 2010: p. 3) Men see their appearance as a key factor in reaching their goals and boosting their confidence. The men's perception of role of the cosmetics has changed rapidly. British men do not save cosmetic products for special occasions anymore. These products became a part of their daily routine. This trend is becoming a huge challenge for all cosmetic companies. As seen on Figure 21, there are different habits in usage of men's cosmetics in dependence on their age. Men between 20 and 29 years use more cleansing products, moisturizing day creams as well as styling products.

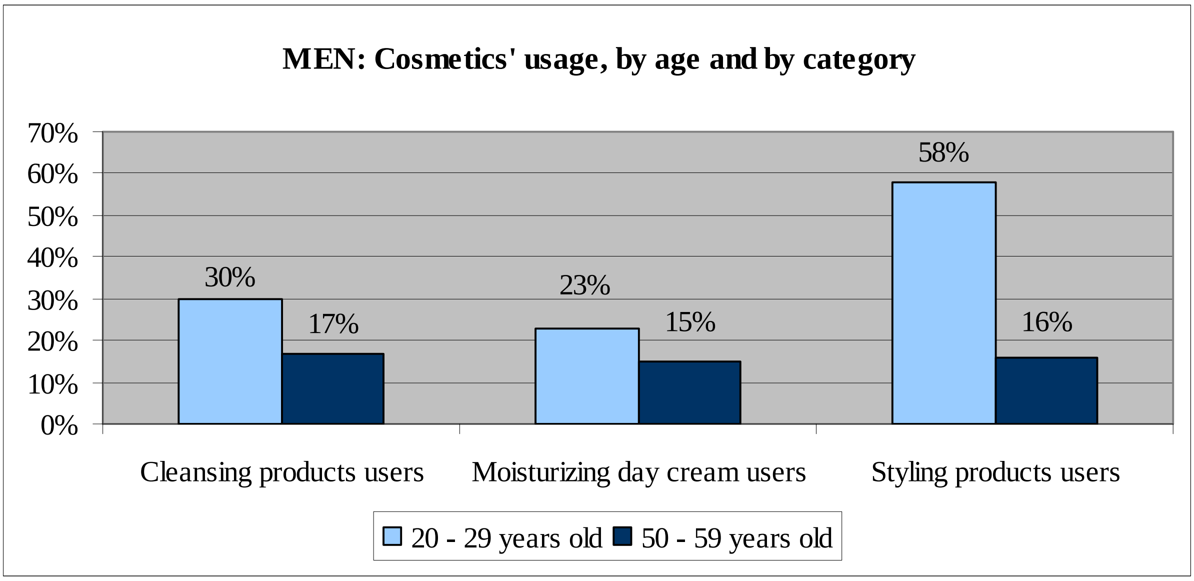

Figure 21 Men's cosmetic's usage in Germany in 2007, European Health & Beauty Survey – Men - 2007; Source: L'Oréal Germany, 2009

In period from 2003 to 2007, personal care market in Germany has grown significantly (see Figure 22). There is a general growing propensity in usage of cosmetics. Comparison of results from the beginning and the end of this period reveals important findings. There is a different trend in usage of particular sub-segments of cosmetics in Germany. Great growth of almost 17 % was ascertained in men's cosmetics. Dental care and oral hygiene has grown by 15 %. The usage of deodorants became more wide-spread which is proved by its growth of 9 %. The figure of the personal care market in a chronological sequence undoubtedly shows the possible future trends in cosmetic market of Germany.

Sub-segments	**2003**	**2004**	**2005**	**2006**	**2007**
Hair care	2 951	2 900	2 909	2 978	2 978
Skin care	2 673	2 635	2 712	2 832	2 889
Make-up / Decorative cosmetic	1 176	1 146	1 080	1 134	1 247
Dental care / Oral hygiene	1 134	1 163	1 188	1 231	1 309
Woman perfumes / Fragrances	884	873	857	910	965
Men's cosmetics	756	756	763	806	884
Bath and shower products	776	765	772	790	817
Deodorants	590	571	580	621	645
Soaps / Syndets	214	209	211	211	211
Other personal care products*	379	382	382	385	384
Total market	11 533	11 400	11 453	11 898	12 328

* Baby/children-, feet-, feminine hygiene-, depilation products, wet cosmetic tissues, body powder, etc.

Figure 22 The personal care market in Germany (at recommended retail price) in Euro million; Source: Cosmetic Business, 2008

Focused on Natural cosmetics

According to Organic Monitor (2009), German as well as French markets are the fastest growing in Europe if comes to natural cosmetic products. In Germany natural cosmetics represents about 4 % of total cosmetic sales. Carrie Lennard, a research analyst of Euromonitor International said for In-Cosmetics (2009) that "Germany is perhaps the heartland of natural and organic cosmetics in Europe. Many of the biggest brand names in natural cosmetics are German owned, Dr Hauschka, Lavera and Weleda to name a few. Germans are also among the highest consumers of natural cosmetics and a toiletry, thanks in no small part to Germany’s estimated 12 million 'LOHAS' consumers." According to a Lohas Journal Online (2010), "LOHAS is an acronym for Lifestyles of Health and Sustainability, a market segment focused on health and fitness, the environment, personal development, sustainable living, and social justice."

This group means a potential for all natural-oriented cosmetic companies because LOHAS people are young, often urban and wealthy. They place a great importance on using products as clothes, cosmetics and food which are not harmful to the people's organisms and environment. Many of these products are premium-priced but it does not inhibit to LOHAS customers in Germany. Carrie Lennard stresses that even in times of recession these people will abide by using natural-based cosmetics because of their strong endorsement of their principles. LOHAS customers have an aversion to chemicals used in mainstream products so their vacation of trusted natural brands is improbable. Non-natural brands do not have this advantage. (In-Cosmetics, 2009)

Organic Monitor (2009) sees the main obstacles of natural cosmetics in these issues:

- Low consumer understanding of natural & organic products
- Lack of harmonized / uniform standards
- Proliferation of symbols and logos

European-wide standards such as Cosmos and NaTrue lay the foundations of transparent system of the standardization. If the company wants to meet the standard, a particular part of a product's ingredients must be certified natural and organic. "The clearer labelling will benefit consumers who are currently bamboozled by the number of products making natural claims, and in the long run will protect the integrity of the natural cosmetics industry." (In-Cosmetics, 2009)

5.2.1 Bargaining power of buyers

Global Insight (2007) elaborated a study of the European cosmetics industry for European Commission, Directorate-General for Enterprise and Industry. The study comprises many interesting findings. Due to the large population, European cosmetics market is almost as large as Japan and U.S. combined. "Over 142 000 people are employed in the cosmetic industry in Europe. France, Germany, Italy, the U.K., Spain and Poland together account for more than 127 000 of these jobs." (Global Insight, 2007: p. 6)

The average per capita cosmetics spending of an EU 27's citizen is 127 €. Figure 23 shows the per capita consumption of cosmetics in different countries. Citizen of Denmark and Sweden spent over 170 € on average on cosmetics and toiletries in 2007. German customer spent on average 149 €. (Cosmetic Business, 2008) On the other hand, the per capita spending in China was only 24 € in 2007. Greece and Portugal are on the notional bottom of this chart with spending at just 121 € and 104 €, respectively. Two of the large European markets, France showed in 2007 very sluggish cosmetics consumption. (Global Insight, 2007)

Country	Expenditure per capita (year 2007)
Denmark	171 €
Sweden	171 €
Spain	169 €
France	166 €
Germany	149 €
Japan	174 €
U.S.	127 €
China	24 €

Figure 23 Per Capita cosmetics spending by country;
Source: Global Insight, 2007

Figures 24 and 25 show the purchasing power of the German customers. Almost 50 % of Germans are willing to spend more than 7 € when buying their moisturizer. In case of purchasing shampoo, over 55 % Germans spends more than 2,2 €. Because the purchasing power is relatively high and most of the Germans do not prefer to buy cheap products, their bargaining power raises.

Due to the fact that Germany is the homeland of many multinational companies (list in chapter 5.2.4), the power of buyers is high. Consumer preferences can lead to price changes as well as changeovers in other characteristics of the products. With the intention of satisfying customers, companies have to be flexible in changing design, quality as well as support services offered.

Although Organic Monitor (2009) states that important hurdle in production of natural cosmetics is "low consumer understanding of natural & organic products", Frost & Sullivan

(2009) estimates that there will be more and more customers who gain an access to chemical information written on the product's label. This fact can lead to increase of bargaining power of buyers as well.

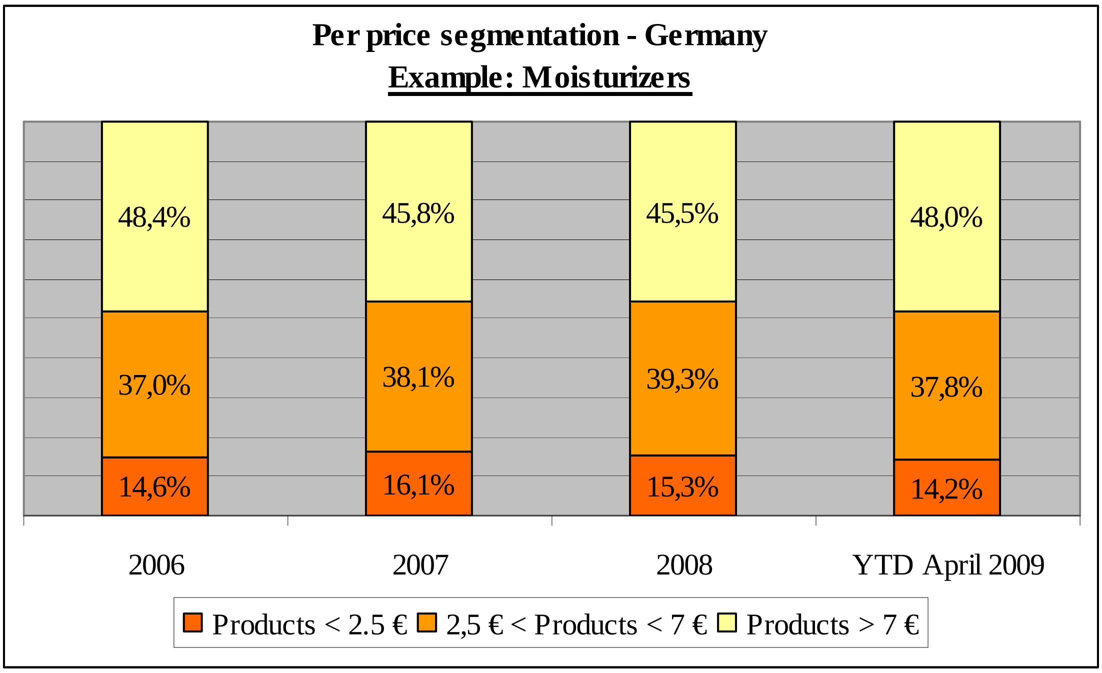

Figure 24 Per price segmentation – Germany, Example of mosturizers; Source: L'Oréal Germany, 2009

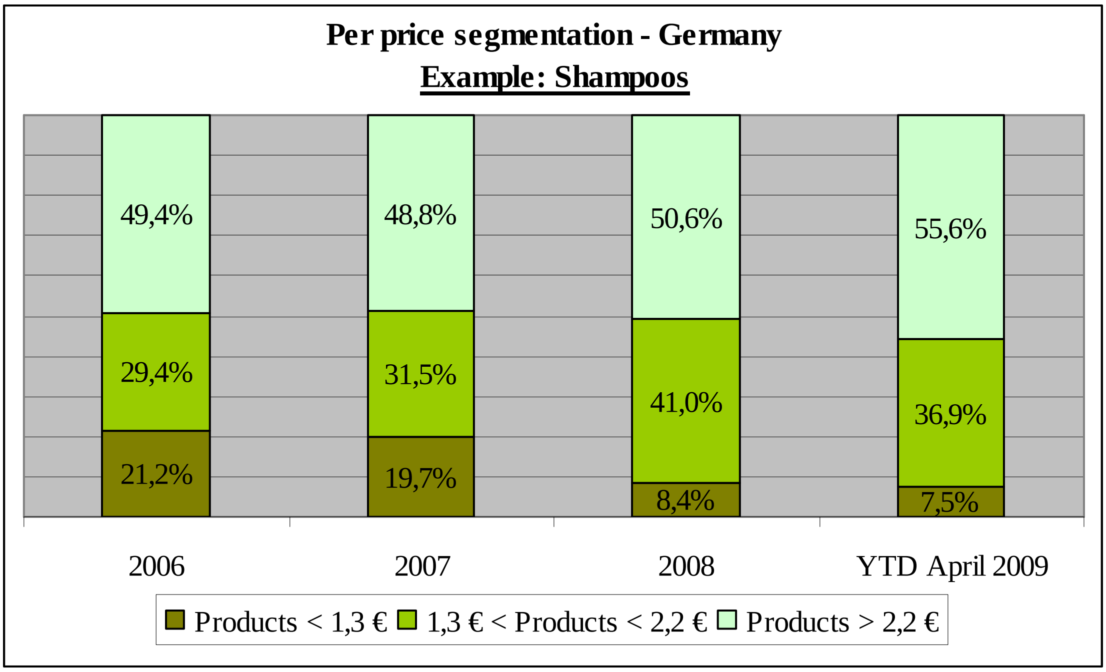

Figure 25 Per price segmentation – Germany, Example of shampoos; Source: L'Oréal Germany, 2009

5.2.2 Bargaining power of suppliers

The main suppliers of cosmetic chemicals in Germany:

- BASF SE
- Cognis Deutschland GmbH & Company KG
- Sederma
- S.A.S
- Dow Chemical Company
- Evonik Degussa GmbH
- International Specialty Products, Inc.
- Lanxess AG
- Novozymes A/S
- Royal DSM N.V.
- Symrise GmbH & Co. KG

(Research and Markets, 2010)

Companies operating on the natural bases insist on proper and strict selection of their suppliers. Most of the natural-oriented firms would like to meet Natural & organic cosmetic standards so the suppliers have to meet this criteria as well. There were no obligatory restrictions and standards for natural cosmetic products few years before. Due to this fact, there were many companies proclaiming themselves as 'natural' and 'organic' with absolutely no right to do so.

Figure 26 Different logos of standards for natural cosmetics used in Europe; Source: European Cosmetics Standards Working Group, 2009

European Cosmetics Standards Working Group (2009) presented a comprehensive set of cosmetic standards for individual European countries called Cosmos standard. The final version of Cosmos standard was announced in 2009, after six years of negotiating between the leading natural & organic cosmetic certification agencies. Major shortcoming of Cosmos is that it will not commute any of the existing logos and symbols for unified one.

The particular standards are called as follows:

- ICEA – Italy
- BDIH – Germany
- Bioforum – Belgium
- Cosmebio – France
- Ecocert – France
- Soil Association – U.K.

NaTrue standard is the main competitor to Cosmos. First certified products came into the market at the end of the year 2008. In Germany it was officially introduced in 2009 on BioFach trade fair in Nuremberg. NaTrue standard increased its popularity when it started to be backed by some of the leading brands producing natural cosmetics. NaTrue is popular due to its uniform labelling scheme. The standard has three levels: organic, made with organic ingredients and natural. (Organic Monitor, 2009)

Judi Beerling, consultant to Organic Monitor for Cosmetics Business (2010): "Suppliers are becoming much more clued up as to what people want. In the past it was often a case of someone bringing out a lovely new ingredient and then including a preservative that you can’t use in organic products so you couldn’t consider it. A lot have now reformulated. They’re looking at their existing ingredients and asking whether they can make them more natural and a lot are going the Ecocert route as they realise that’s what people are asking for."

Some suppliers started to invest widely into a green chemistry. Others prefer to go for standards on botanicals but not for other ingredients. However, certifications come quite expensive and suppliers lay stress that it is financially very demanding to have so many standards. (Cosmetics Business, 2010)

Bargaining power of suppliers who invested into their own green chemistry and applied successfully for Natural & organic standards is still high. On the other hand, suppliers without cosmetics standards have to rely on their reputation so their bargaining power is getting lower.

5.2.3 Threat of new entrants

Market structure of cosmetics industry is called monopolistic competition. This competition is posing a low entry and exit barriers. The industry consists of large number of companies that attempt to differentiate their products and keep a certain level of control over their pricing. The most relevant barriers of entry appear to be the government regulations and distribution channels. Government regulations are often focused on safety issues changes.

Distribution channels are one of the most important issues to solve when thinking about establishing a cosmetics company. Consumers pay a great attention to distribution channels due to a type of the product there are looking for. In EU there are four main categories of cosmetics distribution channels:

- Mass distribution
- Specialized distribution
- Pharmacy sales
- Direct sales

(Global Insight, 2007)

Research and Development (R&D) does not seem to be an emerging factor when talking about limitations of entry. However, cosmetics industry is characterized by its very dynamic environment. Innovations as well as high rate of product development are a necessity. "Innovation is essential to maintain global competitiveness, improve performance, safety and the environmental impact of products, and to keep up with constantly evolving consumer preferences." (Global Insight, 2007: p. 8)

5.2.4 Rivalry among existing competitors

Although there is a significant number of huge international companies focused on cosmetics in European market (especially in France and Germany), the industry is characterized as several hundred SMEs[7] in most of the countries. Large cosmetics corporations have a control over the half of the whole cosmetics market of Europe. (Global Insight, 2007) Frost &

[7] SMEs - Small- and medium-sized companies

Sullivan (2009): "There is a significant level of rivalry amongst existing market participants with products that have their own speciality and private labelling."

Competition on the field of beauty and personal care in Germany includes these biggest players:

- Beiersdorf AG
- COTY Deutschland GmbH
- Dalli-Werke Mäurer & Wirtz GmbH & Co Kg
- Dr. Scheller Cosmetics AG
- GlaxoSmithKline GmbH & Co KG
- L'Oréal Deutschland GmbH
- Procter & Gamble GmbH
- Weleda AG

(Euromonitor, 2010)

Holding a position on the top of the list is enviable; however, these companies see the continuous need to evaluate their strategies, organizational structures as well as gaining footholds in new markets. These companies are facing a very strong competitive struggle. Other, cosmetics companies are trying to gain a bigger market share as well. In 2007, smaller firms record a growth similar or grater than top companies. (Global Insight, 2007) The number of international companies focused on cosmetics creates very competitive environment. It can be said that there is a significant level of rivalry among existing competitors.

"The industry's key players pursued a strong acquisition strategy in recent years. The purpose of this strategy was to introduce new business lines, streamline production and expand the types of products under company control." (Global Insight, 2007: p. 7) The success of these companies will have to be evaluated over the next years, as the inexorable demand for the loyalty of customers will continue. (Global Insight, 2007)

The producers of cosmetics can enjoy an advantage from a membership in particular organizations. Companies which are members of following organizations are very well informed about the trends and potential threats in the industry. The organizations in the European Union which are linked to the cosmetics industry:

- COLIPA – The European Cosmetic Toiletry and Perfumery Association
- EFfCI – European Federation for Cosmetic Ingredients
- EFFA – European Flavour and Fragrance Association
- Unitis – European Organization of Cosmetic Ingredients Industries and Services
- A.I.S.E. – International Association for Soaps, Detergents and Maintenance Products
- Cefic – European Chemical Industry Council
- E.F.E.O. – European Federation of Essential Oils

  (European Commission, 2010)

More than 90 % of the German chemical companies have a membership in German Chemical Industry Association (VCI – Verband der Chemischen Industrie e. V.) which represents their economic interests. (German Chemical Industry Association, 2010)

Due to the fact that the main subject of enterprise of Nobilis Tilia Company is production and retail selling of cosmetics made of natural ingredients, I consider companies with the similar specialization as a relevant competition. The most popular German natural based cosmetic companies are as follows:

- Laverana
- Dr. Hauschka
- Annemarie Börlind
- SANTAVERDE Gesellschaft für Naturprodukte
- Logona Naturkosmetik
- Alva Naturkosmetik
- I+m Naturkosmetik
- Tautropfen Naturkosmetik
- Alterra (under the Rossmann network)
- Alverde (under the DM network)
- anne lind Natural Wellness
- ABTSWINDER Naturheilmittel
- Alviana Naturkosmetik
- Dr. Scheller
- Martina Gebhardt Naturkosmetik
- SANTE Naturkosmetik

It is important to mention that there are also many other cosmetic companies which export their products into a German cosmetic market as Weleda (Switzerland), Primavera (U.K.), Urtekram (Denmark), Druide (France), Duchy Originals (U.K.), Farfalla (Switzerland) and many others.

As mentioned before, natural cosmetics market comprise for about 4 % of the whole cosmetics market share. It could seem a small part but if we consider that Germany has over 81 millions inhabitants and it is estimated that 12 million of them are LOHAS, it can be a very attractive market anyway. (Organic Monitor, 2009) Due to the high number of natural-based cosmetic companies the rivalry among the competitors is high. However, every company has an individual character and there are differences in price level, offered product range as well as mission. Concerning these factors, I consider as the main competitors to Nobilis Tilia Company following firms: Laverana and Weleda. Annemarie Börlind is very popular as well, however, the price level of the products differs from Nobilis Tilia's - the prices are much higher. alverde Naturkosmetik does not probably attract the same sort of customers as Nobilis Tilia because alverde follows the strategy of price differentiation. Dr. Hauschka is focused on quality differentiation strategy but the prices are doubled as Nobilis Tilia's. The main focus of SANTAVERDE resides in manufacturing and selling products made of aloe vera plant.

Laverana GmbH & Co. KG (brands Lavera and LAVERÉ Naturkosmetik)

The Company was established by Thomas Haase in 1987 near Hanover. According to the founder, the word 'Lavera' stands for 'the truth' in Latin language which represents the philosophy of the company focused on purest organic ingredients and absence of synthetic chemicals. Nowadays, the Company employs 240 people and is settled on the outskirt of the Deister Mountains.

Thomas Haase together with his wife, Klara Ahlers, is trying to create an image of the company with familiar environment for their customers. Their strategy is based on framing a positive appearance as far as product quality, working climate, communication and innovation issues are concerned. Laverana Company is very well known for its intense marketing approach intent on presentation, product design as well as information leaflets. The Company regularly takes part in the beneficence and sponsorship. The last project supported by Laverana is focused on traumatized women and girls in war zones and other crisis areas of Uganda.

Laverana's products are controlled by BDIH association[8] and tested and certified by the independent institute IMO Control[9]. From 2009, the NaTrue[10] certification can be found on the Body Spa products. On these products can be also seen a label that announces that they contain vegetable ingredients from Laverana's own production. Some products are labelled with Vegan[11] certification. The Company is the winner of many awards in Germany and abroad concerning design, quality, packaging as well as innovation and green-oriented activities. (Laverana, 2010)

On the basis of the information gained about Laverana Company, I would define its strategy as follows: Laverana is not based on price differentiation. The Company is trying to differ by the whole firms' image on the first place. Due to the fact that Laverana is holder of many certifications, awards and has its intense marketing activities, I see an endeavour of going for design and quality differentiation strategy as well.

Weleda GmbH & Co. KG

Weleda does not originally emanate from Germany but the first affiliated German subsidiary of this Company was created in the same year as Weleda was established. Nowadays, the Swiss, German and French branches are the strongest footholds of the Company.

In 1921 the company called Die Futurum was established by Austrian philosopher Rudolf Steiner, and his partner, a Dutch physician Ida Wegman. Swiss Die Futurum provided an alternative to the conventional medicines by practicing anthroposophic medicine. "The

[8] BDIH - Association of German Industry and Trading Firms for pharmaceuticals, health care products, food supplements and personal hygiene products; registered association (Laverana, 2010)
[9] IMO Control - Institute for market ecology (European Cosmetics Standards Working Group, 2009)
[10] NaTrue – The standard for Natural and Organic Cosmetic; the different grades are marked with 1, 2 or 3 stars which represent the percentage of natural ingredients. (European Cosmetics Standards Working Group, 2009)
[11] Vegan label – the certification of Vegan Society in London focued on the evaluating the products on the basis of content of animal substances. (European Cosmetics Standards Working Group, 2009)

anthroposophic approach to medical care is holistic, aiming to treat the whole person and not just the illness or symptoms." Three years later the Company was renamed to Weleda.

Weleda develops and sells complementary medicines, holistic body care products and nutritional supplements. Two thirds of Weleda's revenues are generated from cosmetics. Pharmaceutical sales are stimulated by the distribution of the homeopathic prescription cancer remedy called Iscar to the United States' market. Fifteen subsidiaries are spread across the world, mainly located in Western Europe, South and North America. Most of the Weleda's body care products and over-the-counter drugs are manufactured in Switzerland, Germany and France. The distribution channels of Weleda are mostly pharmacies, drugstores and specialized organic shops. In case of large Japanese cities Weleda decided to establish its own specialty stores under its own brand name.

The obvious strategic intention of the Company is to attract its customer by its quality. The aim of the Company inheres at convincing the customer that the quality and effects of their products are at the comparable level as the pharmaceutical products itself. The long tradition and its long-lasting specialized focus created a huge advantage of Weleda. The design of Weleda's products is made to be quickly recognizable and attractive. Each product line is characterized by one major plant and the individual colour design.

Weleda is the holder of BDIH and NaTrue certification. Furthermore, their products are labelled with Demeter standards[12] mark. The Company supports small producers and farmers by its Fair Trade approach. This includes also their training and education focused on organic farming. Weleda is proud to be supplied by the company called Good Energy which offers 100 % renewable energy from wind, sunlight and water. In 2008 Weleda was awarded by Sunday Times for having the most environmentally-aware employees.

5.2.5 Competition from substitutes

The significant progress in medical treatments during last few years offers a huge variety of alternatives to traditional cosmetic products, especially to anti-ageing ones. Cosmetic surgery

[12] Demeter Certification - fully recognised by DEFRA (Department for Environment, Food and Rural Affairs) as an organic certification. (Weleda, 2010)

is very well known phenomenon but the scarring and long recovery restricts its use. Recently, many gentler methods were introduced:

- laser and light treatment
- chemical peels and microdermabrasions
- Botox - a purified form of botulinum toxin A (in Europe marketed under the brand name Dysport)

(Global Insight, 2007)

Concerning the fact that most users of natural cosmetics are LOHAS (explained in chapter 5.2, the subheading 'Focused on Natural Cosmetics'), an undergoing of any invasive surgical intervention is almost impossible. The less invasive forms of medical treatments as laser, chemical peels or botox can find some customers even in LOHAS but this people would do their best to keep clear of these methods.

There are different forms of alternatives to natural cosmetic products used by its customers. First of all, it is important to mention that people using natural cosmetics are mostly well informed about the actions of particular ingredients used in their natural cosmetics. Cosmetic products can be replaced by a variety of natural treatments as decoction of a particular herbs and spices, oil baths, vegetal masks etc. Some people are able to manufacture their own home-made cosmetic. The evidence of this trend is marked growth in number of individuals as well as firms offering online home-made soaps, creams and other products.

Food supplements became an integral part of the portfolio of natural-based cosmetic companies. These products, mostly different kinds of tinctures, are made strictly from natural ingredients. Possible alternative to this kind of products can be the wide range of food supplements offered in pharmacies.

Finally, if the issue of substitutes is particularized, mass produced non-natural cosmetics can become an alternative to natural cosmetics as well. Nevertheless the principles and beliefs of LOHAS as well as other users of natural cosmetics are far away from using chemical-based products with possible harmful effect on their body or environment.

5.2.6 Conclusion of Porter's Five Forces Analysis

To summarize the output gained from the analysis provided, I evaluated an individual parts of Porter's Five Forces from the point of Nobilis Tilia Company located in the German beauty market. I decided to specify the industry solely to the field of natural and organic sector to avoid misleading results.

It is very easy to enter the market and establish a natural cosmetic company. That is why I consider 'Threats of new entrants' to be an unfavourable condition (-). Due to a high number of companies producing natural & organic cosmetics in Germany, I rate 'Rivalry among existing competitors' as unfavourable condition as well (-). If the supplier offers chemicals of natural & organic character with a specific certification and the company would like to continue in promoting that certification, the supplier gains a lot of bargaining power. Hence 'Bargaining power of suppliers' is evaluated as unfavourable condition, too (-). 'Bargaining power of buyers' is very high due to a high number of competitors on the field of natural cosmetics, that is why I consider it as unfavourable condition (-). On the other hand, if the customer demands natural & organic cosmetics, he has very little opportunities to switch to a substitute product. For that reason I rate 'Threat of substitutes' as favourable condition (+).

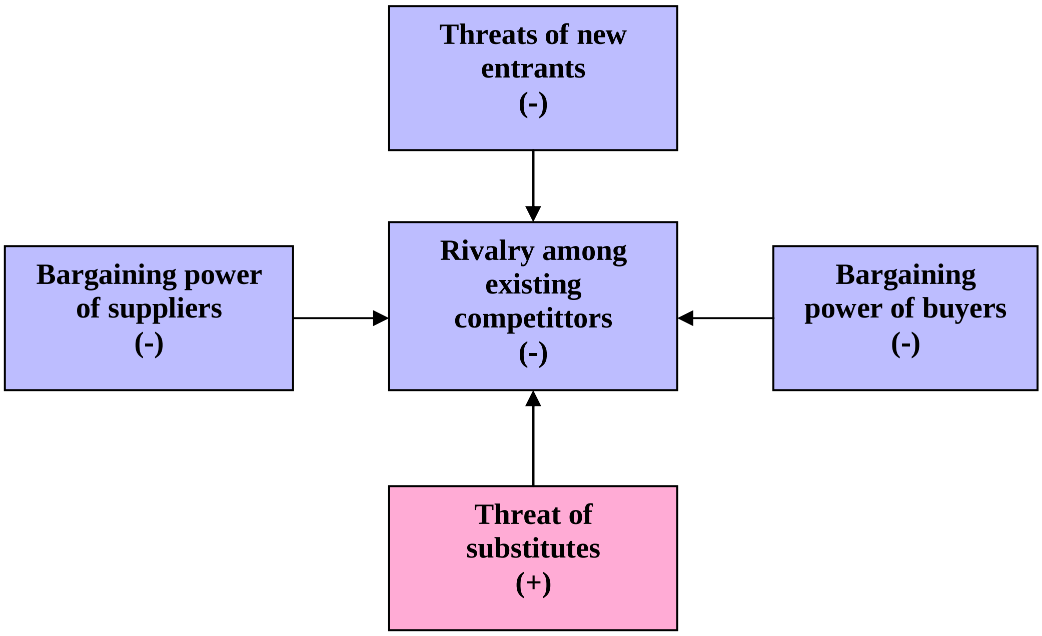

Figure 27 Conclusion of Porter's Five Forces Analysis applied on Industry of natural cosmetics; Source: Author's work

On the basis of the results, the sector of natural & organic cosmetics in Germany can be seen as not very attractive. Michael Porter would evaluate it as 1* (star) industry.

According to Porter (1985), it is important to be aware of the matter of fact that the results gained from this analysis are not static at all. The industry and the environment are changing factors. Hence it is highly recommended to bring the Five Forces Analysis up-to-date every time it is possible. Just like this it can provide a valuable tool for strategic decisions made in the company.

5.3 PEST and MAP analysis

To analyse an external environment (Germany) of Nobilis Tilia Company, I decided to use a familiar PEST method. In addition, in the event of important key factors, I will use MAP method to extend the simple analysis by possible future expectances.

5.3.1 Political factors

Federal elections in Germany, which taken its place on September 2009, were expected to show the satisfaction of the German electors with their Chancellor Angela Merkel as well as with the acting of their coalition. The results have showed the superior popularity of Merkel and her coalition party consisting of Christian Democratic Union (CDU) and Christian Social Union (CSU). Social Democratic Party (SDP) headed by Frank-Walter Steinmeier conceded defeat. CDU, CSU and Free Democratic Party (FDP) have formed a new centre-right government with a Chancellor Angela Merkel. (Nordsieck, 2009)

Since the Mrs Merkel's coalition came to power in October 2009, has had to tackle the debt crisis of Eurozone. Rescue packages have been very unpopular in Germany. Mrs Merkel and her coalition have passed through time of negative publicity. After resignation of a president Horst Koehler, Germany was prepared for the elections. In the 2010 presidential elections was elected Christian Wulff. (BBC News, 2010)

The standard VAT rate is 19 %, the reduced one is 7 %. Reduced rate is applicable to certain medicals, books, magazines, transports and flowers. Lately, the VAT rate concerning hotel accommodation has been reduced to 7 % to support this industry to sweep away the effects of economic crisis. (European Commission, 2010)

Currently, there are no possible threats or any significant opportunities for exporting activities in cosmetic industry from the point of political factors.

5.3.2 Economic factors

Figure 28 shows the development of a certain economic factors during the last five years. The economic crisis resulted in 2009 into a significant decline of GDP growth as well as consumer expenditure and annual income. Numbers from January 2010 are indicative of better future.

	2006	2007	2008	2009	2010
GDP measured at purchasing power parity: January 1st (million international $)	267 560 414	2 823 488	2 919 064	2 807 809	2 863 375
Real GDP growth (% growth)	3,17	2,48	1,27	-4,91	1,21
Inflation (% growth)	1,58	2,29	2,63	0,32	0,92
Consumer expenditure (US$ million)	1 622 007	1 794 720	1 967 456	1 870 658	1 859 301
Annual Gross Income (US$ million)	2 618 802	2 898 337	3 172 671	3 019 709	3 014 215
Annual Disposable Income (US$ million)	1 940 979	2 146 858	2 354 737	2 238 258	2 238 696

Figure 28 Economic indicators, Germany; Source: Euromonitor, 2010

In 2009 the value of sales in beauty and personal care slowly increased in comparison to the previous year. Germany and France are the first countries which emerge from recession. The improved economic situation led to increase consumer spending. However, there is a category of the products where the economic recession caused a huge underflow. Demand for men's grooming products sharply declined in 2009. Value sales of this category of products continued to grow, however, this was only the effect of increasing unit prices of existing products as producers tried to balance stagnating sales through adding value. (Euromonitor,

2010) Considering the fact those economic indicators for 2010 shows the growth in GDP, consumer expenditure and annual income, the cosmetic market is expected to come back to its common status.

As shown on Figure 36 (Appendix A.), Germany led if comes to sales volume of cosmetics and toiletries in the European market in 2009. From the point of view of European cosmetics and toiletries export, Germany was the second biggest exporter in EU 27 in 2008 (Figure 37, Appendix B.). (The European Cosmetics Association, 2009)

5.3.3 Social factors

Figure 29 shows the development of particular indicators from German demographic scope. In accordance to the report of United Nations (2006, cited in Mennen, 2010: p. 2), "the world's population has continued on its remarkable transition path from a state of high birth and death rates to one characterized by low birth and death rates." Germany is not an exception. The number of people over 65 has risen by 6 % during the five surveyed years. In last 25 years it increased by 10 % and put the Germany among the countries with the most ageing population in Europe. Positive and effective medical treatment together with working life shifted towards less physical and demanding jobs causes that people are able to live longer. (Mennen, 2010)

	2006	2007	2008	2009	2010
Population aged 65+ : January 1st (´000)	15 870,07	16 299,29	16 518,74	16 698,69	16 837,04
Population density (people per sq km)	236,37	236,01	235,74	235,12	234,31

Figure 29 Demographic indicators, Germany; Source: Euromonitor, 2010

Due to the fact that many German woman orient their lives to a career, the birth rates decreased from 800 000 in 1990 to 700 000 in 2004. Although it is expected that the German population will decline over 10 million in the next 50 years, demographers predict that by 2050, 58-63 year olds will represent the largest age group, compared with 35-40 year olds in 2000. (Euromonitor, 2010) Mennen (2010) in his title 'Implications of the Ageing Population on the Pharmaceutical and the Tourism Industry from a Marketing Point of View' demonstrates very close continuity between the level of the health and spending for pharmaceuticals.

As shown at the Figure 30, the phenomenon of ageism has a significant impact on the spending habits of the individual age groups focused on cosmetics. The group of people over 60 years spends approximately 87 € per year on cosmetic product. On the contrary, people less than 25 spend hardly 25 €. This fact encourages cosmetic companies in producing products to satisfy older customers. Companies widen its portfolio by many new anti-ageing products and food supplements.

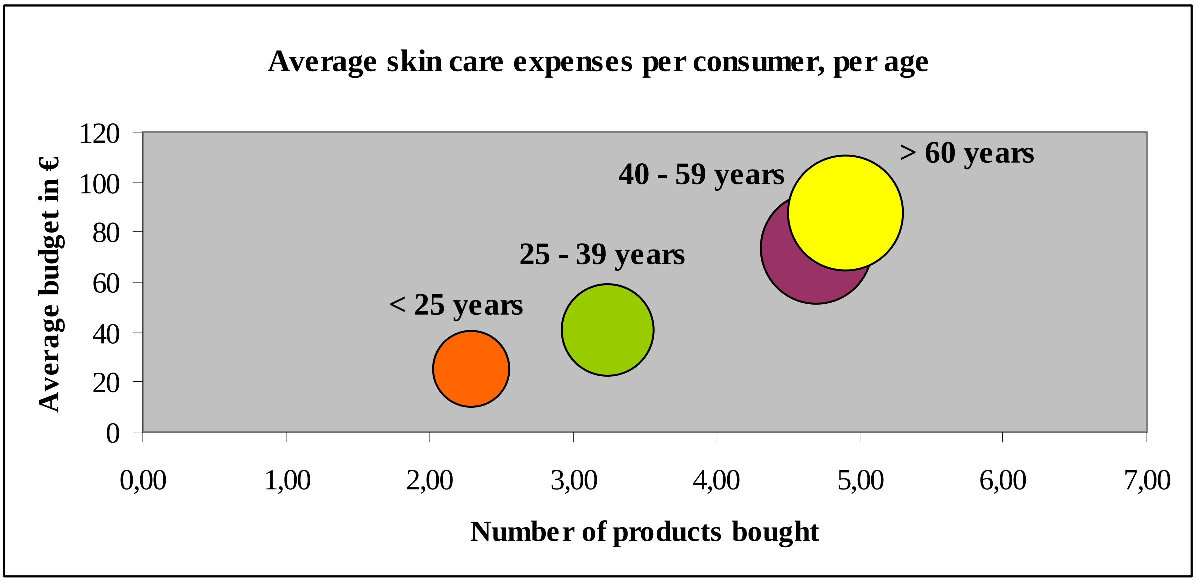

Figure 30 The ageing of population in Europe - Average skin care expenses per consumer in 2008; Source: L'Oréal Germany, 2009

Due to the phenomenon of ageing population, Germany will require more and more medical care and pharmaceutical products. Many of the products of Nobilis Tilia, Ltd. are focused on solving a particular problem related to the customer's health (i.e. eczematous and psoriasis skin care). The Company also offers a wide range of food supplements which is often used to support a medical treatment or it's taken preventively.

Sunday Times (2009) has published an article about the phenomenon called 'youthaholism'. Youthaholic is the person suffering of the beyond desire to look much younger that he really is. These people are victims of exaggerative use of cosmetic products as well as plastic surgeries. Youthaholism is an extreme status; however, the desire of looking younger is very common all over the world. Appearance sells if the person is sales promoter or receptionist. Cosmetic industry as a whole profits from this trend, although LOHAS customers are not so keen on their perfect, imperishable young appearance.

Cultural Dimensions created by Hofstede (1998) are focused on study of behaviour of the people across different countries. It is important to stress that Hofstede's study of Cultural Dimensions is based on the work from 1970's and 1980's. However, traditional values of the cultures do not change by decades, hence even this classical approach can provide a clear picture about the behaviour characteristics of individual nationalities.

As shown on Figure 31 and 32, there are some interesting behaviour differences between inhabitants of Czech Republic and Germany. Relatively high Power Distance Index (PDI) of Czech Republic indicates that there are inequalities in power and wealth across the society and that people whom operate with less power accept this situation. On the other hand, PDI of Germany is significantly low which means that there is a good environment for developing equality and opportunity principles. The Individualism (IDV) indicator of Germans is a little bit higher than Czechs' which signifies that Germans are used to look more about themselves and their closest family. Czechs are characterized by stronger collectivist nature. Masculinity (MAS) index of Germany corresponds to the state where masculine values like competitiveness preponderate over the feminine ones like relationship building. In comparison, Czechs are a little more feminine values oriented. Relatively high Uncertainty avoidance index (UAI) of Czech Republic relates to more rule-oriented approach where rules, laws and regulations are provided to reduce the amount of uncertainty. Germans, on the other hand, are more open-minded to accept change and to take risks.

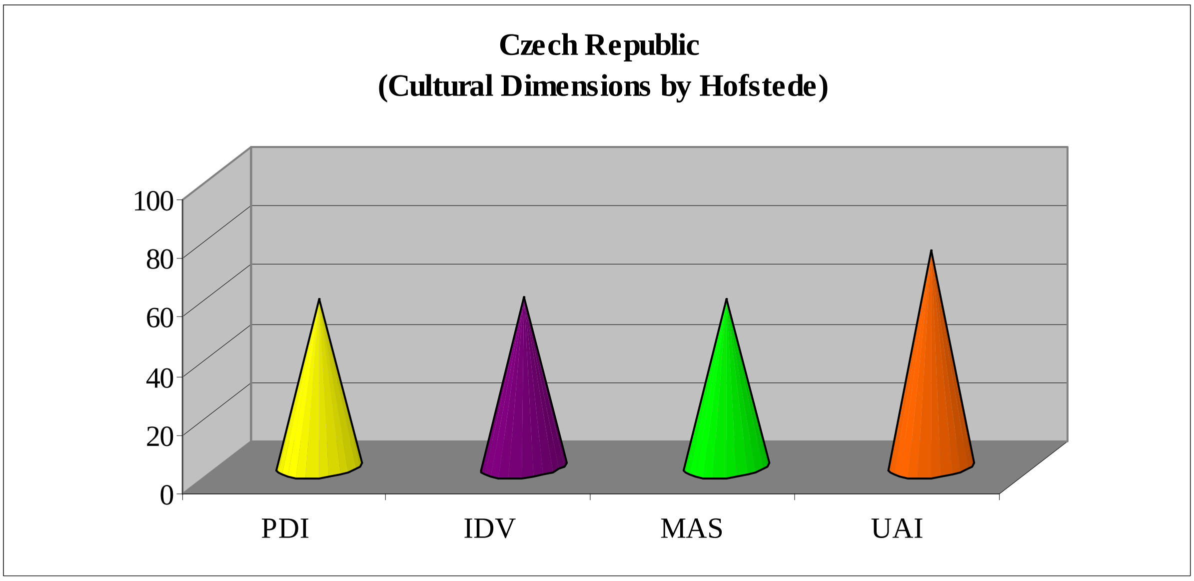

Figure 31 Cultural Dimensions by Hofstede – Czech Republic; Source: Hofstede, 1998

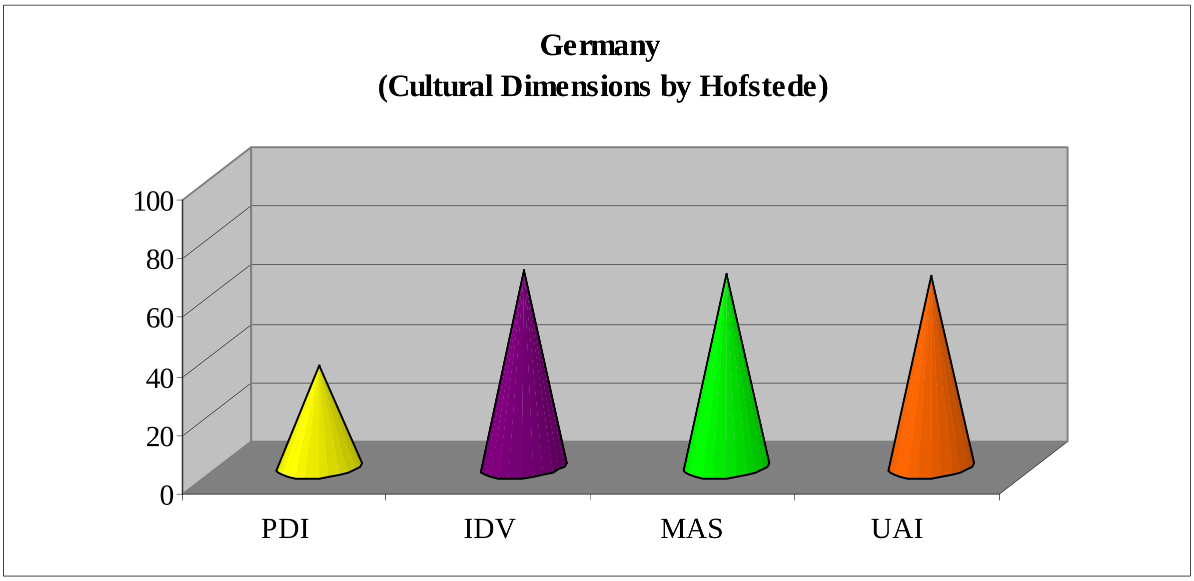

Figure 32 Cultural Dimensions by Hofstede – Germany; Source: Hofstede, 1998

Germany became a homeland for many immigrants. "With one in three young children born in Germany coming from an immigrant background, Germany is quickly becoming even more diverse." There are around three millions people of Turkish nationality and approximately 280 000 with Arabian rootage. (Levitz, 2010) If the company wants to operate on the German market and make the best of every opportunity, it should prepare its strategy focusing on different ethnicities and nationalities as well. Due to the fact that many of potential customers in Germany can be Turks, I decided to add a chart of Cultural Dimensions created by Hofstede (1998) focused on Turkey as well. PDI of Turkey is almost doubled in comparison to Germans'. In Turkey, less powerful members of society accept the fact that there are inequalities in wealth and power within the society. Turkish low IDV index may be influenced by Asian nature. Family businesses are very common in Turkey and the decisions are evaluated from the point of the group. MAS index of Turkey is much lower than Germans' which means that Turkish people are more modest and caring. 85 % of UAI index derivates from a very strong religion background of Turks. Before Turks engage into doing a business with somebody, they prefer to get to know the person as much as it is possible.

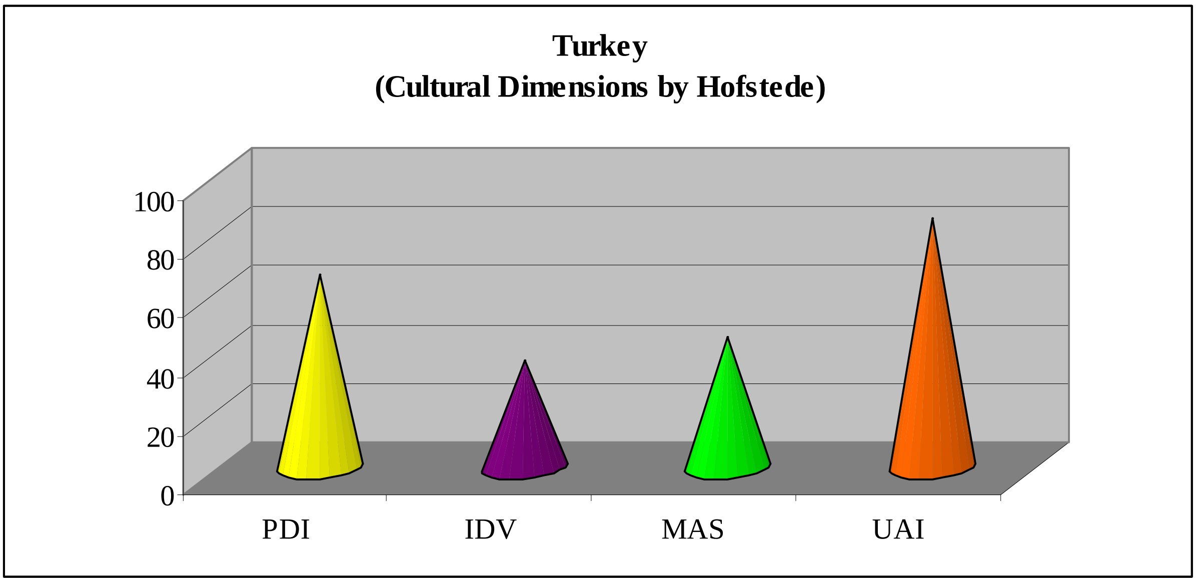

Figure 33 Cultural Dimensions by Hofstede – Turkey; Source: Hofstede, 1998

5.3.4 Technological factors

"Germans are highly influenced by packaging as it represents trust and innovation for them." (Mennen, 2010: p. 8) Ageing population requires different attitudes in marketing strategies. However, most of the marketing departments are run by people under 50, which inhibits in proper understanding the potential target audience. The solution can be the punctual marketing segmentation. Marketers can design different products and services to attract a specific segment rather than using a uniform marketing approach. (Moschis and Friend, 2008) "Technological advances have allowed for the creation of multi-functional products. They have become popular because they place strong emphasis on value for money." (Global Insight, 2007: p. 9) Especially in times of economic crisis, people are trying to figure up much clearly their spending. Hence the multi-functional products can become a great way how to satisfy the customer.

5.4 SWOT analysis

5.4.1 Strengths

The Company has built up an image of educated and wise enterprise which puts together the knowledge of ancient herb doctors with new findings of this era. Every product on Company's web page or leaflet has its own comprehensive description with a list of ingredients and different methods of use. Nobilis Tilia educates its customers this way. The non-profit organization called Nobilis Tilia provides regular educational tours to France as well as trainings and seminars focused on healthy lifestyle.

The web page of the Company includes Forum, where every question focused on Company or its products is answered. This is also a reliable source of feedback from the customers. Facebook network of Nobilis Tilia has 400 facebook fans. In June 2010, Nobilis Tilia took part in the famous Czech morning broadcast 'Sama Doma' and presented its new product line called Biophase. Mr. Šedivý spoke about values and principles of the Company as well as about the long-continuing work of Research & Development Department. The August issue of magazine Marie Claire contains a report about Nobilis Tilia's new Biophase cosmetics. The promotion of the Company is on a very good level.

Nobilis Tilia can be proud to the quality of the products which offers. Company is using primary commodities of a certified quality called CPK[13], some of them with CPK BIO standards. From July 2010 is the holder of a regional certificate called 'Czech-Saxon Switzerland regional product'.

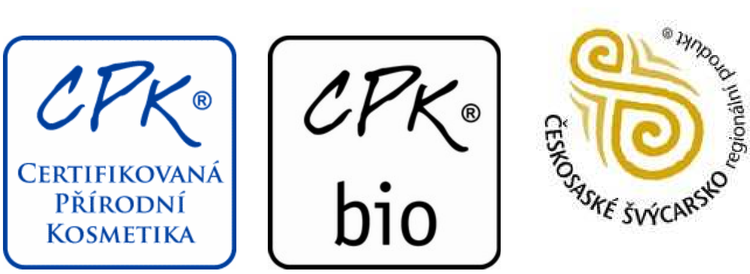

Figure 34 Certificates held by Nobilis Tilia, Ltd.; Source: Nobilis Tilia, 2010

[13] CPK – Cerfified Natural Cosmetics

In 2009, Nobilis Tilia introduced its completely new packaging (see Figure 38, Appendix C.). Essential oils as well as seed oils are enshrined in a special purple glass. Properties of the purple glass are unique:

- purple glass protects the product from releasing visible radiations so it impedes debasement
- it transmits infrared and ultraviolet light which stimulates the molecules of oils
- purple glass provides a protection of bio-active ingredients
- purple glass impart a natural method of conservation
- 100 % recyclable

Nobilis Tilia was at the birth of The Association of Czech Aromatherapists and Mr. Šedivý assisted at the conception of the first professional training institution in the field of the Institute of Aromatherapy.

5.4.2 Weaknesses

Natural & organic ingredients are more likely to expire in short time than regular cosmetic products where conventional conservation ingredients are added. The process of logistics and stock-keeping has to be fluent and flexuous.

Purple glass contributes to make the products more visible in the shelves of the store. However, the labels of the products are quite tame and inconspicuous. Labels does not cut a dash, they does not strike a customer. Many competitors in Czech Republic and potential competitors in Germany have based its products' design on visibility.

The process of strategic entrepreneurship has been neglected. The vision of Nobilis Tilia and divisional plans are presented straightforwardly to the employees. However, there is a lack of elaboration of exact strategic steps on the level of corporate, business as well as functional-level strategy.

Nobilis Tilia builds an image of educated enterprise. On the other hand, there are no regular education trainings provided for employees.

5.4.3 Opportunities

High run for natural & organic products is a trend which does not die away. For most people it is not just a matter of fashionableness but it represents their living values and principles (LOHAS population). People become more aware of principles of sustainable development which tends to preferences for companies which run their business in compliance with the nature.

According to analyses focused on men's cosmetics (chapter 5.2 Industrial Attractiveness, subheading Germany), there is obvious trend of growing demand after men cosmetic products. Although during the times of deepest recession this demand has slightly decreased, men cosmetics pose a huge challenge for all cosmetic companies.

Due to a broadening trend of health education there is growing consumption of sun care products. People have become much more careful in issues of skin cancer and presence of harmful rays.

Anti-aging and anti-cellulite products are very popular. Ageing population (explained in chapter 5.3.3 Social factors) along with the desire of looking younger support the growing demand after anti-aging cosmetics.

There is a growing demand after so called 'masstige' products (explained in chapter 5.2 Industrial Attractiveness, subheading Europe) in countries with higher income level. Most popular are masstige products from skin care sector.

Strengths	Opportunities
▪ **S1 -** The image of educated enterprise with 16 years of tradition, employment of knowledge workers, Nobilis Tilia was at the birth of The Association of Czech Aromatherapists and of the Institute of Aromatherapy ▪ **S2 -** Company specialized on natural cosmetics using purely natural ingredients ▪ **S3 -** Environmentally friendly company, respecting natural patterns ▪ **S4 -** Handicraft manufacturing of the products ▪ **S5 -** Active promotion activities through different media ▪ **S6 -** Feedback gained on web page Forum ▪ **S7 -** Superior product quality (holder of three certificates) ▪ **S8 -** Packaging in special purple glass which significantly protect the product ▪ **S9 -** Own e-shop ▪ **S10 -** The new information system called ERP (Enterprise Resource Planning) implemented ▪ **S11 -** Bohemian Switzerland location with its own aromatherapy centre, arboretum, tearoom and company store (Non-profit organization Nobilis Tilia creates a goodwill of the	▪ **O1 -** Entry to a German foreign market ▪ **O2 -** Increasing number of people following healthy lifestyle ▪ **O3 -** Rising generation of LOHAS population ▪ **O4 -** Increasing popularity in buying products made from natural & organic ingredients, with rejection the principal of animal ingredients and testing on animals ▪ **O5 -** People tend to buy an environmentally friendly goods and support the companies with respect to the nature ▪ **O6 -** Grants gained from European Union's Funds ▪ **O7 -** Growing interest of men in regular using of cosmetic products, especially fragnances ▪ **O8 -** Growing demand after sun care products ▪ **O9 -** Customers from developed countries tend to have a high endearment in buying anti-aging and anti-cellulite products ▪ **O10 -** Growing popularity of technologically-advanced products, such as self-tanning creams and lotions ▪ **O11** - 'Masstige' products popular in

Company and community of fans) ▪ **S12 -** The name of the Company has a Latin origin, it is easily recognizable anywhere abroad ▪ **S13 -** Experience with selling on the foreign markets	countries with higher income ▪ **O12 –** Opportunity of reaching new customers with the aid of BDIH and Der Grüne Punkt certificate ▪ **O13 –** Biophase as a revolutionary product line can contribute to the healthcare progress, should be patented
Weaknesses ▪ **W1 -** Natural-based products have inherently shorter expiration dates ▪ **W2 -** The tame design of the products, especially labels ▪ **W3 -** Weak presentation and implementation of the Company's strategy ▪ **W4 -** Stagnation in regular training and education of the employees ▪ **W5 -** Pharmacies are still too little exploited distribution channel ▪ **W6 -** Web page of Nobilis Tilia offers a limited part translated into English and German language	**Threats** ▪ **T1 -** Unfavorable financial situation cuts the consumption of cosmetics ▪ **T2 -** Declining birth rate causes sinking of sales of baby cosmetics ▪ **T3 -** The effort of huge cosmetic corporations to approach the natural & organic trend by production of similar products - low consumer understanding of labels on natural & organic products ▪ **T4 -** High suggestibility of customers by mass advertising campaigns as well as aggressive and expensive packaging ▪ **T5 -** In Germany, trust in traditional, time-proved brands as Weleda and Lavera ▪ **T6 -** Problems with different cultural dimensions

Figure 35 SWOT analysis of Nobilis Tilia, Ltd.; Source: Author's work

5.4.4 Threats

Birth rate in many developed countries is very low and affects the consumption of baby care cosmetic products. It is important to observe the demographic trends (ageing population, low baby birth etc.) to be able to predict future demand after particular products.

Large cosmetic corporations react very quickly on the changing environment inside the industry. Most of them have already got under way of producing cosmetics with natural ingredients. However, their aim is not to provide a healthy, completely natural and environmentally friendly product. Their intention is to offer a customer the product which sounds and seems to look natural. Due to a low consumer understanding of labels used on natural & organic products, they often succeed. This problem can be solved by propagation of necessity of certification and standards. Powerful cosmetic corporations are famous for its aggressive advertising campaigns and packaging. Education of customers will lower the number of people who will believe in misleading propaganda.

It is very important to conscientiously prepare a marketing strategy when entering a German market. Germans trust traditional companies producing natural & organic cosmetics for many decades as Laverana and Weleda. The country is much more diverse than Czech Republic due to a high number of immigrants.

5.4.5 Conclusion of SWOT analysis

To sum up the main points of whole SWOT analysis, I have decided to use Plus/minus Matrix of SWOT analysis introduced by Vaštíková (2008). Individual factors of SWOT analysis are evaluated according to the mutual relationship between each other (the theoretical concept can be found in the chapter 1.4 SWOT analysis). Crucial factors of SWOT analysis according to Plus/minus Matrix:

- <u>Strengths</u>
  The most important factors considering strengths of Nobilis Tilia are S1 (The image of educated enterprise with 16 years of tradition; employment of knowledge workers; Nobilis Tilia was at the birth of The Association of Czech Aromatherapists and of the Institute of Aromatherapy) and S7 (Superior product quality - holder of three certificates). The second most important strength of the Company is S5 (Active

promotion activities through different media) and the third S9 (Own e-shop). Those strengths represent the crucial factors of competitive advantage of the Company. The management should make the best from it when setting up the strategy of the Company.

- Weaknesses

According to the analysis, the most influential weakness of Nobilis Tilia is considered W6 (Web page of Nobilis Tilia offers a limited part translated into English and German language). W3 (Weak presentation and implementation of the Company's strategy) is the second most important weak point of the Company. Another important weakness is W2 (The tame design of the products, especially labels). All the factors mentioned in this paragraph can become an opportunity for the Nobilis Tilia's competitors in the Czech Republic as well as abroad. Company should concentrate to eliminate them.

- Opportunities

The most challenging opportunity is considered O5 (People tend to buy an environmentally friendly goods and support the companies with respect to the nature). O3 (Rising generation of LOHAS population) and O4 (Increasing popularity in buying products made from natural & organic ingredients, with rejection the principal of animal ingredients and testing on animals) took the second post. Another important challenges are O1 (Entry to a German foreign market) as well as O2 (Increasing number of people following healthy lifestyle). Management of the Company should consider the factors as the main encouragement for the strategic decisions.

- Threats

T3 (The effort of huge cosmetic corporations to approach the natural & organic trend by production of similar products - low consumer understanding of labels on natural & organic products) belongs to the main threat for the Company. The second most important endangering factor is T1 (Unfavourable financial situation cuts the consumption of cosmetics). T2 (Declining birth rate causes sinking of sales of baby cosmetics) and T4 (High suggestibility of customers by mass advertising campaigns as well as aggressive and expensive packaging) are also considerable threats to be aware of. When determining a strategy of the Company, those factors should be considered.

		O1	O2	O3	O4	O5	O6	O7	O8	O9	O10	O11	O12	O13	T1	T2	T3	T4	T5	T6	Σ	Order
		O - Opportunities													**T - Threats**							
S - Strengths	S1	0	++	++	++	++	0	0	0	0	+	0	0	++	0	0	0	0	+	0	12	1.
	S2	+	++	++	++	+	0	0	0	0	0	0	++	+	0	0	--	0	0	0	9	4.
	S3	0	+	+	+	++	0	0	0	0	0	0	+	0	0	0	-	-	0	0	4	9.
	S4	0	+	++	+	++	0	0	0	0	-	0	++	0	-	0	--	0	0	0	4	9.
	S5	+	0	0	0	0	0	+	+	+	0	0	++	++	0	0	0	++	+	0	11	2.
	S6	0	0	0	0	0	0	+	+	+	+	0	+	++	0	0	+	0	0	0	8	5.
	S7	+	0	+	++	0	0	+	+	+	+	0	++	++	0	0	-	0	+	0	12	1.
	S8	0	+	+	0	+	0	0	0	0	0	0	+	++	--	0	-	+	0	0	4	9.
	S9	++	0	0	0	0	0	++	++	++	+	0	0	+	-	0	0	0	0	+	10	3.
	S10	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	10.
	S11	+	+	+	+	++	0	0	0	0	0	0	0	0	0	0	0	0	+	0	7	6.
	S12	++	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	+	0	++	5	8.
	S13	++	0	0	0	0	0	0	0	0	0	0	++	0	0	0	0	0	0	++	6	7.
W - Weaknesses	W1	0	0	0	0	+	0	--	--	--	--	0	0	0	-	0	--	--	+	0	-11	5.
	W2	0	0	0	+	0	0	--	--	--	--	0	+	--	-	-	--	--	--	0	-16	3.
	W3	--	0	0	0	0	--	-	-	-	-	0	--	--	--	-	-	-	0	-	-18	2.
	W4	0	0	0	0	0	-	-	-	-	-	0	-	--	--	-	0	-	-	--	-15	4.
	W5	0	-	-	-	-	0	-	-	-	-	0	--	--	0	0	--	-	0	0	-15	4.
	W6	--	-	-	-	0	0	--	--	--	--	0	-	--	-	-	-	0	-	--	-22	1.
	Σ	6	6	8	8	10	-3	-4	-4	-4	-6	0	8	2	-11	-4	-14	-4	1	0		
	Order	3.	3.	2.	2.	1.	6.	7.	7.	7.	8.	5.	2.	4.	2.	3.	1.	3.	5.	4.		

Figure 36 Plus/minus Matrix of the SWOT analysis; Source: Author's work

III. PROJECT PART

6. PROJECT PROPOSAL

Previous, analytical part was devoted to detailed analyses of internal as well as external environment of Nobilis Tilia Company. Analysis of internal part of the Company has provided valuable information about its strengths and weaknesses. Analysis of external environment, in this case German cosmetics market, has brought ideas about possible opportunities and threats for the Company. The output of Porter's Five Forces Analysis will definitely help to assess industrial attractiveness of German natural cosmetics industry. All these factors have been summed up in SWOT analysis and will provide a worthful source for setting a strategy.

6.1 Description of the Project

Due to the fact that Nobilis Tilia, Ltd. has not defined its strategic concepts yet, the first part of the project is focused on defining the strategy on the corporate and business level in the Czech Republic. On the other hand, there is important to mention that Company has already implemented many decisions on the strategic level; however, these were not coordinated and controlled by strategic management tools.

6.2 Beginning situation

The Company has already set its mission. Vision is outlined to a great extent as well. General public can read about the vision on the web page of Nobilis Tilia. Nevertheless, the goals and strategic steps on the corporate, business and functional level are missing.

Mission statement:
Nobilis Tilia was created to provide a production of natural cosmetics as well as education about aromatherapy. The Company has been in business since 1994. It offers its products and services to cosmetic and massage salons, specialized retail outlets and individual customers.

Nobilis Tilia's business slogan 'Tradition of Czech Aromatherapy' describes the rootage of the Company. Traditional historical experiences in conjunction with the new findings of scientific knowledge of Nobilis Tilia's Research & Development Department afford a wide range of acquirements for the production.

Nobilis Tilia produces from organic farming ingredients without synthetic and preservative substances, dissents from using animal ingredients and testing on animals, prefers making things by hand, all of it with the respect to the nature.

The future plans include an extension of distribution channel of pharmacies, increasing the number of products meeting the criteria of BIO standardization, entering the German cosmetics market and familiarization of the public with brand new product line called Biophase.

Vision of Nobilis Tilia can be compiled in Czech expression **KVÉST** (to be abloom), which stands for:
Kvalita (Quality of the natural products)
Vzdělání (Education of employees and their professionalism)
Etika (Ethical principles in business relationship and ecological production)
Spokojenost (Satisfaction of the customers as well as employees)
Tradice (Tradition of aromatherapy)

6.3 The goal of the project

Nobilis Tilia voiced a desire to enter the German cosmetics market. The goal of this thesis is to evaluate the strengths, weaknesses, opportunities and threats of this idea and if appropriate, transform this option to a realistic corporate purpose with its strategy. Due to the fact that the strategy of the Company has not been set not even for Czech Republic yet, the first aim of this project is setting up the strategy for its homeland. Underlining the competitive advantage and presenting the possible ways of increasing the competitiveness of Nobilis Tilia represent another, very important aim of this work.

6.3.1 Target group of the project

On the beginning of every project it is very helpful to determine the submitters of the project as well as its final users. This project is designed for the management of Nobilis Tilia Company. Their target group is the current and prospective customers from Czech Republic and Germany.

6.4 Project requirements

Proposed project should concur to the beginning situation of the project. It should meet the requirements of the management of the Company; however, new proposals of strategic steps are inevitable to add. Project should create a comprehensive proposal of strategies which are suitable to implement into the strategic decision process of Nobilis Tilia.

6.4.1 Project's elimination

The extent of this work is limited thus it is not possible to cover all appropriate details needed. Estimated costs and expected risks of the projects will be mentioned, however, the budget of the Company for implementation of particular steps will be excluded. Project budget has not been defined by the Company. It is not possible to cover the proposals for strategic solutions of all Company's goals, hence only the plan of entering the German market will be elaborated. Functional strategy should be elaborated by the Company itself.

7. STRATEGY SETTING

The strategy will be founded on the basis of analyses made in the analytical part of the thesis. First of all, the proposals of corporate and business strategy will be introduced. Then, the strategic goal of entering the German market will be examined.

7.1 Formulation of the strategy - Czech Republic

7.1.1 Corporate strategy

Porter's Five Forces Analysis of Industrial Attractiveness shows that the industry of natural cosmetics market of Germany is not very attractive for a new company to enter. There are many companies offering similar products so the bargaining power of buyers is very high. It is quite simple to enter this market. There are no significant restrictions, limitations and entry costs are modest. Bargaining power of suppliers can be assessed as high, although this applies only to the suppliers with the certifications. On the other hand, the threat of substitute products is very limited. Most of the customers of natural & organic cosmetics buy these products because they are in step with their lifestyle and principles. I consider this finding as very important. Even if there are many companies offering natural & organic cosmetic products, there are only few of them with similar price level and offered quality.

Results of PEST analysis summed up in SWOT analysis show much more opportunity potential than threats. There is increasing number of people who profess healthy lifestyle; rising population of LOHAS indicates this trend. People prefer to buy products from the company which is interested in human living environment and respect the law of nature. Level of living in Germany as well as purchasing power of Germans is considered as a favourable factor. Based on these remarks I would recommend Nobilis Tilia to take a strategy of expansion, to be specific to enter the German market.

Uniqueness of the company can be achieved by Porter's (1985) strategy of differentiation. Nobilis Tilia has implemented this strategy from the beginning of its entrepreneurship, although it was not presented in the written form as a particular strategy. Certifications gained indicate the high quality of Company's products. Nobilis Tilia faces all its activities to build a name of the company producing high quality products. According to this fact, I would consider the most suitable to follow the strategy of differentiation on the basis of quality, due to a Mintzberg and Quinn's (1991) theory.

7.1.2 Business strategy

As ensued from internal analysis of Nobilis Tilia, there has not been defined any division on the basis of Strategic Business Units (SBUs) yet. I propose to divide it as follows:

SBU – Products for professionals
SBU – Pregnancy and obstetrics products, Children's care
SBU – Biophase product line
SBU – Anti-age product line
SBU – Herb extracts and vitamins, Food supplements, Tisanes, Aromatic ceramics, Books
SBU – Others (Face care, Eczematous and psoriasis skin care, Lip and oral cavity care, Body care, Natural deodorants, Hair care, Hands and feet care, Shaving and depilation, Sun protection and self-tanning products, Natural drugstore, Seed oils, Essential oils, Air refreshers)

Every of this Strategic Business Units deserves its own person, preferably a manager, who is responsible for its operations and strategic plans. Every SBU has its own competitors and that is the reason why each one SBU needs its own marketing strategy.

SBU – Products for professionals

Beauty and massage salons have offers from many companies for using their products. Nevertheless, every saloon's manager is aware of the fact that cosmetics used in his salon create an important part of the image of the institution. Due to the trend of eating healthy food and using natural cosmetics, there is a high probability of rising number of natural-oriented cosmetics and massage salons. Nobilis Tilia should see it as its huge opportunity, because professionals are regular customers. Company should appoint the person who is responsible for promoting Nobilis Tilia's products in salons. The Company has employed new sales promoters recently; they should be paid on the basis of amount of work done. In this case it would be recommended that a significant part of their salary is based on the number of new contracts as well as amount of profit gained from existing customers.

Strategy of differentiation on the basis of quality should be applied. It is not important to provide a special image of packaging for these economy-sized products because in most cases the customers of beauty and massage salons do not see the product itself. Products for selling to the customers of these salons should keep the standard packaging. I would recommend offering a quantity discounts to the salons.

SBU – Pregnancy and obstetrics products, Children's care

Spring edition 2009 of house-journal called Tilia Aromatica published a two-paged article about obstetrics and possibilities of using aromatherapy during pregnancy, childbirth and in post natal period. I would recommend placing the special leaflets focused purely on aromatherapeutic influence during pregnancy, obstetrics products as well as children's care into waiting-rooms of gynaecological doctors. Women on maternity leave have usually more time to read the broadsheets and they like to be assured that they do the best for their child. Enlightenment in terms of aromatherapy use for mother and her child can bring more sales of products from this SBU.

The Company has a contract with 14 maternal hospitals. I consider this strategic step as a crucial in promoting pregnancy, obstetrics and children's care products. The concept of marketing is very similar to the previous SBU – Products for professionals. I would propose economical packaging and quantity discounts. Nobilis Tilia should provide free education training for accoucheuses and present all the articles needed for implementing principles of aromatherapy in maternal hospitals.

SBU – Biophase product line

Actress Zdeňka Žádníková, the face of new product line called Biophase (see Figure 43, Appendix D.) heads a Foundation which is concerned with support of children's ward of the hospitals. The promotion of Biophase has been agreed not to be an emolument business, Mrs. Žádníková receives a symbolic honorarium in an amount of 1 CZK. In return, Nobilis Tilia will support the Foundation by 1 % of the sales gained from Biophase product line. The actress belongs among Company's longstanding, loyal customers. I consider this promotion strategy as felicitous. The product line has a truthful, gripping story which spontaneously attracts its customers.

Biophase product line has started to be manufactured after 10 years of intensive Research & Development work. The method of enzymatic activation is exceptional by its action of activation of enzymes which are naturally in human's body. Proven results transfer this product line more into a medical treatment than a regular day/night cream care giving. By virtue of actualities mentioned above, I would propose to sell Biophase in pharmacies. Leaflets with proven effects and history of products' development should be available as well. Promotional exhibits in pharmacies would increase an awareness of effects and use of the products. Prices of these products are reasonable; there is no need for special discounts during regular retailing.

SBU – Anti-age product line

Anti-age product line is specified primarily for women of mature age. The products contain bioactive substances which have proved its effectiveness. The price level of anti-age products differs from all the other products offered by Nobilis Tilia. Due to the higher prices I would recommend to choose different marketing strategy than it is used on SBU – Others.

Women with matured skin (which sickens for wrinkles) like to see well-founded research with proven results. Hence my recommendation would be publishing all the useful findings gained from Research & Development work. Anti-age product line should be presented on separated posters and leaflets, with emphasis on the proven effects of the cosmetics. I see as the most suitable distribution channel beauty salons and pharmacies. Price discounts would be appropriate to offer prior to the Christmas period.

SBU – Herb extracts and vitamins, Food supplements, Tisanes, Aromatic ceramics, Books

Food supplements, herbal extracts, vitamins and tisanes became an inseparable part of the pharmacies' offer. Nobilis Tilia offers different kinds of tinctures and vitamins concentrates which are designed for professionals as well as home users. Two possible distribution channels have been already mentioned – pharmacies and beauty salons. The character of products of this SBU allows offering it in the specialized healthy lifestyle shops where cosmetics is not regularly sold. Aromatic ceramics and books can be offered in massage salons, gift shops and bookshops.

I would like to recommend setting the marketing strategy mainly on the fact that the products are made strictly from natural ingredients. The customer should be able to see the difference between chemical and natural extracts, vitamins and food supplements when buying it in a pharmacy. Leaflets should emphasise the distinction. Aromatic ceramics should be offered separately and in gift pack with essential oils as well.

SBU – Others (Face care – except Anti-age and Biophase product lines, Eczematous and psoriasis skin care, Lip and oral cavity care, Body care, Natural deodorants, Hair care, Hands and feet care, Shaving and depilation, Sun protection and self-tanning products, Natural drugstore, Seed oils, Essential oils, Air refreshers)

SBU – Others represents a mixture of different products of Nobilis Tilia. Company should consider an option of separation of some part from SBU – Others and creating new SBU. Current composition of SBU – Others allows Company to design one marketing strategy for whole range of products. This strategy should be based on differentiation on the basis of quality.

Purple glass packaging used for certain products represents a huge advantage for Nobilis Tilia (details in chapter 5.4 SWOT analysis, subheading Strengths). Prices of products packed in purple glasses have slightly increased, hence the emphasis on its benefits represent very important part of marketing strategy. I see very positive effect in increasing of the attractivity of the product's design. Purple glass is completely unique - there is no natural-based cosmetics company in Czech Republic using this way of packaging. This fact proves to the customers that Nobilis Tilia is really serious about strategy of differentiation on the basis of quality.

My recommendation would be creating a product line focused purely on men. According to analyses, there is a growing trend in sales of men's cosmetics over the Europe. Cosmetics for men can diverse from the regular one only by adding different essential oils.

7.2 Formulation of entry strategy – Germany

Nobilis Tilia has years of experience in delivering products into foreign markets. Company exports its products to Slovakia, Taiwan and Japan. The management of the Company is aware of various barriers to trade on the foreign unknown market. Hence the position of Business Manager for International Affairs has been created. Overcoming of cultural, political, legal and economical barriers belongs to the scope of employment of this Manager. Language proficiency is necessary; however, there is no need to employ a person speaking Asian languages. Products (and their packaging) destined for exporting are not changed at all, except their labels. These have been translated into particular language as well as promotion materials.

When there is a deliberation about entering a foreign country, the detailed analysis of the market is essential. Company does its best to gain as much information about the market as it is possible. This way the risks are eliminated. Nobilis Tilia lays stress on the competition analysis and their product lines' specifications, passion of people for using natural-based products, price levels' comparison together with purchasing power of potential customers, information about their lifestyle and consumer's preferences.

The export activities into Slovakia, Taiwan and Japan are based on dealership contracts with following companies:

Slovakia – NATURALIA, Ltd.

Taiwan – BOGA-LIFESTYLE International Trading Co., Ltd.

Japan – AMADEUS, Ltd.

7.2.1 Selection of entry strategy

First of all, I will analyze all the possible advantages and disadvantages of particular entry modes for Nobilis Tilia when entering a German beauty industry.

- **Exporting**

  The main advantage is its simplicity. Company produces the same products in the same factories as before. Location-based economies belong to the significant advantage of exporting. Nobilis Tilia grows some herbs on its own; however, it also cooperates with different suppliers. Due to an increase in orders, there is also possible to negotiate economies on scale. The analysis of Industrial Attractiveness has produced results concerning unfavourable condition (-) called 'Bargaining power of suppliers'. However, it was supposed that Nobilis Tilia will use the services of foreign, in this case German, supplier. That is not the case of exporting approach. This necessary condition will not be fulfilled because Nobilis Tilia will keep the existing suppliers.

  Company has an opportunity to export its excess produce when necessary. Export demands almost no changes in organization, portfolio as well as investments. High transport costs are proclaimed to be one of the main disadvantages of export, but the cosmetic products of Nobilis Tilia are small-sized loads and Germany is a neighbouring state of Czech Republic.

  Hofstede's analysis focused on cultural differences has demonstrated that Germans has slightly different characteristic feature in behaviour than Czechs. Results of analysis centred on the substantial national minority of Turks have stressed many significant cultural differences. Cultural Dimensions foretells differences in buying patterns.

Nobilis Tilia can circumvent possible problems by choosing export as its entry strategy and transfer the responsibility to the third party. This party is expected to have knowledge of these cultural differences.

Different entry mode grants different levels of control over the strategic, business and functional decision making abroad. In case of exporting, the level of control is low, as well as the risk rate. The company is not able to keep an eye out for most of the activities taken. Different forms of exporting determine varietal levels of involvement of the company into exporting process.

1. Passively filling the orders from domestic buyers who then export the product

In this case, the only task for Nobilis Tilia will be the production of increased amount of it products. Company will not take care about foreign market analyses, its opportunities and threats. The third party will buy, offer and sell the Company's products. That party will arrange all the exporting duties and takes all the possible risks. This option will not allow Nobilis Tilia to make a lot of profit. However, it can be used at the beginning of exporting activities due to its low risk rate.

2. Seeking out domestic buyers who represent foreign end users and customers

This approach represents another capital non-intensive way of exporting, in which the risk is transferred to the third part. There are many foreign corporations and agencies which has the interest to buy the cosmetics products of Nobilis Tilia in Czech Republic and sell them in Germany. Disadvantage of this form of exporting is that there is no obligation to announce that the products were sold abroad. The level of control in this option is remarkably low.

3. Exporting indirectly through intermediaries

This way of exporting has been used by the Company in case of foreign business activities in Slovakia, Taiwan and Japan. Nobilis Tilia has engaged a company for finding customers in the foreign market for its products. Important benefit to the Company is the fact that it can hold higher level of control over the strategic, business and functional decision making abroad than in case of previous approaches.

There are two kinds of intermediaries. First one is called an export merchant which represents the company located in the foreign country. Export merchant will buy the goods of Nobilis Tilia and sell it on its own hook. He will take all the responsibility and risks. The second option is cooperation with an export agent. The essential difference inheres in the fact that agent will not buy the goods. Hence the entrepreneurial risk will be taken by Nobilis Tilia. Export agent receives a commission for its sales. The Company should pay attention when selecting the foreign marketing agent; he creates the image of Nobilis Tilia.

4. Exporting directly

Concerning export, this approach belongs to the most difficult and demanding. All the risks and responsibilities will be hold by Nobilis Tilia itself. On the other hand, this approach can bring a lucrative profit as well as long-term growth. Management will need to earmark certain employees' time for running the export this way.

- **Licensing and Franchising**

First of all, I would like to stress the distinction between licensing and franchising. In case of licensing, Nobilis Tilia will sell some of its patents, service marks, copyrights, trade secrets or other intellectual property to the buyer. The reputation of the project will be doubtable because the licensor typically provide only a basic training and no ongoing support. From the point of owner of the patent, profit gained from the licensing is mostly much lower that from franchise. Franchising demands comprehensive training as well as ongoing support from franchisor. This assures higher sale opportunities to prospective buyers. Franchisee usually pays a high initial franchise fee. It is very important to pay an attention when selecting a franchisee. Principles and values of Nobilis Tilia are pronounced clearly and it is important to cooperate with the person who professes the same values. Otherwise the image of the Company can be devalued.

In case that Nobilis Tilia will decide to enter the foreign market quickly and posses a fewer legal and financial risks, licensing would be a suitable way of entering the market. However, the level of control over the technology will be very low.

Franchising as a form of entering a foreign market is very well known especially in food-processing industry and services. Franchisees are not employees of the franchiser, they are their contractual partners. Franchisee will be the owner of the shop and takes all the responsibilities and risks related to it. Franchise is often profitable in the first year of its business. Quality of the products is very important to Nobilis Tilia Company. One of the drawbacks of franchising is lack of control over the quality of the products.

- **Joint venture**

  There are three types of joint venture – unincorporated, the corporate and the unit trust joint venture. The common character of these types is the partnership of two or more companies at corporate level with the common goal. This approach is often used in the pharmaceutical industry which is not so far from the cosmetics one. However, average pharmaceutical company differs from Nobilis Tilia primarily in its size. Number of employees, flow of money, investments into R&D and consequently the number of patented products are only few examples of this dissimilarity.

  The corporate joint venture is mostly limited only to one project which can be a future challenge for Nobilis Tilia. This approach will be suitable in case that Nobilis Tilia would like to cooperate on R&D activities with another company. The knowledge and technology will be shared as well as profits gained. Entrepreneurship of Nobilis Tilia strongly depends on the results of R&D; the potential partner can represent a valuable contribution. Joint venture is recommended to use when there are a huge cultural differences between home country and the entered foreign market. This is not the case of Nobilis Tilia at the moment.

- **Wholly owned subsidiary**

  There are two options in case that Nobilis Tilia would like to have it own subsidiary in foreign market. The Company will either set up its brand new operation in Germany or will purchase an existing German company. Significant advantage of this approach is the level of control gained, however, disadvantage is its expensiveness. Subsidiaries are often not profitable during the first year of their business. There is a possibility of scale and location economies.

The environment of production and its surroundings are very important for Nobilis Tilia. In Czech Republic, they are situated on the borders of national park Bohemian Switzerland. This location creates to a great extend the image of the Company. If the Company decides to establish a subsidiary, one of the main criterions will be the location.

7.2.2 Recommended entry strategy

The reputation of the company belongs among the most valuable things for Nobilis Tilia. Hence I would recommend the Company to choose an approach which does no threat this factor. From this point of view I would suggest to edge out the franchising method. Its significant drawback is lack of control over the quality of the goods produced. Nobilis Tilia's generic strategy is defined by differentiation on the basis of quality, this element should not be under threat. The reputation can also be destroyed in case the Company will have a low level of control over the operations carried out. From this point of view the first two options of exporting approach seems to be unsuitable (Passively filling the orders from domestic buyers who then export the product; Seeking out domestic buyers who represent foreign end users and customers).

Company's competitive advantage inheres also in the technology used and the way of manufacturing of its products. Making things by hand is an important part of Nobilis Tilia's philosophy. Licensing provides very low control over the technology. This is why I would not advise to use the method of licensing. Joint venture offers lack of control over technology as well. This entry mode would be suitable in case of desired cooperation on R&D activities with another company.

To establish a subsidiary or to buy an existing German company would be very expensive for Nobilis Tilia. The whole entrepreneurship can be under threat in case of bad success in Germany. The Company would not like to run this kind of risk.

There are two more options remaining - Exporting indirectly through intermediaries and Exporting directly. According to Grant (2000) the exporting entry mode is suitable especially if the competitive advantage of the company is country-based. Nobilis Tilia would probably not get the preferable prices from German suppliers to its Czech's ones. The location of the Company with its own arboretum is really unique. It takes a lot of time to develop such an environment of the enterprise. The Company has already had an experience with indirect exporting. It is posing almost zero risk; nevertheless the profits are lower than in case of direct exporting. When choosing entry mode of indirect exporting, the Company does not know its customers and their remarks properly, the control over the sales is very low. Direct exporting demands more 'people power' to dedicate to achieve the sales but from my point of view the Company has this resources as well as potential to attract its German customers directly.

The corporate goal of the Company is to enter the German market using direct exporting entry mode. There are four main forms of doing direct export – through sales representatives (agents), distributors, foreign retailers or selling the products straight to the end users. The approach of selling it straight to the end user is used in case that the products require technical service and support which can be provided only by the company's specialists. This form of direct exporting is also used when there are only few potential customers to address. This is not the case of Nobilis Tilia. Distinction between sales representative and distributor inheres in the process of buying goods. Sales representative does not buy the goods, he sells it for a commission, however, distributor purchases goods. In case of selling to the foreign retailers, the Company will be obliged to engage one of its sales representatives to the export activities. The deep knowledge of the market is necessary. Company does not know the German market very well; hence the option of selling directly to the sales representative seems acceptable.

7.2.3 Corporate strategy

The strategy can be defined as expansion using direct exporting as its entry mode with sales representative as its business partner. All the other aspects of corporate strategy remain the same – the Company focuses on the strategy of differentiation (Porter, 1985) on the basis of the quality (Mintzberg and Quinn, 1991).

In Germany, the sales of natural & organic cosmetics represent about 4 % of total cosmetic sales. Total sales of cosmetic products in Germany were over 12 000 million € in 2007. (Cosmetic Business, 2008) When determining that natural & organic cosmetics comprise 4 % of these sales, it represents approximately 500 million €. The strategic goal concerning

German market is to attain a turnover of 200 600 € (approximately 5 000 000 CZK) within five years from its exporting activities. This represents 0,04 % of the German natural cosmetic market share. The important strategic step is finding out information about market shares of particular German natural & organic cosmetic companies. Disadvantage of fulfilling this step is its costingness (e.g. Market Report called 'The German Market for Natural & Organic Cosmetics' made by Organic Monitor costs 909 €). If the Company put to use the Czech organizations supporting export, these expenses can be minimized.

7.2.4 Business strategy

Based on the analyses carried out, the German beauty market indulges itself in using natural & organic cosmetic products. There are many companies offering regular face and body care on the German market. Nobilis Tilia can offer something more – special (almost medical) products based on long-lasting R&D activities.

It would not be effective to start export by offering whole range of Nobilis Tilia's products. For the beginning, only some SBUs should be proffered. Distribution channels and marketing strategies of particular SBUs may differ. My proposal of SBUs destined for exporting:

SBU – Products for professionals
SBU – Biophase product line
SBU – Anti-age product line
SBU – Others (selected products)

SBU – Products for professionals
A huge advantage of direct exporting is that the Company will have an opportunity to provide on-site educational trainings and customer service on its own. The products of Nobilis Tilia should come to the market with proper instructions. The Company does not have to rely on the local agent to do this work and put itself at risk of damaging an existing reputation. There will be regular trainings available for the sales representative and professionals in Germany.

Professionals are unique group of customers. They provide regular orders and buy relatively large amounts of the products. Hence I see the significant opportunity in attracting German beauty and massage salons. If the bank wants to prosper from the adult bank account, they give preferential treatment for young adult customers. I would act upon this example. My proposal is to address the High Schools focused on field of study 'Cosmetician'. If they learn to use Company's products during their studies, they will fluently continue in using them within their professional function. Products for professionals supplied to these schools should be perceived as a long-term promotion. Hence the price level should be reflected to this aim. I am aware of the fact that the Company does not have the financial resources to sponsor all cosmetic schools over Germany for next 10 years. However, I suggest choosing properly the subjects of their studies and supporting few schools properly. The contract should be made for duration of one year, with the possibility of renewal.

The products for professionals exported to the German market should be identical with those Czech ones, except the label. Promotional materials should be translated into German language. I would recommend to the Company to make a deeper market research focused on gaining information about its consumers. If the Company finds out that there are a significant number of Turkish beauty and massage saloons, it should seize this opportunity and identify if there is a potential of using this Czech aromatherapy cosmetics. In case there is a business potential, the translation of labels as well as promotional materials into Turkish language should be due consideration.

Analyses have shown that there is a high demand after anti-cellulite products in developed countries. When promoting the products, I would recommend identifying the advantages of Nobilis Tilia's anti-cellulite products.

SBU – Biophase product line

I have mentioned previously that products of Nobilis Tilia should come with the proper instruction; this applies especially in case of Biophase. This product line should be at schools as the first place. If the Company struggles between supporting the schools by products for professionals and Biophase, it should choose Biophase. I see a huge potential in this product line in Czech Republic and Germany as well.

Due to its scientific character it is necessary to explain the application methods to the customers. This goal can be achieved only by regular educational trainings, participation in the cosmetic and pharmaceutical exhibitions, promotional activities. Biophase should have its own propagation brochure consisting of the short introduction of the Biophase creation, its character and explanation of different methods of usage.

Biophase products have distinctive features of medical treatment hence I would recommend to use as its distribution channel pharmacies. Because the supporting effect of Biophase products is heating and cooling of the skin, I would recommend organizing regular promotional shows with the participation of public in pharmacies. Small samples as well as the brochure should be provided. The shelves of Biophase should be highlighted by POP and POS materials[14].

Biophase products quicken the process of scar formation, help skin with enlarged surface capillaries and bring relief for problems. Hence my recommendation would be offering and promoting Biophase especially in hospital pharmacies. Biophase has introduced the method of enzymatic activation which can be supported by internal use of enzyme tablets. Cooperation with one of the companies producing internal enzymatic treatment (e.g. Mucos Pharma) should be due consideration.

This product line has a competitive advantage in its price. There is no need for special discounts; the consumers will appreciate its low price. The treatment is complete when two or more products of Biophase are used. On that account I would recommend to sell the same bargain-package sets as offered in Czech Republic during first year of introduction of Biophase. Sales representative should get this sets right after initiation of business relationship. I propose Biophase to represent a pivotal exporting product line.

SBU – Anti-age product line

"Customers from developed countries tend to have a high endearment in buying anti-aging and anti-cellulite products." (Global Insight, 2007) Hence my recommendation will be offering anti-age products to the German customer. When analysing possible substitutes to Nobilis Tilia's products, most of them were correlated to this SBU. Laser and light treatment, chemical peels or usage of Botox can be perceived as possible substitutes to anti-ageing products. On the other hand, LOHAS profess symbiosis with the nature which makes this threat less influential.

[14] POP – Point of Purchase; POS – Point od Sale (Shimp, 2009: p. 597)

Important part of promotional activities focused on anti-age products is undoubtedly publication of successful findings considering the smoothing the skin and minimizing the wrinkles. Leaflets of anti-age product line should consist of introduction of the products, specification of proven results and few advices how to prevent from creation new wrinkles (e.g. Self-lifting practices). Promotional materials focused on anti-age products should be easily distinguishable from others; the portrayal of a beautiful matured woman should be included. Distribution channels play an important role in whole success of the product line. I would recommend selling these products in pharmacies as well as in beauty salons. Discounts to the sales representative (respectively to the consumers) should be provided prior Christmas period, the same way as recommended for Czech Republic.

SBU – Others (selected products)

My recommendation would be to remove most of the products included in this SBU for the needs of exporting activities to the German market. Products for eczematous and psoriasis skin care, natural deodorants as well as seed and essential oils should be offered.

Products for eczematous and psoriasis skin care as well as natural deodorants should be available in pharmacies and specialized natural cosmetics shops. Leaflets focused on eczematous and psoriasis skin care should be provided in skin clinics and waiting-rooms of dermatologic departments in hospitals. Analyses have shown that the usage of deodorants has increased and natural-based deodorants have become very popular.

Seed and essential oils should be offered preferably in specialized natural cosmetics shops only. Due to a high number of producers of similar oils in Germany, I would recommend to the Company's marketing department focusing on emphasis of whole range of advantages of seed and essential oils made by Nobilis Tilia in the brochures. Consumer can be attracted also by short history of the Company, practical instructions of usage of these oils, certificates obtained or by image of the leaflet. The highlighting of the distinction from the competitors is very important. Brochure should definitely contain a comment about the purple glass packaging.

7.2.5 Recapitulation of the strategic goals

Corporate strategy

- strategy of differentiation on the basis of the quality
- expansion using direct exporting as its entry mode and sales representative as its business partner
- attaining a turnover of 200 600 € (approximately 5 000 000 CZK) within five years from its exporting activities
- reaching 0,04 % of the German natural cosmetic market share

Business strategy

- <u>SBU – Products for professionals</u>
  - offering a quantity discounts to the beauty and massage salons
  - regular trainings available for the sales representative and professionals in Germany
  - promoting products for professionals on the High Schools focused on field of study 'Cosmetician' in the form of donation or significant discount
  - translation of the promotional materials into German language
  - distribution channels: beauty and massage salons
  - identification of the potential of supplying Turkish beauty and massage saloons
  - highlighting the advantages of Company's anti-cellulite products during promotion activities

- <u>SBU – Biophase product line</u>
  - Biophase should represent a pivotal exporting product line
  - regular educational trainings, participation in the cosmetic and pharmaceutical exhibitions, promotional activities (due to its scientific character it is necessary to explain the application methods to the customers)
  - Biophase should have its own propagation brochure consisting of the short introduction of the Biophase creation, its character and explanation of different methods of usage
  - distribution channel: preferably pharmacies

- organizing regular promotional shows with the participation of public in the pharmacies (small samples, brochures available)
- the shelves of Biophase should be highlighted by POP and POS materials
- promotion activities in hospital pharmacies focused on postoperative care
- cooperation with one of the companies producing internal enzymatic treatment (e.g. Mucos Pharma)
- there is no need for special discounts; the consumers will appreciate its low price
- offering bargain-package sets during the first year of exporting
- sales representative should get this sets right after initiation of business relationship

▪ <u>SBU – Anti-age product line</u>
  - publication of successful findings considering the smoothing the skin and minimizing the wrinkles
  - leaflets of anti-age product line should consist of introduction of the products, specification of proven results and few advices how to prevent from creation new wrinkles (e.g. Self-lifting practices)
  - the portrayal of a beautiful matured woman should be included in the brochure to ne easily distinguishable from the others
  - distribution channels: pharmacies and beauty salons
  - discounts to the sales representative (respectively to the consumers) available prior Christmas period

▪ <u>SBU – Others (selected products)</u>
  - Only products for eczematous and psoriasis skin care, natural deodorants as well as seed and essential oils should be offered on the German market

Products for eczematous and psoriasis skin care as well as natural deodorants:
- distribution channels: pharmacies and specialized natural cosmetics shops
- leaflets focused on eczematous and psoriasis skin care should be provided in skin clinics and waiting-rooms of dermatologic departments in hospitals

Seed and essential oils

- distribution channel: specialized natural cosmetics shops
- emphasis of whole range of advantages of seed and essential oils made by Nobilis Tilia in the brochures - the highlighting of the distinction from the competitors is crucial
- consumer can be attracted also by short history of the Company, practical instructions of usage of these oils, certificates obtained or by image of the leaflet
- brochure should definitely contain a comment about the purple glass packaging and its advantages

7.2.6 Possibilities of support

There are many ways how to make the exporting process easier. Many organizations support exporting activities of Czech companies by providing consultancy, assistance in legal issues and financing.

In 2006, Ministry of Industry and Trade went into an action of the customer service phone link called 'Zelená linka pro export' (in loose translation 'Giving a green light to export'). The link provides actual informative assistance for exporters. (Ministry of Industry and Trade, 2006) This link can help Nobilis Tilia for free to simplify and streamline the cooperation with national institutions and organizations.

From 2006, there is also possibility of employing free services of so called 'Regionální exportní místa Czech Trade' (in loose translation 'Regional export spots of Czech Trade'). Czech Chamber of Commence has established 13 of these spots all over the Czech Republic. Each district office has it own Regional Manager who provides pro-export services. The brand new services have been added lately, for example so called 'Exporting training centres of Czech Trade' which are situated on 17 places all over the world. There is also one in Germany available. Nobilis Tilia can use the offices needed for secretarial work or for meetings with its potential business partners. Another service offered is called 'Exportní Akademie' ('Export Academy') which provides education trainings focused on beginning or experienced exporters as well as participation on international pro-export-based exhibitions. (Czech Chamber of Commence, 2006)

CzechInvest was established in 1992 by the Ministry of Industry and Trade. The main goal of this agency is to help Czech companies in their development as well as attracting foreign investment. Domain of CzechInvest offers information about financial support programmes as well as exporting possibilities for Czech companies. On December 2010 the workshop called 'Možnosti exportu a aktuální programy pro podporu podnikání' (Export opportunities and current programmes focused on business support) will be organized in Ostrava. I would recommend Nobilis Tilia to take part in this seminar meeting. (CzechInvest, 2010)

The web domain 'BusinessInfo.cz' was established in 2001 by Ministry of Industry and relevant institutions. The portal contains many useful information about entrepreneurship in Czech Republic, however, there is a worthwhile section called 'Foreign Trade'. Its main goal is to provide "useful information from the sphere of export incentives and possibilities of financing and export insurance; information from various countries and their attitude to legislative rules." BusinessInfo provides also information about exhibitions held in Germany.

Nobilis Tilia can also get a lot of useful information from following German federal unions: the Federation of German Export Trade (Bundesverband des Deutschen Exporthandels e.V. – BDEx), the Federation of German Wholesale and Foreign Trade (Bundesverband des Deutschen Gross-und Aussenhandels e.V.) and German Retail Federation (Hauptverband des Deutschen Einzelhandels). (BusinessInfo, 2010)

In 2009, Germany Trade and Invest was formed by the German Office for Foreign Trade and the Invest in Germany GmbH. It represents an agency focused on foreign trade and inward investments. 'Investment Guide to Germany' is available for all companies interested to export or invest in Germany. On this domain a section called German Business Portal can be found. Its creation was initiated by the Federal Ministry of Economics and Technology. German Business Portal provides information about whole range of industries and conditions for doing business In Germany. (Germany Trade and Invest, 2010)

7.2.7 Specifics of the German market

European Cosmetics Directive has been created to regulate the imported production of cosmetic goods in the European Union. In Germany, the main institution for protecting its consumers from the point of health is the Federal Office of Consumer Protection and Food Safety. If Nobilis Tilia decides to export its products into Germany, it will have to provide evidence to this Office that its products meet the standards of the Cosmetics Directive. This verification can be provided only by authorized experts who can be found at the local Chambers of Industry and Commerce in Germany as well as at various cosmetic federations. Nobilis Tilia has never exported its products into Germany; hence I would strongly recommend informing local authorities in the city of products' introduction in advance about the distribution of the products. (German Business Portal, 2009)

Based on the European Cosmetics Directive, the German Cosmetic Directive determines the list of ingredients allowed to use by German law. Another legislation concerning chemicals used in cosmetics production is called REACH[15] launched by European Commission in 2003. The main aim of REACH is to control whether the products produced in Europe or imported to the European Union meet the standards of safety for human consumption as well as of an environment. (Endocrine Disrupter Research, 2009)

Ashurst, a consultancy company for foreign trade, has published the amendments to German cosmetics law which came into force in 2004. "There is not allowed to marketing cosmetics which have been tested on animals." Nobilis Tilia does not provide animal testing. "Perfume and aromatic compositions and their raw materials shall be labelled with the word 'perfume' or 'aroma' which now has to be followed by the INCI name of the perfume or aromatic substance." Another amendment has been focused on the "indication of the maximum usability of the cosmetic products after opening." Products with minimum durability of more than 30 months have to be labelled with the statement of period of time for which the product can be used in the same quality after its opening. (Ashurst, 2004) Nobilis Tilia should consider those factors and adapt its labelling to this system.

[15] REACH - Registration, Evaluation, Authorization and Restriction of chemical products (Endocrine Disrupter Research, 2009)

Natural cosmetics have separated labelling standardizations (please see chapter 5.2 Industrial Attractiveness, subheading Bargaining power of suppliers). (German Business Portal, 2009) According to the portal called Export do SRN (2010), the single market of the European Community has approved that the certification gained in Czech Republic is fully valid in Germany as well. There is no legal need for Czech company to apply for German certification. Nevertheless, German customers prefer buying products labelled by German certifications. Due to this fact, I would recommend Nobilis Tilia to consider carefully applying for BDIH Certification (Bundesverband deutscher Industrie - und Handelsunternehmen e.V.). From a legal point of view is this step almost useless, however, it will help rapidly in lowering the distrust of German customers in buying Czech products. When applying for BDIH Mark, at least 60 % of the production of Nobilis Tilia has to meet the standards of BDIH. To reach this certification, a certain fees are unavoidable to pay. Membership in the Association of BDIH (German Association for pharmaceuticals, health care products, food supplements and personal hygiene products) is obligatory and costs 900 € annually. Beside this, Nobilis Tilia would pay 1 % from its first 50 000 € of its annual sales as for usage fees. BDIH certification plays an important role in German customers' preferences, hence the BDIH Mark should be definitely due consideration.

Figure 37 The Green Dot; Source: Der Grüne Punkt, 2010

There is very strict system of protection of environment in Germany. The Green Dot certification (Der Grüne Punkt) was introduced in 1990 by the raw material trader Duales System Deutschland GmbH (Deutsche Gesellschaft für Kreislaufwirtschaft und Rohstoffe GmbH). Worldwide protected trademark called Green Dot has become a necessity when exporting or investing in Germany. The certification is not compulsory; however, the goods are without this trademark almost unsalable. (Der Grüne Punkt, 2010)

Nobilis Tilia should consider the certification of eco-label called the Blue Angel (Der Blaue Engel). This certification was established in 1978 with the goal of distinguish eco-friendly companies from those who do not pay attention about the environment. This kind of labelling is not obligatory for Nobilis Tilia; however, it can significantly influence customers' buying preferences. (Der Blaue Engel, 2010)

According to the Czech Trade (2010), only the company with high performance ratio has the potential to succeed on the German market. Low priced products with weak quality will be easily beaten by the Asian competitors. The main advantage of Nobilis Tilia can be its business reliability, quality of the supplies as well as propinquity and closeness of the markets. Czech Trade also stresses that German customers insist on the quality of companies' web pages. Germans consider it to be a display window of the company. I would recommend Nobilis Tilia upgrading the German translation on its web page. Czech Trade advises Czech companies also on the issue of language skills. If the employee of international department of Nobilis Tilia speaks fluently German, it will provide an auspice that the Company is really serious about the cooperation with its German partners. On the other hand, if there is a possibility of communication in English language, Nobilis Tilia should seize this opportunity. That way the German partner gets into the same language position as the Company.
It is very important to pay attention to the cultural differences between Czechs and German. Business dinners, trips and other forms of informal meetings are not very common in Germany. Hofstede's analysis of Cultural Dimensions has also shown some distinctions between the countries. Power Distance Index (PDI) of Germany is slightly lower which means that there are good conditions for developing equality and opportunity principles. The Individualism (IDV) indicates that Czechs are more collectivist than Germans. Competitiveness of Germans is slightly bigger due to the higher Masculinity (MAS) index. According to Uncertainty avoidance index (UAI) Germans are more open-minded and able to take a risk. Czech Trade advises that German business partners can be more restrained and right-minded than Czech ones. (Czech Trade, 2010) Nobilis Tilia should be prepared for this differences, its understanding can ensure course of business communication.

Payment morals of German companies are generally on the high level. However, there are exceptions as well, especially from the small and medium companies. Maturity of invoice is commonly set up on 90 days. Advance payments are not conventional, but it can be demanded at the beginning of the contract.

7.2.8 Selection of suitable Sales Representative

Choosing the proper sales representative features the crucial role in exporting activity to the German market. If Nobilis Tilia finds a right person/company to represent the Company, the export will be destined for success. On the other hand, if the sales representative is a false step, the Company's reputation in Germany can be scotched.

How to find a suitable Sales Representative?

National Association of German Commercial Agencies and Distribution (Centralvereinigung Deutscher Wirtschaftsverbände für Handelsvermittlung und Vertrieb - CDH e.V.) associates more than 60 000 German distributors and commercial agencies. Nobilis Tilia can use valuable information when searching for its sales representative. The structure of German entrepreneurship in the field of sales representative is following:

- 23 % are so called 'Einzelfirmen' which stands for the company with one person only, the owner is responsible for all duties needed
- 68 % of sales representatives are represented by companies with 1 – 6 employees
- 9 % are companies with more than 6 employees
- independent sales representatives have its own legal form of entrepreneurship - 'Eingetragener Kaufmann' (registered businessman)

Nobilis Tilia should visit internet domain of Association of the German Trade Fair Industry (Ausstellungs und Messe Ausschuss der Deutschen Wirtschaft e.V.) as well as site of German Pavilion which provide information about German companies who take part in the worldwide trade fairs. Nobilis Tilia can use this option when looking for its sales representative. (BusinessInfo, 2010)

Sales Representative requirements

- the form of sales representative is not important – it can be one person only (woman or man) or the company as well (the addressing 'sales representative' or 'he' will be used in this paragraph)

- sales representative should be German, with a good understanding of the German environment and business culture
- he should be supporter of natural & organic cosmetics
- at least 2 years of experience in selling cosmetics products
- sales representative usually deals with a lot of products from other companies; this should be admissible in case that they do not conflict with the product lines of Nobilis Tilia
- sales representative should operate on an exclusive basis
- he should have a good oral and written communication skills as well as negotiation and sales skills
- he should be computer literate
- the first contract will be made for duration of one year (renewable by mutual agreement)
- sales representative can operate on the whole Germany area, however, his task is to choose and target the territories with the huge potential to succeed
- he will operates with the Nobilis Tilia's samples, literature, promotional materials to be able to present the products' lines to potential customers
- he should keep in a regular contact with the customers and be willing to active seeking of new buyers (preferably payers of VAT) and business opportunities
- he will enters into legal contract with the customers, mediate the purchase order
- sales representative should participate at the German cosmetics exhibitions and trade fairs
- he should be in close cooperation with the international and marketing department of Nobilis Tilia
- he should provide a regular feedback to the Company
- he should coordinate the schedules of delivering the products
- sales representative will work on the commission basis; because the samples and promotional materials will be defrayed by Nobilis Tilia, his commission rate will be 15 % of his sales during the first year and 10 % for following years
- he will NOT be responsible for collecting payments and paying delivery costs

7.2.9 Capital intensity of the Project

		1. year	2. year	3. year	4. year	5. year
Receipts	Expected revenues	250 000	550 000	900 000	1 300 000	2 000 000
	Support from EU funds for language courses	40 000	0	0	0	0
Expenditures	Expected costs of production	175 000	385 000	630 000	910 000	1 400 000
	Commission paid to the sales representative	37 500	55 000	90 000	130 000	200 000
	The Grüne Punkt certification	11 250	24 750	40 500	58 500	90 000
	BDIH certification	23 890	29 390	32 890	36 890	43 890
	Promotion of Biophase in high schools	7 600	7 600	7 600	7 600	7 600
	Promotion activities in pharmacies, specialized shops and exhibitions	32 000	22 000	5 000	5 000	5 000
	Course 'Minimum exportéra' (Czech Trade)	2 640	0	0	0	0
	Language courses	40 000	0	0	0	0
	Translation of promotional materials, labels	4 900	0	0	0	0
	Printing of promotional materials, labels	19 500	19 500	19 500	19 500	19 500
	Transport costs	5 500	12 100	19 800	28 600	44 000
	Insurance fees	280	280	280	280	280

Profit	**Profit (with BDIH certification)**	**-70 060**	**-5 620**	**54 430**	**103 630**	**189 730**
	Profit (without BDIH certification)	**-46 170**	**23 770**	**87 320**	**140 520**	**233 620**

Figure 38 Estimated capital intensity of the Project; Source: Author's work

It is very difficult to estimate the revenues expected in next 5 years. Nevertheless, the Company has already had an experience with exporting activities. This can provide a frame for the German market. The strategic goal of the Company is to reach a revenues of 200 600 € (approximately 5 000 000 CZK) within five years of exporting activities into German market. I proposed expected revenues according to previous experience as well as consideration of marketing endeavour focused on German market.

Different products lines have different profit margins, but the average level of margin is 30 %. Expected costs of the production are derived from the estimated number of goods produced and the average production costs per one product.

The sales representative will be paid on the commission basis. The commission rate will be at the level of 15 % from the annual sales made in Germany for the first year and 10 % for the following years. The Company reflects the fact that the first year is the most difficult. The future success of the exporting activity depends to a great extend on the first year. In that manner, the sales representative will be motivated to make as much sales in the first year as it is possible.

BDIH certification is not a cheap matter. The membership in BDIH Association costs 900 € annually (approximately 22 390 CZK). An additional fee represented by 1 % of the sales will be required to pay as well.

Promotion of Biophase in high schools demands at least 4 bottles of Biophase products per student, per year. Average class is composed of 20 students. Production of one bottle costs 95 CZK, hence the total costs will be 7 600 CZK. Promotion activities in pharmacies, specialized shops as well as participation in exhibitions will be held by sales representative; however, the Company should pay the expenses linked to it.

As mentioned before, there is no need of additional staff to be employed. The employee of international department should speak fluently German. English language is required at least from the employee of marketing department. Both staff members have a pre-intermediate level of the demanded language. The language course should be implicated into their working hours. My suggestion would be Caledonian School which provides its services in Ústí nad Labem region as well. Their lecturers are able to provide in-company classes. Nobilis Tilia has applied for the financial support of EU Funds (The operational programs 2007-2013, Human Resources and Employment, Priority Axes 1 - Adaptability) and the support has been confirmed to full extent. The price for in-company language lesson which lasts 45 min. costs approximately 430 CZK. The project comprises one lesson of English and German language weekly for 5 employees. The same Company offers translation services as well. Translation of the promotional materials can be provided there. I suggested exporting four SBUs into German market; every SBU has its own propagation brochure. Average brochure has 2 lists (4 pages) to translate; the estimated price for one page of that size is 150 CZK. The translation of labels of the products will costs 2 500 CZK.

Printing of promotional materials for German market can be provided by TISK Krásná Lípa, Ltd. Printing of 15 000 of leaflets as well as POP and POS materials will costs approximately 18 000 CZK. Printing of labels for one year will costs around 1 500 CZK.

Transport costs of the products to Germany are derived from the estimated number of products sold. I suggest using services of the Company called TOPTRANS EU, Ltd. which offers surface, air as well as marine transport. It is estimated that during the first year Nobilis Tilia will export the goods with the total weight of 450 kg. The supply of the goods is planned to be provided 25 times during the first year.

I would suggest the Company to pay annually 280 CZK for an 'Insurance against the risk of inability to fulfil and export contract' to The Export Guarantee and Insurance Corporation (EGAP). This can contribute towards mutual confidence with the German customer.

"Pursuant to the new law on value added tax that came into force upon the accession of the Czech Republic into the European Union, i.e. on 01/05/2004, with respect to acquirers of goods from the European Union member states the current term 'export of goods' is substituted by the term 'supply of goods into another member state' or the so-called 'intra-

Community transactions'." (Czech Tax Administration, 2006) Nobilis Tilia is the payer of VAT from 2004. The sales representative will be asked to look for customers with the VAT identification number as well. In that case, the supply of goods to other country of European Union is exempted from tax.

The BDIH certification is not required by law, the Company can decide whether to apply for it or not. The difference in estimated profits gained with using the certificate as well as without using it is demonstrated in the Figure 38. On the other hand, if the Company decides not to apply for the certificate, the revenues gained from the exporting activities to the Germany can be much lower than expected. I would suggest Nobilis Tilia to apply for the BDIH certificate, it is important from the marketing point of view. On the assumption that the Company will get the certificate, the anticipated profit will be gained in the third year of its exporting activity to Germany. From the long-term point of view, supplying goods into Germany can be profitable entrepreneurship.

According to the shortened financial analysis (Chapter 4.2 Financial position of the Company), Nobilis Tilia is financially stable firm with the sufficiency of financial resources to enter into German market.

7.2.10 Elimination of possible risks

The forms of risks have been introduced in the theoretical part (please see chapter 2.4.6 Drawbacks and risks of the global strategy). Figure 39 shows the level of export credit risk of the particular countries. Classification into 7 categories describes the level of political and commercial risk (0 – minimum risk level, 7 – maximum risk level). This country classification is based on the results of the Country Risk Assessment Model and the payment experience register of Export Credit Agencies.

Czech Republic as well as Germany are ranked in the category 0, which means that those countries have stable political situation, high income level and commercial risk insurance is offered on the market principles.

Category	Example of the country
0	Czech Republic, Denmark, Germany, Great Britain, U.S.A.
1	Thai-wan, Hongkong
2	China, Kuwait, Malaysia, Oman, Poland
3	Brazil, India, Mauritius, Mexico, Namibia
4	Estonia, Colombia, Uruguay, Lithuania, Philippines
5	Vietnam, Dominican Republic, Kazakhstan, Latvia, Papua New Guinea
6	Honduras, Tanzania, Georgia, Kenya, Madagascar
7	Venezuela, Zimbabwe, Haiti, Lebanon, Malawi

Figure 39 The country classification according to the export credit risk;

Source: EGAP, 2010

Based on the recommendations of BusinessInfo (2010) and Czech Trade (2010), I summed up the list of steps to avoid different kinds of risks:

- verification of German customers and partners on the basis of its bonding capacity
- avoidance of cooperation with the customers and business partners which do not carry out its obligations (information can be provided by the German companies as Buergel, Creditreform, Dun & Bradstreet)
- selection the method of payment on the basis of the Figure 10
- agreement on the price freezing of the price lists when negotiating about the issues of price of the goods
- transfer of bureaucratic duties on the German sales representative
- abidance by German rules focused on packaging, sanitary code, norms and certificates
- taking advantage of different forms of insurance
- arrangement of the clear conditions with the company responsible for the transportation of goods to the Germany

8. CONCLUSION

This master thesis deals with the topic of exporting opportunity of Nobilis Tilia to Germany. During the thesis development I have encountered a legislation which specifies the proper terminology used for this action. In this case, the term 'export of goods' should be replaced by 'supply of goods into another member state' or 'intra-Community transaction'. Due to the fact that the entry strategy which reflects this action is called 'exporting', I have decided to follow this term. Professional publications abide by 'exporting' as well. Legislation can change from day to day but economic theory will outlast.

The aim of this thesis is to evaluate whether Nobilis Tilia, Ltd. should enter the German cosmetics market or not. In case of favourable answer, the proposal of the best feasible solution should be made. The thesis has been divided into three main parts: theoretical, analytical and project one.

The theoretical part deals with the literature review focused on different methods of analyses of the company as well as strategic decision making. I will define the approaches which have been used for elaborating of the analytical part. The Framework of McKinsey has been introduced in the analysis of internal environment. External environment of the company can be analysed by countless numbers of methods. Firstly, the theoretical concept of General environment analysis written by Hitt, Ireland and Hoskisson (2007) has been introduced. Secondly, I have defined the theoretical framework of MAP analysis as well as Analysis of industrial environment from the authors Keřkovský and Vykypěl (2003). Industrial attractiveness can be measured by various methods. However, from the time Porter (1985) has elaborated his Five Forces Analysis there is no approach to compete on this field. The theoretical basis of SWOT analysis, the crossroad of the internal and external environment of the company, has been introduced as well. Plus/minus Matrix of SWOT analysis brought to the attention by Vaštíková (2008) represents the last stage of the analyses focused on the company and its environment.

The approaches focused on strategic decision making represent the second half of the theoretical part of the thesis. The fundamental principles of Strategy hierarchy have been described on the basis of Meyer and Wit (2005). Generic competitive strategies of Porter (1985) supplemented by the Strategies of differentiation and Scope strategies of Mintzberg and Quinn (1991) have been introduced subsequently. Strategies of entry represent an important theoretical background for this thesis. The distinction between international and global strategy has been made. Foreign market entry modes have been presented from different points of view, however, the concept of Daley and Scott (2000) has been followed in the analytical part. Defining the possible advantages and drawbacks of internationalization belongs to the inherent part of the thesis.

To answer the question whether to enter German market or not, the analyses focused on Nobilis Tilia Company as well as its internal and external environment are inevitable to be done. First of all, I have introduced the Company itself – its line of business, the development in the time and the product portfolio. Analysis of McKinsey has brought many useful findings. The Company has not defined its SBUs (Strategic Business Units) yet. The strategic decision making has been made on the stochastic basis. Nobilis Tilia uses following distribution channels - healthy lifestyle shops, cosmetic stores focused on natural & organic products, beauty and massage salons and pharmacies. Due to the fact that Nobilis Tilia employs knowledge workers, develops its R&D Department and holds educational trainings, the company can be considered as enterprise where the education heads. However, there are no regular trainings focused on education of the employees. The phrase 'Harmony with the nature' represents the fundamental criteria for its values and the principles. Financial analysis has provided the findings which have acknowledged that the Company is financially stable and has enough capital to enter the foreign market.

According to NACE classification, manufacture of cosmetics provided by Nobilis Tilia is ranked in the chemical industry. However, European Commission distinguishes cosmetics as an independent sector. The development of chemical industry in Germany together with the trends of the industry in Europe provides an important background for understanding all the consequences linked to the cosmetics industry. Analyses have shown the obvious trends in buying patterns of the German customers: there is growing demand after sun care products, deodorants, anti-ageing and anti-cellulite products, cosmetics for men, 'masstige' products as well as technologically-advanced goods as self-tanning creams.

Germany heads if comes to sales of the cosmetics in the European Union. Due to the fact that Nobilis Tilia produces natural & organic cosmetics, the analyses have been focused primarily on this field. Natural cosmetics represent approximately 4 % of total cosmetics sales. Taking this data into account together with fact that Germany has more than 80 million inhabitants, entering this market constitutes a significant opportunity for Nobilis Tilia. 12 million Germans declare its support for Lifestyles of Health and Sustainability (LOHAS).

According to the Porter's Five Forces Analysis, the natural cosmetics market of Germany does not seem very attractive. It is very easy to enter this industry and establish a company. There is high number of companies with the same focus which results in the high bargaining power of buyers. On the other hand, there are almost no substitutes. With the stipulation that the Company will use its Czech suppliers, the power of suppliers will be relatively low. However, if Nobilis Tilia decides to use German suppliers, this factor of the analysis will become unfavourable.

PEST analysis can be summed up into few points. There are no possible threats or any significant opportunities for exporting activities in cosmetic industry from the point of political factors. The economic crisis resulted in 2009 into a significant decline of GDP growth, consumer expenditure and annual income. Numbers from January 2010 are indicative of better future. Positive and effective medical treatment together with working life shifted towards less physical and demanding jobs causes that people are able to live longer. The phenomenon of ageism has a significant impact on the spending habits focused on cosmetics. The marketing strategy of Nobilis Tilia should reflect this trend. PEST analysis also showed that there are around three millions people of Turkish nationality and approximately 280 000 with Arabian rootage. Analysis of Cultural Dimensions created by Hofstede (1998) has discovered distinction between German, Czech and Turkish behaviour characteristics. Germans are highly influenced by packaging. Most of Nobilis Tilia's products have a tame design, however, packaging in special purple glass (which significantly protects the quality of the product) makes the product much more attractive.

SWOT analysis represents the starting point for the formulation of the strategy. Plus/minus Matrix of the SWOT analysis has identified the crucial factors for Nobilis Tilia. The most important competitive advantage of the Company is its long tradition (16 years of its entrepreneurship) together with the image of educated enterprise. Company would like to enter the German market, however, its web page offers only limited translation into English and German language. This factor is regarded as the most influential weakness. Significant opportunity is seen in the trend that people tend to buy environmentally friendly goods and support the companies with respect to the nature. Low consumer understanding of labels on natural & organic products is considered to be the most important threat for the Company.

Project part of the thesis summarizes the findings gained from the analytical part and provides a number of recommendations for the Company. Due to the fact that Nobilis Tilia has not set its strategy yet, the proposals of strategic steps and goals on the corporate and business level have been made. First of all, the strategic directions for the Czech Republic have been introduced. Based on the analytical part of the thesis, I have recommended Nobilis Tilia to take a strategy of expansion, to be specific to enter the German market. The Company has implemented the strategy of differentiation from the beginning of its entrepreneurship. My suggestion is to follow the strategy of differentiation on the basis of the quality. As ensued from internal analysis of Nobilis Tilia, there has not been defined any division on the basis of SBUs yet, hence I have proposed to create six of them. The marketing strategy focused on individual SBUs has been introduced as well.

The reputation of the Company, the quality of its products, the technology used, the way of manufacturing of the products and the capital intensity have represented the main factors during selection of the proper entry strategy. Based on these conditions, I have recommended following the strategy of expansion using direct exporting as its entry mode with sales representative as its business partner. The strategic goal concerning German market is to attain a turnover of 200 600 €. It would not be effective to start export by offering whole range of Nobilis Tilia's products, hence only few SBUs have been chosen. I have suggested the Company to use the services of the organizations which support exporting activities in the Czech Republic as well as in Germany, many difficulties considering the entry to the Germany can be limited.

Selection of the proper sales representative features the crucial role in the strategic decision making. Hence I have suggested the list of requirements for the selection process. There is no need of additional staff to be employed, however, the employees of international and marketing department should attend language courses (German and English language). Based on the results of the analyses, the product line called Biophase has the biggest potential to succeed on the German market.

The system of protection of the environment is very strict in Germany. The Green Dot certification (Der Grüne Punkt) is not compulsory; however, the goods are without this trademark almost unsalable. Hence I have recommended to Nobilis Tilia to apply for this certification. German customers prefer buying products labelled by German certifications. The certification gained in Czech Republic is fully valid in Germany as well; there is no legal need for Czech company to apply for the German certification. Nevertheless, labelling of product by BDIH certification significantly influences the sales. Although this certification demands certain costs, I have suggested Nobilis Tilia to apply for it.

On the assumption that the Company will follow these specifications, the anticipated profit will be gained in the third year of its exporting activity to Germany. From the long-term point of view, this step can represent a profitable entrepreneurship. If the Company develops a strong position on the German market and Czech customers move ahead toward the competitors, the revenues gained from exporting activities can buoy up the whole entrepreneurship.

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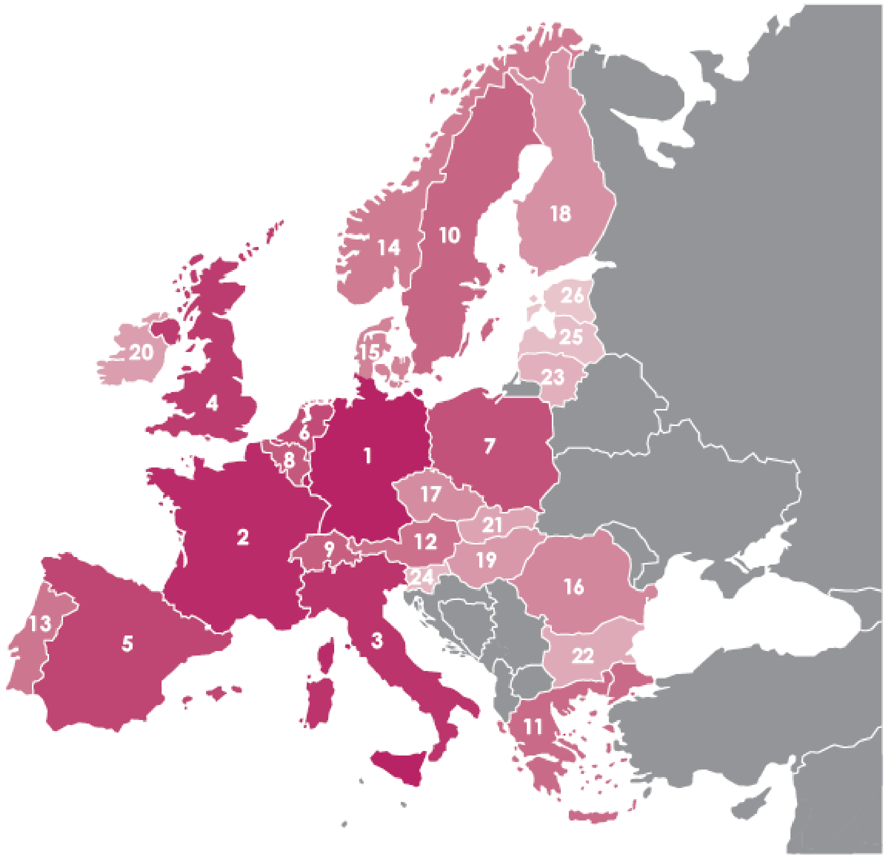
Appendixes

A. The European Cosmetics Market 2009

European Cosmetics and Toiletries* Market in 2009: EUR 69.5 billion
The European market represented almost one third of the global market

No	Country	EUR bn
1	GERMANY	12.829
2	FRANCE	10.517
3	ITALY	9.108
4	UK	8.855
5	SPAIN	4.502
6	NETHERLANDS	2.779
7	POLAND	2.361
8	BELGIUM/LUX.	1.850
9	SWITZERLAND	1.768
10	SWEDEN	1.299
11	GREECE	1.375
12	AUSTRIA	1.233
13	PORTUGAL	1.292
14	NORWAY	1.066
15	DENMARK	0.967
16	ROMANIA	0.848
17	CZECH REPUBLIC	0.835
18	FINLAND	0.808
19	HUNGARY	0.651
20	IRELAND	0.581
21	SLOVAKIA	0.431
22	BULGARIA	0.256
23	LITHUANIA	0.197
24	SLOVENIA	0.164
25	LATVIA	0.091
26	ESTONIA	0.088



*Value retail RSP, EUR bn; includes: decorative cosmetics, hair care, fragrances, skin care and toiletries

Figure 40 European Cosmetics and Toiletries Market in 2009 – Sales Volume; Source: The European Cosmetics Association, 2009

B. The European Cosmetics Industry Export 2009

European Cosmetics and Toiletries Industry Export Market in 2008: EUR 11.7 billion**

No	Country	EUR mn
1	FRANCE	4488.9
2	GERMANY	2272.2
3	UK	1031.9
4	ITALY	986.8
5	SPAIN	672.1
6	POLAND	642.0
7	NETHERLANDS	377.6
8	BELGIUM/LUX.	293.6
9	SWEDEN	119.7
10	IRELAND	118.3
11	SLOVENIA	116.4
12	GREECE	86.3
13	DENMARK	85.9
14	CZECH REPUBLIC	76.6
15	AUSTRIA	63.2
16	HUNGARY	55.9
17	ROMANIA	53.2
18	BULGARIA	42.6
19	FINLAND	27.7
20	PORTUGAL	20.5
21	LATVIA	19.3
22	LITHUANIA	12.1
23	SLOVAKIA	4.3
24	MALTA	3.3
25	ESTONIA	2.8
26	CYPRUS	1.0

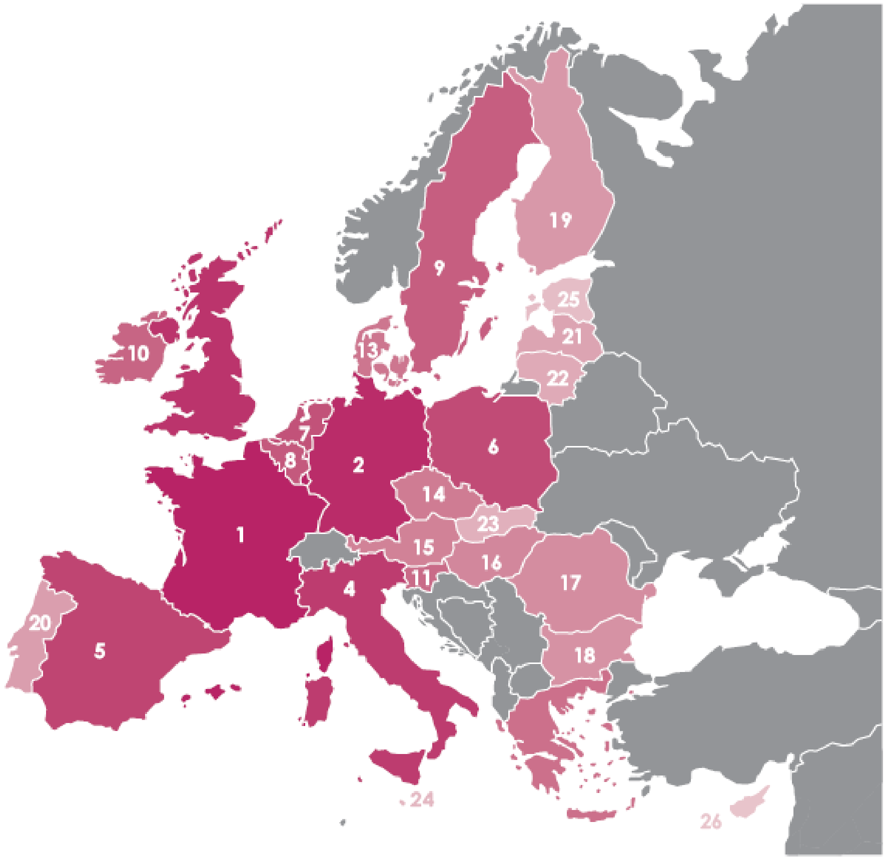


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Figure 41 European Cosmetics and Toiletries Industry Export Market in 2008; Source: The European Cosmetics Association, 2009

C. Purple glass packaging

Figure 42 Purple glass packaging of Company's products;

Source: Nobilis Tilia, 2010

D. Biophase product line

Figure 43 Advertisement focused on Biophase product line; Source: Nobilis Tilia, 2010