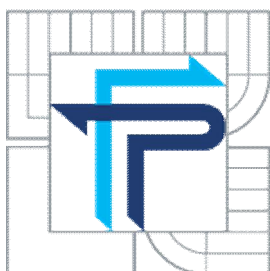


VYSOKÉ UČENÍ TECHNICKÉ V BRNĚ
BRNO UNIVERSITY OF TECHNOLOGY



**FAKULTA PODNIKATELSKÁ
ÚSTAV EKONOMIKY**

FACULTY OF BUSINESS AND MANAGEMENT
INSTITUT OF ECONOMICS

ANALYSIS OF THE SELECTED FIRM

ANALÝZA VYBRANÉ FIRMY

DIPLOMOVÁ PRÁCE
MASTER'S THESIS

AUTOR PRÁCE
AUTHOR

Bc. MICHAELA TRTÍLKOVÁ

VEDOUCÍ PRÁCE
SUPERVISOR

Ing. HELENA HANUŠOVÁ, CSc.

BRNO 2010

ZADÁNÍ DIPLOMOVÉ PRÁCE

Trtílková Michaela, Bc.

European Business and Finance (6208T150)

Ředitel ústavu Vám v souladu se zákonem č.111/1998 o vysokých školách, Studijním a zkušebním řádem VUT v Brně a Směrnicí děkana pro realizaci bakalářských a magisterských studijních programů zadává diplomovou práci s názvem:

Analýza vybrané firmy

v anglickém jazyce:

Analysis of the Selected Firm

Pokyny pro vypracování:

Úvod

Vymezení problému a cíle práce

Teoretická východiska práce

Analýza problému a současné situace

Vlastní návrhy řešení, přínos návrhu řešení

Závěr

Seznam použité literatury

Přílohy

Seznam odborné literatury:

SYNEK, M. a kol. Manažerská ekonomika. 2.vyd.Praha: Grada Publishing, 2000. 456 s. ISBN 80-247-9069-6.

GRUNWALD, R., HOLEČKOVÁ, J.: Finanční analýza a plánování podniku. 3.vyd. Praha: VŠE, 2007.180 s. ISBN 978-80-245-1108-5.

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PAULAT, V.J. Finanční analýza v rukou manažera, podnikatele a investora. 1.vyd. Praha: Profess Consulting.1999.120 s. ISBN 80-7259-006-5.

Vedoucí diplomové práce: Ing. Helena Hanušová, CSc.

Termín odevzdání diplomové práce je stanoven časovým plánem akademického roku 2009/2010.

L.S.

Ing. Tomáš Meluzín, Ph.D.
Ředitel ústavu

doc. RNDr. Anna Putnová, Ph.D., MBA

V Brně, dne 29.08.2010

Abstrakt

Předmětem diplomové práce je komplexní analýza firmy AKP spol. s r. o. Analýzou externího a interního okolí spolu se základní analýzou finančních ukazatelů je zjištěna současná situace společnosti. Na základě provedených analýz jsou navržena doporučení, která vedou ke zlepšení současné pozice firmy na trhu.

Abstract

Subject of this diploma thesis is complex analysis of the chosen company AKP Ltd. External and internal analysis of company's environment together with basic financial analysis is evaluated and the actual company situation is determined. On the basis of previous analyses the recommendations are suggested which lead to the improvement of the current situation of the company on the market.

Klíčová slova

SWOT analýza, finanční krize, Porterův model 5 sil, Quick test, PEST analýza, marketingový mix.

Key Words

SWOT analysis, financial crisis, Porter 5 forces analysis, Quick test, PEST analysis, marketing mix.

Bibliographic Citation

TRTÍLKOVÁ, M. *Analýza vybrané firmy*. Brno: Vysoké učení technické v Brně, Fakulta podnikatelská, 2010. 86 s. Vedoucí diplomové práce Ing. Helena Hanušová, CSc.

Statutory Declaration

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In Brno, August 31st , 2010

.....
Bc. Michaela Trtílková

Acknowledgement

I would like to thank my supervisor Ing. Helena Hanušová, CSc. for her guidance.

I have to furthermore express my gratitude to the company AKP Ltd. and all its employees for providing materials, information and advices.

Special thanks go to my parents who have supported me in university studies.

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INTRODUCTION

This thesis is focused at a complex analysis of the company, because the author has experience with agricultural sector and knowledge of the firm. In the current changeable environment, it is important to undergo deep analysis of the company to find out the position on the market and define weaknesses and opportunities.

The purpose of this thesis is to analyze the company AKP Ltd. which ranks among significant Czech firms acting in the market with spraying equipment. The company is dealing mainly with the manufacturing, repairing and reconstructions of the self-propelled, driven and mounted sprayers. Furthermore AKP is a distributor for other components and spare parts for sprayers which also needs to its production. Above all company is a leader in developing the carbon booms, which have been invented and implemented by their employees and have been also patented. The firm is presented dynamic development which is aimed at the consolidation of the stable position not only of the leading top manufacturer of application equipment but also the first-rate provider of complete services in the sector.

AKP Ltd. was established in 1991 so it is not a new player on the market any more. The company has lots of experiences and each year it has been working on development of the products so that company could fully meet any requirement of their customers. It will be thus challenging to reveal weaknesses of the company and find solutions for its improvements, however the author believes that every company has space for doing things better.

The thesis includes 3 main parts. The first one is the literature review, second part consists of the company introduction. Consequently the external and internal analysis of the company's environment is applied together with findings about the marketing mix, financial analysis and finally Swot analysis. The last part of this paper consists of suggestions, evaluations and recommendations of the AKP performance.

1 THE OBJECTIVES AND METHODS OF THE WORK

Current business environment is widely affected by the global financial crisis which has an impact on agriculture sphere as well as on the other sectors. Therefore agricultural production showed in 2009 considerable decrease of 18,1% in comparison with the year 2008, which is in spite of the subsidies from the government the lowest number from the year 2004, when the Czech Republic entered the EU. It represents decrease of 18,3% in comparison with the previous years. However the Czech economy came out of recession at the end of the year 2009 and has been increasing its performance since the third quarter of 2009. (30) Recovery nevertheless remains fragile and future development is still encumbered with considerable risks related especially with external environment.

The aim of this thesis is to evaluate the Czech based company AKP Ltd. and analyse its position on the market. As the financial crisis is affecting AKP as well, it is necessary to continually evaluate and analyse the company not only by looking to the financial statements. Since common trends are more focused on verbal analysis and classical financial analysis is problematic for example when evaluating company indebtedness, in this thesis will be used mainly verbal analysis together with the ratio analysis and quick test.

At first few analyses will be made regarding to the competition, external and internal environment will be evaluated, and after that ratio analysis and quick test will be applied. Analytical part of the thesis will provide all the necessary information to be able to develop proposals and suggestions. Each piece of information received will be considered and influences final results and recommendations to the company.

2 THEORETICAL BASIS OF THE WORK

2.1 External Analysis of the company

Companies and their suppliers, marketing intermediaries, competitors, customers and publics all operate in a macro environment of trends and forces that shape opportunities and pose threats. These forces represent “noncontrollables”, which the organization must monitor and to which it must respond. In the economic environment, companies and consumers are increasingly affected by global forces. (25)

The beginning of the new century brought a number of new challenges (25):

- The steep decline of the stock market, which affected investment, savings and retirement funds.
- Corporate scandals.
- Increasing unemployment.
- The rise of terrorism.
- Population expansion.

These dramatic events were accompanied by the continuation of other, already existing longer-term tendencies that have profoundly influenced the global landscape.

2.1.1 PEST analysis

The PEST acronym provides a useful analyse to scan the business environment for any change factors that directly or indirectly affect a business (40):

- Political (including legal and regulatory).
- Economic (global economic shifts and cycles of recession and boom).
- Social (new values, attitudes, lifestyles, ethics and demographics).
- Technological (the Internet, database, digital TV and much more).

Any of these change factors could eventually push a business into extinction if the changes are constantly ignored. There is a tendency to resist change, because of the

insecurities it heaps upon an individual. Some companies wait until the last moment before changing, others see an advantage in being proactive rather than reactive. (40)

PEST factors in particular:

Political factors

Political factors consist of laws, government agencies and pressure groups that influence organisations and individuals in a given society.

- *Legislation and regulation*- Business legislation has three main purposes: to protect companies from unfair competition, to protect consumers from unfair business practices and to protect the interests of society from unbridled company behaviour. (40)

International and national laws and regulations change steadily which can affect the basic product or service and methods of communication. Before looking at the laws, it is worth mentioning that short-term dishonest deals that slip through the system generate short-term gains, however they tend not to generate long-term sales since repeat business does not come back. The “lifetime customer” concept is a long-term winning strategy. There are many laws and regulations, both international and national that affect a business, for example: Control of misleading advertisements regulations (1988), Data protection act (1984), Trade marks act (1994). (25)

- *EU legislative process*- On a local scale, centralized EU legislation is beginning to affect every European company in some way, for example: the Single European Currency. Many firms are only now reluctantly accepting the new European environment. It is vital to make an organization’s voice heard, so the advice is to find out how proposed legislation could affect particular company, then get in soon and have a say in the emerging EU regulations. (25)
- *Self-regulation: codes of practice*- Various professional bodies set up their own codes of practice to which their members must adhere. Failure to do so may result in expulsion and sometimes negative publicity, together with a form of blacklisting. A breach of a code can also result in the withdrawal of an

advertisement or sales promotion and this can be expensive as the development of any campaign costs money. (25)

- *Macro- political effects on business and communications-* International political negotiations, which affect the world economy, it should be remembered that the larger international trading organisations need to monitor the results of worldwide political agreements. Worldwide political agreements not only affect product portfolios, they also affect the social issues. This, in turn, affects the company' s social responsibility policies and subsequent communication programmes. (40)
- *Growth of special-interest group-* The power and number of special-interest groups have increased over the past three decades. Political action committees, pressure business executives and lobby government officials pay more attention to consumers' rights, women' s rights, minority rights, senior citizens' rights and gay rights. Lots of companies have established public affairs departments to deal with these groups and issues. (25)

Economical factors

Markets require buying power as well as people. The economic environment consists of factors that affect spending patterns and consumer purchasing power. The available purchasing power in an economy depends on current income, savings, prices, debt and credit availability. Marketers have to pay careful attention to trends affecting purchasing power because they can have a strong impact on business, especially for firms whose products are geared to high income and price-sensitive buyers. (25)

- *Effects on markets and communications-* Consumer and industrial markets are directly and indirectly affected by the state of the economy. The global shift in economic power from West to East is affecting many markets. Closer to home, exchange rates, interest rates, levels of disposable income, unemployment etc, all affect how much money is around and how much will be spent. During the recession almost everyone cuts back on spending, both consumers and organisations spend less. Many companies cut back on all types of spending,

including marketing. A classic fall in derived demand emerges: as primary consumer demand falls, the secondary demand also falls and several clients and agencies go into liquidation. There is therefore an increased need to check the financial stability of any supplier/ partner/ agency/ customer. During a recession many buyers search for better deals including extended terms, price cuts and value-for-money sales promotions. The scars of an economic recession may be permanently expressed in terms of buying patterns, values, attitudes and ultimately the advertising imagery, which reflects the changing roles, norms and values of a culture. (40)

- *Changes in income*- Nations vary greatly in level and distribution of income and industrial structure. There are 4 types of industrial structure: *subsistence economies*- few opportunities for marketers, *raw-material-exporting economies*- with good markets for tools, equipment, suppliers and luxury goods for the rich, *industrializing economies*- where a new rich class and growing middle class demand new types of goods, *industrial economies*- which are rich markets for all sorts of goods.

In a global economy, marketers need to pay attention to the shifting income distribution in countries around the world, particularly these where affluence levels are rising. Marketers often distinguish countries with 5 different income-distribution patterns (25):

1. Very low incomes.
2. Mostly low incomes.
3. Very low, very high incomes.
4. Low, medium, high incomes.
5. Mostly medium incomes.

- *Recession-included psychological change*- Even a strong economic recovery may not bring back the consumer- spending patterns. Attitudes, values and lifestyles may combine to create new buying processes, lower levels of consumption and an overall pattern of trading down (away from premium-price brands). Advertising will have to provide more information because customers

buy more carefully, seeking out the best deal and display a price consciousness that rejects premium-price brands for better-value products that provide relevant benefits and excellent performance. (40)

- *Outsourcing and free trade*- An increasing importance starts to have economic issue of the migration of manufacturers and service jobs off shore. Outsourcing is seen as a competitive necessity by many companies, but it is also a cause of unemployment for many domestic workers. (25)
- *Changing consumer spending patterns*- Changes in major economic variables such as cost of living, income, interest rates and borrowing and savings patterns have a large impact on the market place. Organisations watch these variables by using economic forecasting. Businesses do not have to be wiped out by an economic downturn or caught short in a boom, but they can take advantage of changes in the economic environment with adequate warning. (24)

Social-Cultural factors

Purchasing power is directed toward particular goods and services and away from others according to people's taste and preferences. People absorb, almost unconsciously a worldview that defines their relationships to themselves, to organisations, to others, to nature, to society and to the universe. (25)

- *High persistence of core cultural values*- the people living in a certain society hold many core values and beliefs that tend to persist. Core value and beliefs are passed on from parents to children and are reinforced by major social institutions- schools, businesses, churches and governments. Secondary values and beliefs are more open to change thus marketers have some chance of changing secondary values but little chance of changing core values. (25)
- *Existence of subcultures*- each society involves subcultures, groups with shared values emerging from their special life experiences or circumstances. Members share common beliefs, behaviours and preferences. To the extent that

subcultural groups exhibit different consumption behaviour and wants, marketers can choose particular subcultures as target markets. (25)

- *A new interest in ethics*- social consciousness among consumers is increasing. Buyers want to know more about products and their producers. (25)
- *Demographic trends*- are reliable for the short and intermediate run. There is no excuse for a organisation's being suddenly surprised by demographic developments. The main demographic force is population, the statistical analysis of a population by sex, age and social status helps marketers to segment and target markets. There are demographic trends, cycles and movements that can help a company to learn about its market many years in advance. Marketers are keenly interested in the size and growth rate of population in cities, regions and nations; regional characteristics and movements; age distribution and ethnic mix; household patterns and educational levels. (25; 40)

Technological factors

Technology is probably the most dramatic force which rapidly changes. New technologies create opportunities and new markets. However every new technology replaces an older one. When old industries ignored or fought new technologies, their businesses decline, thus marketers should watch the technological environment closely. Organisations that do not keep up with technological change soon will find their products outdated and will miss new product and market opportunities. Many companies are adding marketing people to R&D teams to try to obtain a stronger marketing orientation consequently the challenge is not only technical but also commercial to make practical, affordable products. (24)

As products and technology become more complex, the buyers need to know that these are safe. Therefore, government agencies investigate and ban potentially unsafe products and set up complex regulations, which have resulted in much higher research costs and in longer times between new ideas and introduction of the product. (24)

- *Accelerating pace of change.*

- *Increased regulation of technological change.*
- *Unlimited opportunities for innovation.*
- *Varying R&D budgets.*

2.1.2 Competitiveness

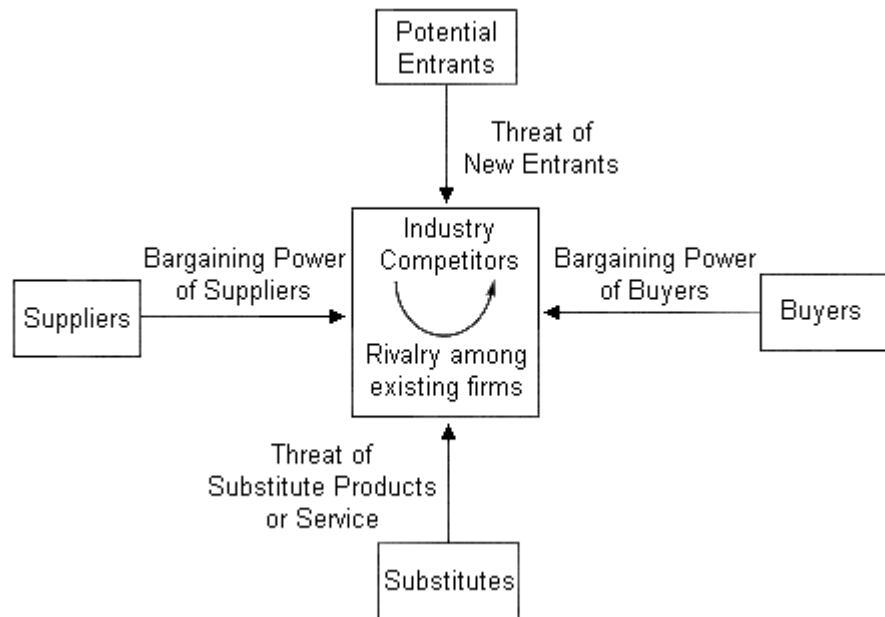
Porter's analysis of the competitive situation facing companies showed that current competitors were not the only competitive forces in the external environment. Buyers and suppliers also made an impact on the competitive situation, as did the possibility of substitute products and the actions of potential newcomers. Competitiveness is especially about delivering enhanced value to customers. Porter (1990) claims, that "firms create competitive advantage by perceiving or discovering new and better ways to compete in an industry and bring them to market, which is ultimately an act of innovation. (39)

The typical causes for such innovation include (39):

- New technologies.
- Emergence of a new industry segment.
- New or shifting buyer needs.
- Shifting input costs or availability of inputs.
- Changes in government regulations.

Porter's five forces analysis

To create competitive advantage in specific markets, the five forces analysis is provided as an effective framework and checklist for analyzing the competitive dynamics of any given industry. (34)



Picture 1: Porter's five forces diagram

Adapted from: Porter, (34)

1. Threat of the rivalry among existing firms

The intensity of rivalry is influenced by the following industry characteristics (25; 35):

- *A larger number of firms* increase rivalry because more companies have to compete for the same customers and resources. The rivalry intensifies if the firms have similar market share it leads to a struggle for market leadership.
- *Slow market growth* causes companies to fight for market share. In a growing market, organisations are able to improve revenues simply because of the expanding market.
- *High fixed costs* result in an economy of scale effect that increases rivalry when total costs are mostly fixed costs then the firm must produce near capacity to attain the lowest unit costs. Since the company has to sell this large quantity of product, high levels of production lead to a fight for market share and results in increased rivalry.
- *High storage costs or highly perishable products* cause producer to sell goods as soon as possible. If other producers are unloading at the same time, competition for customers intensifies.

- *Low switching costs* increases rivalry. When a buyer can freely switch from one product to another there is a greater struggle to capture customers.
- *Low levels of product differentiation* are associated with higher levels of rivalry however brand identification, on the other hand, tends to constrain rivalry.
- *Strategic stakes are high* when a company is losing market position or has potential for great gains. This also intensifies rivalry.
- *High exit barriers* place a high cost on abandoning the product. High exit barriers cause a company to remain in an industry, even when the venture is not profitable. A common exit barrier is asset specificity, when the plant and equipment required for manufacturing a product is highly specialized, these assets cannot easily be sold to other companies in another industry.
- *A diversity of rivals* with different histories, cultures and philosophies make an industry unstable. There is greater possibility for mavericks and for misjudging rival's moves. Rivalry here is volatile and can be intense.
- *Industry Shakeout.* A growing market and the potential for high profits induce new companies to enter a market and incumbent firms to increase production. A point is reached where demand cannot support the new entrants and the industry becomes crowded with competitors. The industry may become crowded if its growth rate slows and the market becomes saturated. A shakeout ensues, with company failures, intense competition and price wars.

These conditions will lead to frequent advertising battles, price wars and new products introductions and will make it expensive to compete.

2. Threat of new entrants

Segment attractiveness varies with the height of its entry and exit barriers. The most attractive segments are these in which entry barriers are high and exit barriers are low. Few new companies can enter the industry and poor-performing firms can easily exit. When both entry and exit barriers are high, profit potential is high, but organisations face more risk because poorer-performing ones stay in and fight it out. When both exit and enter barriers are low, firms easily enter and leave the industry and the returns are low and stable. The worst case is when entry barriers are low and exit barriers are high- here companies enter during good times but find it hard to

leave during bad times, the result is chronic overcapacity and depressed earnings for all. (25; 35)

Barriers to entry are unique industry characteristics that define the industry and reduce the rate of entry of new firms, thus maintaining a level of profits for those already in the industry. From a strategic perspective, barriers can be created or exploited to enhance an organisation's competitive advantage. Barriers to entry arise from several sources (25; 35):

- *Government creates barriers.* Although the principal role of the government in a market is to preserve competition through anti-trust actions, government also restricts competition through regulation and through the granting of monopolies.
- *Patents and proprietary knowledge serve to restrict entry into an industry.* Ideas and knowledge that provide competitive advantages are treated as private property when patented, preventing others from using the knowledge.
- *Asset specificity inhibits entry into an industry.* Asset specificity is the extent to which the company's assets can be utilized to produce a different product. When an industry requires highly specialized plants and equipment or technology, potential entrants are reluctant to commit to acquiring specialized assets that cannot be sold or converted into other uses if the venture fails. Asset specificity provides a barrier to entry for two reasons: First, when companies already hold specialized assets they fiercely resist efforts by others from taking their market share thus new entrants can anticipate aggressive rivalry. The second reason is that potential entrants are reluctant to make investments in specialized assets.
- *Organizational (Internal) Economies of Scale.* The most cost efficient level of production is termed *Minimum Efficient Scale* (MES). This is the point at which unit costs for production are at minimum level and the existence of such an economy of scale creates a barrier to entry. The greater the difference between industry MES and entry unit costs, the greater is the barrier to entry.

Exit barriers work similarly as barriers to entry. Exit barriers limit the ability of a firm to leave the market and can exacerbate rivalry - unable to leave the industry, an organisation have to compete.

3. Threat of substitute products

A segment is not attractive when there are actual or potential substitutes for the product. Substitutes place a limit on prices and on profits, thus the firm has to monitor price trends closely. If competition increases or technology advances in these substitutes industries, prices and profits in the segment are likely to fall. (25; 35)

A threat of substitutes exists when a product's demand is affected by the price change of a substitute product. Price elasticity is affected by substitute products - as more substitutes become available, the demand becomes more elastic since customers have more alternatives. A close substitute product constrains the ability of companies in an industry to raise prices. (25; 35)

4. Threat of buyer's growing bargaining power

A segment is unattractive if buyers possess growing or strong bargaining power. Buyer's bargaining power grows when (25; 35):

- They become *more concentrated* (there are a few buyers with significant market share) or organized.
- The buyer's *switching costs are low*.
- The product represents a *significant fraction* of the buyer's costs.
- The buyers are *price sensitive* because of low profits.
- The product is *undifferentiated*.
- The buyers can *integrate upstream*.

Sellers might select buyers who have the least power to negotiate. Better defense consists of developing superior offers that strong buyers cannot refuse. (25; 35)

5. Threat of supplier's growing bargaining power

A segment is unattractive if the firm's suppliers are able to reduce quantity supplied or to rise prices. A producing industry requires raw materials - components, labour and other supplies. This requirement leads to buyer-supplier relationships between the industry and the companies that provide the raw materials used to create products. If suppliers are powerful they can exert an influence on the producing

industry, such as selling raw materials at a high price to capture some of the industry's profits. Suppliers tend to be powerful when (25; 35):

- They are *concentrated* or organized.
- The *costs of switching* suppliers are *high*.
- There are *few substitutes*.
- The supplied *product is an important input*.
- The suppliers can *integrate downstream*.

The best defences are to build win-win relations with suppliers or use multiple supply sources.

2.1.3 Market Analysis

The aim of a market analysis is to determine the attractiveness of a market and to understand its evolving opportunities and threats as they relate to the strengths and weaknesses of the company. Dimensions of a market analysis (32):

- Market size (current and future).
- Market growth rate.
- Distribution channels.
- Market trends.
- Market profitability.
- Industry cost structure.
- Key success factors.

2.2 Internal analysis of the company

2.2.1 Performance measurement system

Profit is earned by success in a competitive marketplace, where organisations compete for customers by offering goods and services that customers are willing to buy after comparing available alternatives. Profit is also an outcome of successful performance against competitors, thus the starting point in analysis have to be to understand how a business chooses to compete in its market- that is, the goals and strategies that managers set for the business. It is the successful implementation of these goals and strategies that provide profit. (39)

Performance measurement systems assist managers- in tracking the implementation of business strategy by comparing actual results with strategic goals and objectives. A performance measurement system typically consists of systematic methods of setting business goals together with continuous feedback reports that indicate progress against those goals. Performance goals should be either short-term or long-term. Short-term performance usually focuses on time frames of one year or less whereas longer-term performance goals include the ability to adapt and innovate to changing competitive dynamics over periods of several years. Successful competitors are able to create or recognize opportunities and turn them into advantage over both the short term and long term. (39)

2.2.2 Segmentation and target marketing

Target marketing comprises the division of a large market into smaller market segments. Each segment has its own patterns and/ or its distinct needs of response to varying marketing mixes. The most attractive segments are targeted according to the company's resources. Attractive target markets are those that will be more profitable, e. g. loyal customer groups, segments located closer to the organization, heavy users of a particular product or service. Targeting reduces wastage of resources (e. g. money spent

on mass advertising) and also it increases sales since better prospect customers are contacted. As mass markets are fragmented into mini-markets or segments and technology provides more tailored communications, there is less requirement for mass marketing. The ability to segment a market accurately is a key skill that marketers need to spend time on, revisiting their marketplace and thinking about how it can be broken into segments. (40)

Segments should satisfy the following criteria (40):

Measurable, Accessible, Substantial and Relevant- The benefits of the product or service being offered have to be relevant to the target. There is no point picking measurable, accessible and substantial segments if they have no interest in what is being offered, knowing the ideal customers profile is fundamental to success.

Consumer segments

Segmenting markets into groups of buyers and targeting those groups that are more likely to be the best buyers is absolutely vital if marketing communications are to be both effective and efficient. The most frequent methods of segmenting a market are based on (40):

- Geographical variables- region, population, climate, density, etc.
- Demographic variables- age, sex, occupation, family size, social class, etc.
- Attitudes, beliefs and intentions.
- Buyer- behaviour variables- usage rate, benefits sought, life style, brand loyalty, etc.
- Psychographics.

Business segments

The business market consists of all the organisations that acquired goods and services used in the production of other products or services that are sold, supplied or rented to others. Characteristics of B2B (business to business) contrast sharply with consumers markets (25):

- Fewer, larger buyers.
- Close supplier-customer relationship.

- Professional purchasing.
- Several buying influences.
- Direct purchasing.
- Multiple sales calls.
- Fluctuating demand.
- Derived demand.
- Inelastic demand.
- Geographically concentrated buyers.

2.2.3 Objectives

Company has to define as specifically as possible: "where do they want to go?", ideally the objectives should be quantified in terms of success or failure criteria and timescales. Clearly defined targets make the management task of "control" much easier. Establishing clear objectives is necessary to give a focus to the firm or division. It is useful to break up objectives to measured performance more accurately. (40)

Objectives should be SMART:

S- Specific.

M- Measurable.

A- Actionable.

R- Realistic.

T- Time specific.

2.2.4 The Marketing Mix

The marketing mix is a conceptual framework that helps to structure the approach to each marketing challenge. There are lots of different approaches to the marketing mix, e. g. 4Ps, 5Ps and 7Ps. The 4Ps provide the basic framework, these four ingredients- product, price, place/ distribution and promotion/ communication- can be mixed together in many ways. However some argue that the most important P- people- is missing and can be interpreted as customers or as staff. The 7Ps consists of additional

Ps covered people (staff), physical evidence (e. g. uniforms and buildings) and processes (methods of producing and delivering service or goods). The marketing mix variables are usually considered as internal over which a manager has control and makes decisions although influenced by customers, competition and other external uncontrollable factors. It is worth remembering that all of the marketing mix communicates. (40)

Marketing mix has to be balanced and integrated. A great advertisement may succeed in getting people to go out and ask for a certain product, but the overall plans fails if, the place is wrong- too much “pull” and not enough “push”. Perhaps less investment in advertising (“pull”) and more investment in sales training (“push”) or simply more direct investment in distribution (new delivery vehicles, bigger stocks, quicker deliveries, smaller minimum orders, etc) might enable to get the right goods to the right place at the right time. If the goods are not there when they are needed, then “the success of advertising campaign” fails. Similarly, the promotion and the place might work to bring a potential customer close to buying a product but the price might just put the product out of reach. Finally, the product or service must match the promise made through the communications mix if long-term success is to be achieved, because customer only buys a bad product once. It means that difficult investment decisions have to be made in areas often outside the marketing manager’s control, e. g. product quality programme, staff motivation, production equipment, customer care programmes, etc. Today’s businesses are flatter and leaner and run by multifunctional and therefore multi skilled managers. (40)

The concept of marketing mix was first expounded by Professor Neil Borden of Harvard University in the 1940s and it is the central part of a company’s marketing tactics. The time element is a vital factor in assessing the particular mix to be offered to a market. (5)

Product

The “product” means anything that is offered to a market for its use or consumption it can be a physical object or a service of some kind. The range of products offered by a company is called the product mix, since almost all organisation’ s revenue is going to be obtained from the sale of its products, it is clearly important that the quality and range of the product mix is frequently evaluated and amended.

In considering products, it is important to know that consumers generally want to acquire the benefits of the product, rather than its features. Equally companies are selling the benefits of that product and the selling effort is not just confined to the promotion element in the marketing mix. The existence of the product range is a selling point for a product, quality of the product, brand, packaging and after-sales service. Quality is designed into the product, the benefits can be absence of faults, long product life, reliability, increase in value and others.

One important method used to sell benefits is by branding products, this means applying the company’ s “signature” to its product by the use of special signs, names or symbols.(5)

- *Branding* has grown enormously during this century and there is hardly a product in Western world which does not have a brand name.
- *Packaging* is another important factor in the presentation of a product to the market. Packaging provides protection for the product, but it can also reinforce the brand image and the point-of-sale attraction to the buyer.
- Many organisations taking action to improve the *service* to the customer, some products are sold with a very strong emphasis on after-sales service, warranties, technical advice and similar benefits.

Product life cycle

Emphasis on the make-up of the product is vital because of the need to sell benefits to potential customers and also to take account of another key factor- the product life cycle. A product will typically pass through 5 major stages in its life (5):

1. *Introduction*- costs are high (include the development costs), sales and profits are low, few competitors and relatively high prices.

2. *Growth*- sales rise rapidly, profits are at peak level, price softens, increasing competition, mass market appears and unit costs decline.
3. *Maturity*- sales continue to rise, but more slowly. Profits level off, prices soften further, competition is at its peak, mass market.
4. *Saturation*- sales stagnate, profits shrink, prices are fiercely competitive, measures are taken against remaining competition. Mass market begins to evaporate.
5. *Decline*- sales decline permanently, profits are low or zero, product is withdrawn from the market.

The total length of time over which a product may decline or grow depends on a variety of factors, for example its relevance to basic needs, its adaptability in the light of economic trends and whether it is the focus of short-term fads or of longer-lasting fashions. Taking into account the various stages of the product life cycle and the period of time concerned, it is possible to plan the product mix, development and introduction of new products or plan the withdrawal of obsolete/ unprofitable products. If the current position of any product is plotted correctly on its life cycle, then it is possible to assess the potential growth of sales, or the degree to which prices should be allowed to soften in order to maintain the market share. Therefore concept of the product life cycle makes an important contribution to forecasting of sales and planning of products. (5)

Price

If product is the most important element in the marketing mix, then the price is usually next. Price is important because it is the only one of the mix which produces revenue; the others all represent costs. Sellers have to gear prices to a number of key factors, such as (5):

- The costs of production and development.
- The ability to generate sufficient revenue and profits.
- The prices being offered by the competition.
- The desired market share for the product.

Price is especially important when introducing new products, placing existing products into new markets, during periods of rising costs of production or when competitors change their price structure and other elements in their marketing mix.

When new product is introduced, the price is usually high on account of the initial development and marketing costs. As the product begins to attract increasing sales and initial costs start to be covered, then prices can be reduced and production volume stepped up. Nevertheless it is also possible to introduce a product with a very low price in order to obtain a foothold in a new market, or an increased share of an existing market. A bargain price may attract considerable sales and at the same time discourage competitors, but the danger is, that the price may be so low that the business fails to generate sufficient revenue.

Few products stand still in terms of their costs- labour costs increase from year to year, materials costs and energy costs increase, interest rates may be extremely variable and hence cost of financing products fluctuates. The costs which are the most crucial are those which represent sudden and massive increases, which cannot be absorbed by improving productivity. In this situation price increases are practically inevitable. Pricing is a very flexible element in the marketing mix and enables firms to react swiftly to competitive behaviour. If price is the dominant issue for buyers, then they will prefer lower price to improved distribution arrangements or slightly higher quality. (5)

Promotion

Each product needs to be promoted, that is to say it needs to be drawn to the attention of the marketplace and its benefits identified. The principal methods of promotion are: advertising, sales promotion, personal selling and publicity. The goal of a firm's promotional strategy is to bring existing or potential buyers from a state of relative unawareness of the organisation's products, to a state of actively adopting them. Several different stages of customer behaviour have been identified (5):

1. Unawareness of product.
2. Awareness of product.
3. Interest in product.

4. Desire for product.
5. Conviction about value of product.
6. Adoption/ purchase of product.

Advertising have the broadest applications, since they can affect every stage. These stages have a different emphasis according to whether they are being applied to consumer or industrial markets.

Advertising

Advertising is the process of communicating persuasive information about a product to target markets by means of the spoken and written word and by visual material. 5 principal media of advertising are (5):

- The press-newspapers, journals, magazines, etc. (the most important medium in terms of total expenditure on advertising and sales promotion).
- Commercial television.
- Outdoor- hoardings, transport advertisements.
- Direct mail.
- Commercial radio.
- Advertising via internet service providers and the world wide web.

Decision about advertising expenditure will usually be made in conjunction with the position of the product in its life cycle.

Probably the most important aspect of any advertising campaign is the decision about what and how to say it to prospective customers. Advertising goals to achieve on or more of the following (5; 25):

- Increase customer familiarity with a product.
- Inform customers about specific features of a product.
- Inform customers about the key benefits of a product.
- Indicate distinctive features and benefits of a product.
- Establish the credibility of a product.
- Encourage potential customers to buy the product.
- Maintain loyalty of existing customers.

There are two main ways of looking at the question of advertising effectiveness- the first is to consider the impact of advertising on sales generally, the second is to consider the results of the advertising in achieving target improvements in specific tasks, e. g. increasing brand awareness in a specific market.

Personal selling

Nevertheless vivid the message put over by advertising, there is no substitute for the final face-to-face meeting between the buyer and the seller. Advertising creates the desire and interest, but personal selling clinches the deal. In industrial markets, personal selling plays an even more extensive role but personal selling is the most expensive form of promotion. Companies which rely more heavily on advertising are described as adopting a pull strategy, on the other hand, organisations which utilise an aggressive sales policy, based on personal selling, are said to be adopting a push strategy. (5)

Sales promotion

Sales promotion activities are a form of indirect advertising designed to simulate sales mainly by the use of stimuli. Sales promotion is sometimes called below-the-line advertising in contrast with above-the-line expenditure which is operated by an external advertising agency. Sales promotion activities are organised and funded by the company' s own resources.

Forms of sales promotion (5):

1. Promotions directed at customers- free samples, temporary price reductions, twin-pack bargains, point-of-sale demonstrations.
2. Promotions directed at trade customers- special discount, provision of display material, cooperative advertising, bonus/ prizes for sales representatives.

Publicity

Publicity differs from the other promotional devices, because it usually does not cost the firm any money. Publicity is news about the company or its products reported in the press and other media without charge to the organisation. (5)

Place- Distribution

The objective of distribution is moving the product or service to the final customer. It is primarily concerned with channels of distribution and physical distribution. Channels of distribution are those which facilitate the movement of goods and services from the point of production to the point of consumption where some channels are direct, but the majority are indirect. This means that there are lots of intermediaries between original producer and eventual buyer.

Choice of channels utilised by a producer is determined largely by the buyer and in recent years, there has been a trend towards shorter channels, because customers especially in consumer markets, realise that there are price advantages to be gained when middleman or retailers are by-passed in the chain of distribution. Therefore cash and carry, direct mail and “pick your own” operations are increasing in response to consumer interest. (5)

The most common channels of distribution (5):

1. Manufacturer → Customer

This channel represents a direct marketing channel, it can be found more in industrial markets than in consumer markets. The reasons for direct channels are as follows-

- Industrial markets- relatively small number of customers, need for technical advice and support after the sale, possible lengthy negotiations on price between manufacturer and buyer, dialogue required where product is to be custom built.
- Consumer markets- lower costs incurred in moving product to buyer can lead to lower prices in comparison with other channels, manufacturers can exercise greater control over their sales effort when not relying on middleman.

2. Manufacturer → Wholesaler → Retailer → Customer

It represents chain for mass-marketed consumer goods. Manufacturers selling a wide range of products over a wide geographical area to a market numbered in millions would find it prohibitively expensive to set up their own stores.

3. Manufacturer→ Wholesaler→ Customer

This is one of the shorter indirect channels, where the retailer is omitted. This kind of operation can be found in mail-order business and in cash-and-carry outlets.

4. Manufacturer→ Retailer→ Customer

It is another version of a shorter indirect channel, the retailers who dominate this channel are powerful chains or multiples in their own right.

Market segmentation

Markets are made up of different types of consumers, within each total market there exist submarkets which express distinctive product preferences compared with each other. Market segmentation can be defined as the sub-division of a market into identifiable buyer-groups or sub-markets, with the objective of reaching such groups with a particular marketing mix. (24)

Physical distribution

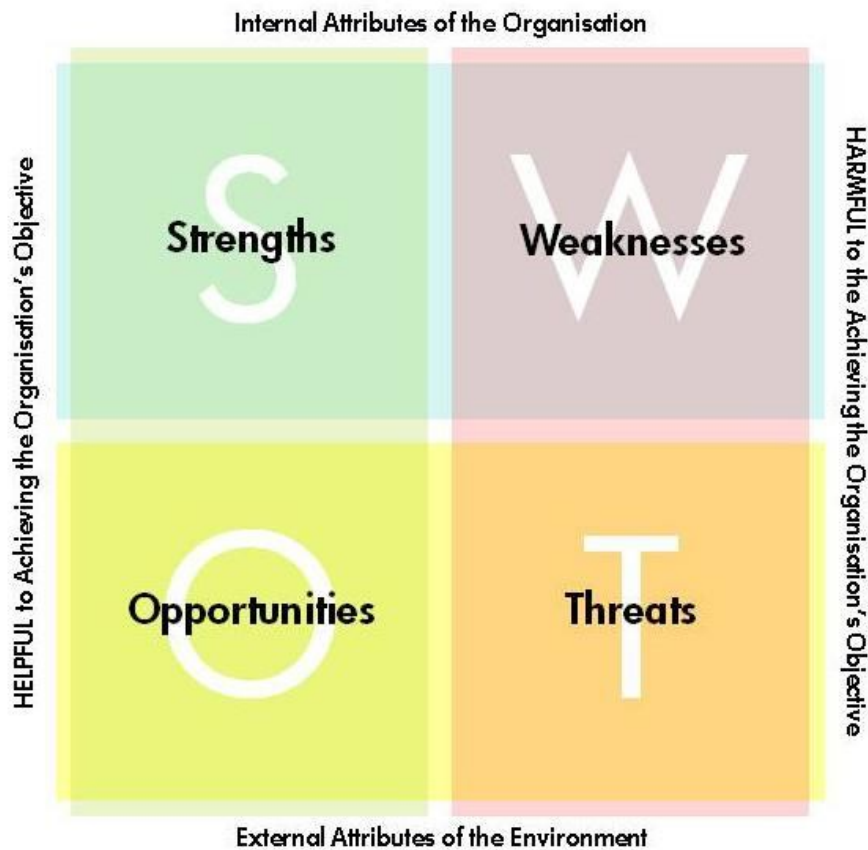
Physical distribution is a set of activities concerned with order processing, warehousing, packaging, transport, stock/inventory levels and customer service. In recent years a number of companies attempt to integrate and coordinate these functions which are called Physical Distribution Management (PDM). The PDM integrates the activities of marketing, production and other departments in this aspect of the organisation's marketing task.

If the product is a high-cost, high-quality item, then distribution costs will probably represent a small proportion of total costs of manufacturing and marketing it and so physical distribution may be considered very much a secondary issue. Where the product is offered at a very competitive price and hence where profit margins may be tight all overhead costs will be carefully examined, thus in this situation distribution costs will form an important issue for the supplier. An important feature for such costs is that they tend to increase rather than decrease with sales volume. (5)

2.2.5 SWOT Analysis

A scan of the external and internal environment is an important part of the process of strategic planning. The SWOT analysis provides information that is helpful in matching the organisation's resources and capabilities to the competitive environment in which it operates. As it is shown in picture 2, SWOT stands for: Strengths, Weaknesses, Opportunities and Threats. Strengths and weaknesses are essentially internal to the company and relate to matters concerning programs, resources and organization in key areas. Opportunities and threats tend to be external- from competing companies, global trends and other environmental factors. The main aim of this analysis is to relate firm-specific strengths and weaknesses back to the industry opportunities and threats. (39)

As a first step in analyzing strengths and weaknesses is to look at a company 's balance sheet to learn more about the resources that are available for competition. Intangible resources (distinctive internal capabilities, networks, market franchises and relationships with suppliers and customers) are often among a business's most valuable assets. In highly competitive markets intangible resources provide the substantial difference between success and failure. (39)



Picture 2: SWOT Analysis

Adapted from: (6)

Strengths

A company's strengths are its resources and capabilities that can be used as a basis for developing a competitive advantage. Examples of such strengths include (36):

- Strong brand names.
- Good reputation among customers.
- Patents.
- Cost advantages from proprietary know-how.
- Favourable access to distribution networks.
- Exclusive access to high grade natural resources.

Weaknesses

The absence of certain strengths may be viewed as a weakness, for example (36):

- A weak brand name.
- Poor reputation among customers.

- High cost structure.
- Lack of patent protection.
- Lack of access to key distribution channels.
- Lack of access to the best natural resources.

In some cases, a weakness may be the flip side of a strength. For example a company has a large amount of manufacturing capacity, while this capacity may be considered a strength that competitors do not share, it also may be considered a weakness if the large investment in manufacturing capacity prevents the firm from reacting quickly to changes in the strategic environment.

Opportunities

The external environmental analysis may reveal certain new opportunities for growth and profit. Some examples of such opportunities include (36):

- An unfulfilled customer need.
- Loosening of regulations.
- Arrival of new technologies.
- Removal of international trade barriers.

Threats

Changes in the external environment also may present threats to the organisation. Some examples of such threats include (36):

- Shifts in consumer tastes away from the firm's products.
- Emergence of substitute products.
- Increased trade barriers.
- New regulations.

A company should not necessarily pursue the more lucrative opportunities. Rather, it should have a better chance at developing a competitive advantage by identifying a fit between the firm's strengths and upcoming opportunities. In some cases, the organisation can overcome a weakness in order to prepare itself to pursue a compelling opportunity.

2.3 Solvency Ratios

The analysis of solvency (insolvency) can be assisted by the use of ratio analysis but such analysis has certain limitations. Ratio analysis is of necessity based on normal financial reports (balance sheet, profit and loss accounts, operating statements) so that any ratios prepared relate to past conditions whereas solvency relates to the present. Conditions may have changed dramatically since the last balance sheet date and an organisation which was solvent than may be currently having difficulties, perhaps because of credit facilities being withdrawn. Accordingly, any solvency ratios need to be interpreted with care and adjustments made in the light of up-to-date information. (27)

2.3.1 Short-term solvency ratios

Certain of the short-term solvency ratios, especially the “current” and “quick” ratios, are considered to be of great importance in judging the financial stability of companies particularly by creditors, investors and financial analysts.

Ratios concerned with current assets and liabilities (19; 27):

Current ratio= Current Assets/ Current Liabilities

Quick (or Acid test) ratio= Current Assets- Stocks (Quick assets)/Current Liab.

The current ratio effectively assesses the working capital of the company and is generally expected to be within a band of values appropriate for a given industry. It is wrong to be dogmatic about the ideal value for the current ratio, but analysts consider values in the range of 1, 8:1 to 2:1 to be acceptable.

The current ratio considers those assets and liabilities which have life cycles measured in months rather than weeks and while this aspect of solvency is of great importance the immediate liquidity position (6/10 weeks) also needs to be considered. This is assessed by the quick ratio which excludes inventories and prepaid expenses and therefore

concentrates attention on more liquid assets such as cash and debtors, which leaving only the more liquid (or quick) assets to be divided by current liabilities.

The acid-test ratio is designed to measure how well an organisation can meet its obligations without having to liquidate or depend too heavily on its inventory. It appears that an acceptable range of values for the acid test ratio is between 1:1 and 0, 8:1 (Quick assets: Current Liabilities).

If the current liabilities include a bank overdraft which it is known will not be recalled within the short time scale being considered then a more useful ratio would be to calculate the following adjusted acid test ratio (19; 27):

Adjusted acid test ratio= Quick Assets/ Current Liabilities- Bank Overdraft

This would compare assets and liabilities with approximately the same life cycles. This principle could also apply to a tax liability with a known payment day.

3 ANALYSIS OF THE CURRENT SITUATION

3.1 The company AKP Ltd.

3.1.1 History of the company

Company AKP Ltd. was established in year 1991 in Brno as a main distributor of English supplier Lurmark in the Czech Republic. A main activity was selling of spare parts for sprayers: nozzles, pumps, filters, etc.

The offer of the company has increased significantly during years 1995 and 1996, when the company has started to sell wider range of the spare parts and first types of trailed and mounted sprayers. Furthermore it has begun to provided reconstructions and repairs. At the same time AKP has become an exclusive distributor of worldwide producers ARAG, Annovi Reverberi and Albuz.

In 2002 the company has created its own sprayer with unique features. The main advantages of this sprayer are simple construction, high utility and efficiency. In 2002 company stated co-operation with Mazzotti, Italian producer of self propelled sprayers. In 2003 carbon booms were invented and have become the main competitive advantage. This invention was patented by the company in year 2003. The competitive advantage of this boom consists of (1):

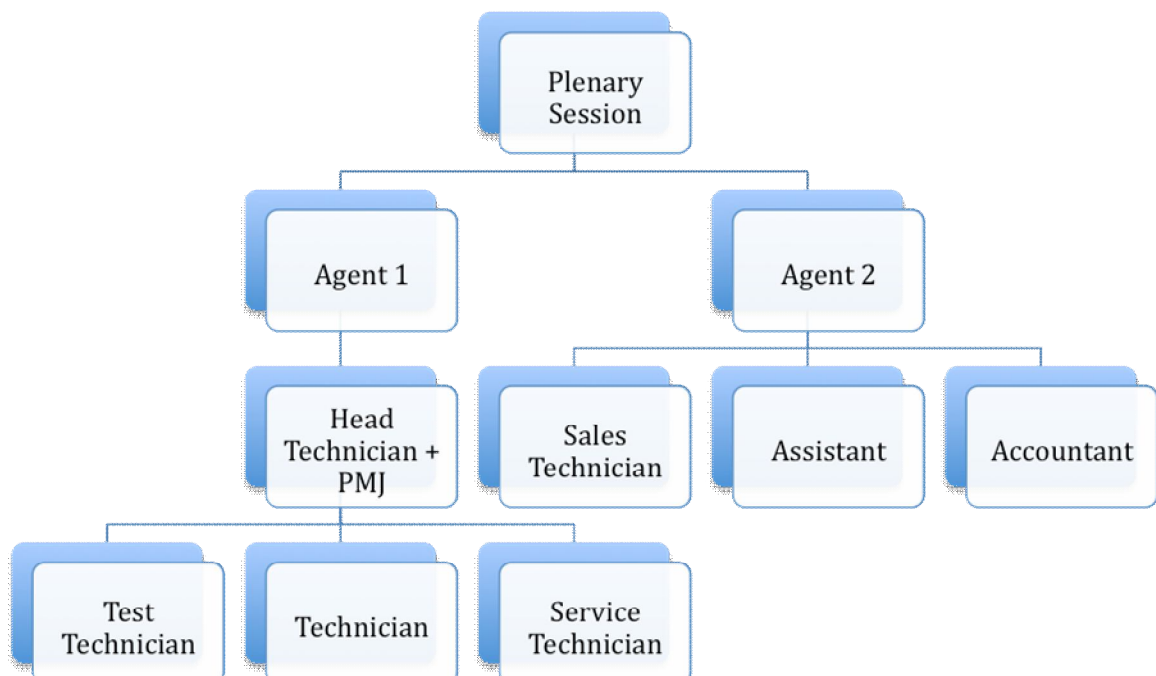
- Outstanding sturdiness: boom supporting members are made of laminates using carbon fibres.
- Low weight: booms do not require steel construction, minimal chassis burden.
- Nearly unlimited working life: resistant to material fatigue.
- Absolute corrosion resistance: not subject to effects of aggressive materials, high chemical resistance.
- Original design: firm hold an industrial design registration in the EU.
- Module component solution: enables the production of any coverage size.

3.1.2 Portfolio of AKP's activities

- Application equipment for industry, agriculture, forestry, gardening and other sectors.
- Production, modernization and repairs of spraying equipment.
- Self-moved, towed, knapsack or manual sprayers.
- Spare parts (pumps, valves, industrial nozzles, filters).
- Application equipment (direct injecting).
- Electronics for agriculture (GPS, air-conditioning).
- Counselling, servicing, providing services.

3.1.3 Structure of the organization

There are 9 employees (with 2 owners included). One of the owners is responsible for production (Ing. Pavel Vacek- Veselý) and the other one for sales, distribution and marketing (Hana Trtílková). Scheme of the organizational structure is shown in the picture 2.



Picture 3: Scheme of the organizational structure

Adapted from: Internal company's materials

3.2 External analysis of the company

3.2.1 PEST analysis

This chapter identifies main external factors influencing company's competitive environment. These factors are divided into political (legal), economical, social and technological, which in combination create particular opportunities and threats for the AKP Ltd. in the Czech agricultural machinery market.

Political/Legal factors

- Political situation in the Czech Republic is stable based on parliament democracy and free competition of political parties. Current political environment turned CR to the conservative climate which can be characterized by saving and turning the state finance from the red to the black numbers (e.g. 2009 the total state debt – 5,5%).
- Total expenditures for supporting the agriculture sector in the Czech Republic are rising due to the increasing direct payments and financing through structural policy of the EU. The operational program Enterprise and Innovation is focused on support for development of the entrepreneurial environment and support for implementation of research and development results into entrepreneurial practice. It supports establishment of new and development of the existing companies, their innovative potential and use of the latest technologies and renewable sources of energy. It allows an improvement of quality of infrastructure and services for business activities and establishment of cooperation between enterprises and the scientific-research institutions. The OPEI is financed from the European Regional Development Fund (ERDF). (13)
- The Act No. 334/2004 Coll. on mechanisation means for plant protection, consist registration methods of mechanized means of plant protection intended for the application of plant protection products, and their control testing;

operation of technical equipment to destroy harmful organisms. Mechanized means of plant protection placed on the market must be labelled. (41; 43)

- EU tightens regulations on crop spraying- new rules have been handed down by the EU. It comes from the document 2009/128/EC of the European Parliament and Council, which provides a framework for the sustainable use of pesticides. The latest part of this strategy is the Sustainable Use Directive, which has to be implemented by EU member states. The new rules will affect all pesticide users including foresters, the amenity sector and livestock farmers. (14; 38)
 - ✓ The EU directive will force all pesticide users to undergo some kind of training. At present, those, who spray on their own property and were born before 1965 do not require training. However, these "grandfather rights" will almost certainly be phased out by 2015.
 - ✓ The EU will also insist that all equipment used in spraying is regularly tested. Until 2020 testing will have to be done every five years and thereafter at least every three years. Currently there is only a voluntary National Sprayer Testing initiative in force.
 - ✓ Similarly, the new directive insists that there should be reasonable access to records so that interested parties can find out which chemicals are being used and the standards on handling and storage of pesticides will also be tightened up. At present this is done voluntarily.

- EC Directives establishes a framework to achieve a sustainable use of pesticides by reducing the risks and impacts of pesticide use on human health and the environment and promoting the use of integrated pest management and of alternative approaches or techniques such as non-chemical alternatives to pesticides (14; 38):
 - ✓ Directive 2000/60/EC of the European Parliament and of the Council of 23 October 2000 establishing a framework for Community action in the field of water policy.

- ✓ Regulation (EC) No 396/2005 of the European Parliament and of the Council of 23 February 2005 on maximum residue levels of pesticides in or on food and feed of plant and animal origin.
- ✓ Regulation (EC) No 1107/2009 of the European Parliament and of the Council of 21 October 2009 on the placing of plant protection products on the market.

Economical factors

- Economic situation after the election in May 2010 seems to be optimistic, however exact changes will be seen in few months and years. The new government needs to put forward a concrete plan for fiscal consolidation. The recovery of growth will improve the fiscal balance only to a limited extent and putting fiscal policy on a sustainable basis therefore requires spending restrictions, particularly on pensions, health care and welfare benefits and institutional changes, to strengthen the fiscal policy framework and create mechanisms to facilitate a comprehensive approach to policy making. (33)
- Global Financial crisis have an impact on agriculture as well as on the other sectors. The Czech economy came out of recession at the end of the year 2009 and has been increasing its performance since the third quarter of 2009. Recovery nevertheless remains fragile and future development is still encumbered with considerable risks related especially with external environment. A slight increase in real GDP by 1,6% is assumed for 2010. Thanks to an increase in imports by the main trading partners, growth should be pulled by means of foreign trade mainly. Under current assumptions, the economy's growth should accelerate to 2,3% in 2011. (28) Further figures concerning economical development are shown in table 1.
- Average rate of inflation is estimated at some 1,6% in 2010 with growth of consumer prices accelerating to 2,5% in 2011.(28)

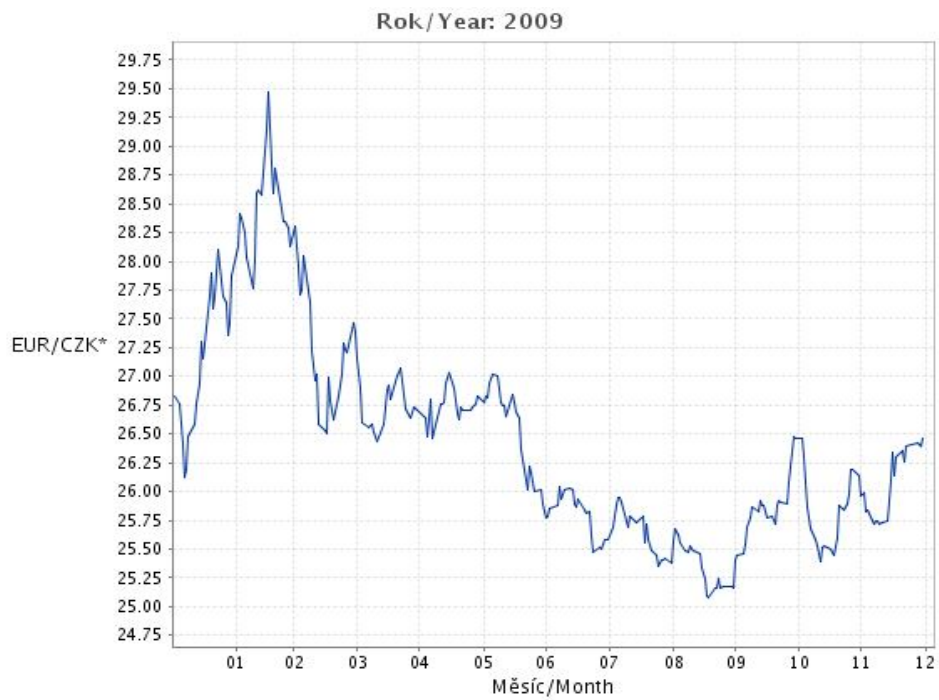
- Consequences of lower economic activity are still seen on the labour market. After considerable growth of rate of unemployment (LFS) from 4,4% in 2008, a maximum of some 7,6% should be hit in 2010. After that, rate of unemployment should start falling slowly. Employment should decrease by 1,4% in 2010 and grow moderately by 0,6% in 2011. Wage bill should fall by 0,3% in this year. In 2011 wages and salaries could grow by 3,8%. (28)

- Agricultural production showed in 2009 considerable decrease of 18,1% in comparison with the year 2008. Which is, in spite of the subsidies from the government, the lowest number from the year 2004, when the Czech Republic entered the EU. It represents decrease of 18,3% in comparison with the previous years. However these numbers are directly influenced by the financial crisis, which have started to be evident in the second half of the year 2008. (28)

- Agricultural sector is characterized by the wages disparity and it is behind the average wages in the Czech Republic. In comparison of the year 2008 and 2009 these lag behind was intensified on the level of 73,1%. The average increase of the total wages was lower by 3,8% than the average wage in CR. (30)

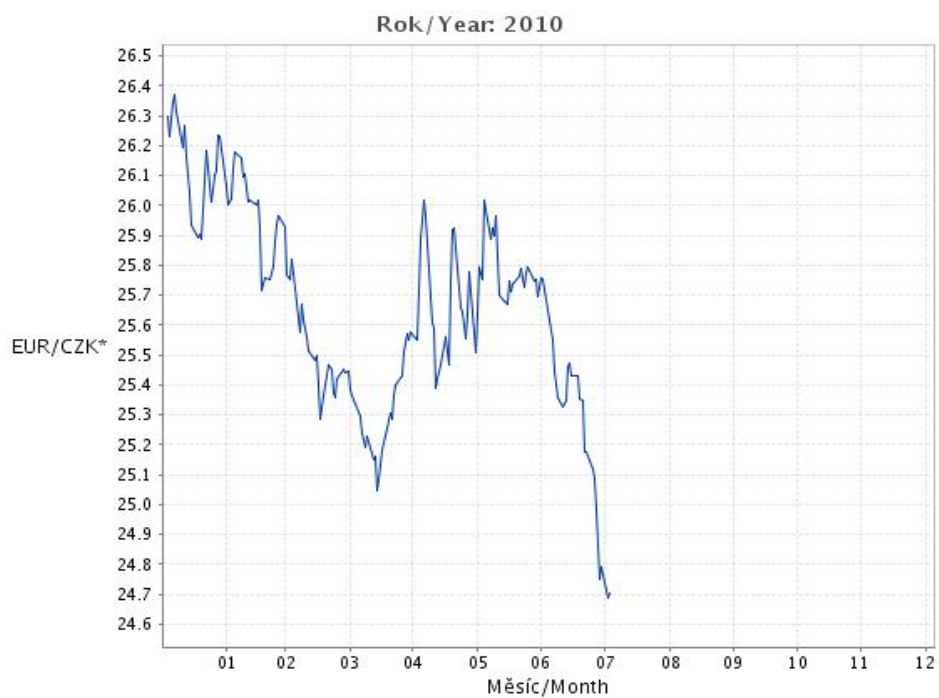
- Changes in the interest rate are not so important for the company.

- Exchange rate risk can be seen from the graphs number 1 and 2, where is shown EUR/CZK exchange rate changes in the year 2009 and half of the year 2010.



Graph 1: Trends in EUR/CZK exchange rate 2009

Adapted from: Czech National Bank, (7)



Graph 2: Trends in EUR/CZK exchange rate 2010

Adapted from: Czech National Bank, (8)

Currency pairs are stated in the common format under the conventions of the financial markets. The Czech national bank sets the exchange rates fixing uniformly as a number of korunas per above-mentioned amount of euro such currency is considered as a base one and therefore stated as first. (7; 8)

	2004	2005	2006	2007	2008
GDP per capita in CZK, current prices	275 770	291 561	313 868	342 494	353 701
GDP, % y/y, constant prices	4,5	6,3	6,8	6,1	2,5
Industry, PPI, % y/y	9,6	6,6	11,2	9,0	0,5
ILO general unemployment rate, %, avrg.	8,3	7,9	7,1	5,3	4,4
Average monthly gross wages, CZK	18 025	18 940	20 158	21 621	23 430
Inflation rate, %, y/y	2,8	1,9	2,5	2,8	6,3
External trade balance (goods), mil. CZK, current prices	-26,4	38,6	39,8	87,9	67,5
Electricity, final consumption, million kWh	52 370	53 729	55 541	55 923	¹⁾ 56 523
Housing construction (dwellings completed, total)	32 268	32 863	30 190	41 649	38 380
Mobile telephones per 100 inhabitants	105,5	114,9	124,0	122,0	132,0
Households connected directly to internet, %	.	19,1	26,7	32,0	41,7
Highways, total length, km	546	564	633	657	691
Proportion of environmental investments in GDP	0,7	0,6	0,7	0,6	.

Table 1: Economics and infrastructure

Adapted from: Czech Statistical Office, (9)

Social factors

- The main social factor influencing agricultural sector is an overall trend of aging population in the Czech Republic which is particularly in this sector very important (as it is shown in table: 2). Therefore there is another negative factor which is insufficient supply of young qualified labour.

	<i>Number of persons, total</i>	<i>Number of persons broken down by age groups</i>					
		<i>Up to 24</i>	<i>25 - 34</i>	<i>35 - 44</i>	<i>45 - 54</i>	<i>55 - 64</i>	<i>65 and more</i>
	1	2	3	4	5	6	7
Hl. Mesto Praha	2 339	90	398	558	718	445	131
Stredocesky	22 636	1 015	3 266	4 353	6 806	5 716	1 481
Jihocesky	18 936	927	2 639	3 719	5 751	4 572	1 328
Plzensky	12 001	581	1 770	2 340	3 867	2 900	542
Karlovarsky	2 182	119	361	445	658	475	124
Ústecky	7 922	393	1 289	1 496	2 388	1 837	518
Kralovehradecky	11 695	583	1 752	2 275	3 612	2 717	755
Pardubicky	13 191	773	2 148	2 639	3 840	3 024	767
Vysocina	20 740	1 004	2 997	4 278	6 233	4 857	1 371
Jihomoravsky	30 415	1 454	4 069	5 641	9 033	7 322	2 895
Olomoucky	12 386	597	1 850	2 706	3 979	2 694	560
Zlinsky	11 481	714	1 576	2 138	3 271	2 524	1 258
Moravskoslezsky	12 767	803	1 982	2 550	4 003	2 482	947
CR TOTAL	183 648	9 309	26 831	36 071	55 545	42 760	13 131

Table 2: Workers in agriculture by age groups

Adapted from: Czech Statistical Office, (10)

- Agricultural sector is limited by the arable land and that is why it does not create new working positions. In consequence there was a decrease of 5,1% in the number of employees in 2009.

- Absence of the job opportunities in the rural areas and accompanying migration of the qualified labour to the cities.
- Positive trend in life style-changes of the young people in the growing popularity of the bio and organic food, thus some bio or family farms use organic treatments instead of pesticides.

Technological factors

- Necessity of the special technology for cultivation (low or minimal tillage) will lead farmers to new equipment for spraying.
- Companies can compare all the spare parts and machines on the internet and choose the best possibility of the purchase.
- Constant innovation in the development of the new technologies allows continual automation of the work on the field. Which is represented for example by a guidance systems, precision farming or boom controlled and assisted steering. Therefore the employees working with these technologies need to understand and operate the electronic equipment inside the machines, thus more education for operators needed.
- Modern sprayers are safer and more economic to run than in the past.

3.2.2 Porter five forces analysis

Five forces analysis help AKP to evaluate level of competition within agricultural machinery market and to find potential opportunities and threats which company has to confront. According to Porter (1979) the competition in an industry is rooted in its underlying economic and competitive forces exist that go well beyond the established combatants in a particular industry. Customers, suppliers, potential entrants and substitute products are all competitors which may be considered. (31)

Threat of new entrants

Entry to the market may be achieved by establishing a brand new company or by an existing company diversifying its operations to include the manufacture of construction and farm machinery. The global market is dominated by a small number of large international players. Entry to the market as a direct competitor to companies such as John Deere would require considerable capital outlay to set up production plants, involving high fixed costs offset by scale economies. However, small-scale entry is possible by short-line and specialty manufacturers. Entrants on a small scale would generally operate on a local rather than a global level and operate in individual markets. Large market players possess significant IP assets in terms of patents, licenses, and trademarks. Furthermore, leading manufacturers have established strong brands that are recognized globally. Regulations exist in this market such as international environmental laws governing the use, transport and disposal of substances and control of emissions. In addition to governing manufacturing and other operations, these laws often impact the development of products, adding to costs. The likelihood of new entrants is weak overall. (12)

Substantial advantage for AKP is the fact that it exists for 16 years and therefore the company has stable position, loyal customers and long tradition including developing advanced carbon technologies. Main task is to keep its position, because competition on the agricultural field is constantly increasing.

Competitive rivalry within an industry

The global construction and farm machinery market is dominated by a small number of large multinational players. Competition between large players is intense due to a number of factors such as high fixed costs for players and low switching costs for buyers. The revenues accrued by market players are highly dependent upon end-user industry conditions. For example: the sale of farm machinery is affected by economic conditions- farmers tend to postpone the purchase of equipment when the farm economy is depressed. Seasonality is also a factor for a number of end-user industries. However, market players tend to produce products for a number of industries including agricultural, orcharding, forestry, etc. Consequently players are unlikely to be highly

dependent on the sales to one industry, but are dependent on the market overall. Currently, the total market is performing badly, which intensifies rivalry as players strive to maintain their own revenues in the face of a sharp fall in demand. In the time of crisis price is becoming one of the main market drivers. Rivalry is further alleviated by product differentiation through both specific functionality and brand reputation. Rivalry in this market is strong. (12)

There are not just Czech companies such as Agrio Křemže or MGM Holešov, which are building its images on the domestic market for many years but also foreign companies for example: Tecnomat, Berthoud, Bargam, John Deer, Hardi, etc. that influencing the Czech market.

Due to the strong competition companies are delivering not just products but also other associated services connected with the goods such as testing of the sprayers. Furthermore they are trying to promote their offer on many exhibitions and fair trades in CR and abroad to attract potential buyers as much as possible.

Bargaining power of customers

Buyers in this market are fragmented with a large number of medium and large businesses requiring products from this market. The loss of business from larger buyers would adversely affect market players' revenues. A number of leading market players have established globally recognized brands, for example CNH Global trade a number of products under the 'New Holland' brand which has high levels of brand identification and loyalty, and a strong brand reputation is likely to have some influence on buyers considering the purchase of products in this market, weakening buyer power. Most buyers are unlikely to integrate backwards into the manufacture of construction and farm machinery, which also strengthens the incumbents. On the other hand, buyer power is strengthened by relatively low switching costs and the lack of differentiation of a number of these products. Overall, buyer power is moderate. (12)

The key customers of agricultural machines are mainly agricultural enterprises, private farmers and granges. Customers buy relatively expensive machines from which sellers

have high profits. Performance of the machines and service is very important for the customers. However buyer's decision is often influenced by speed of delivery. Very important is personal negotiation and individual approach.

Threat of substitute products

Substitutes as such do not exist in this market, nevertheless they may be considered in terms of used products being sold privately. Such equipment is cheaper than the equivalent bought new, however it is unlikely to be under any kind of warranty if sold privately which may be of great significance when it comes to the heavy duty work construction and farm machinery are designed for. Overall, the threat of substitutes is moderate. (12)

Due to the characteristic of the sector the possibility of new substitutes is very low. For the agricultural companies which have size of their fields larger than 50 ha will be always necessary to have sprayers, which will ensure plant nutrition. The only threat could be restrictions on volume of the chemical usage from the government side. Bio farms are reducing pesticides treatment, GMO (genetically modified organisms) resistant to insects and fungicides.

Bargaining power of suppliers

With fairly low differentiation of raw materials (such as steel, aluminium, etc) in this market, there is often little to distinguish different suppliers and construction and farm machinery manufacturers incur low switching costs if they change their suppliers of these materials. The price of raw materials is volatile, with substantial variations being evident from year to year. The commodity boom, that raised prices of many inputs in the years up to 2008, came to a dramatic end in the final months of that year. Although most commodity prices began to rise again in 2009, few have returned to those vertiginous peaks. Market players attempt to overcome price fluctuations through the adoption of hedging strategies and by entering into long-term contracts with suppliers where possible. Where value-added inputs, such as engineered components are concerned, supplier power is stronger because they are offering more highly differentiated goods. Also, a number of market players are highly reliant on single

suppliers and this again strengthens supplier power. Overall, supplier power is moderate in the market. (12)

The basic components for production of the sprayers are pumps, plastic tanks, pipes, fitting material, booms, electronics, etc. Particular components are often delivered by various suppliers who are fighting for every customer by lowering the prices. Distributors for the Czech market have exclusive agreements and therefore sale of certain components is possible just through these well established distributors.

3.2.3 Market analysis

Global market analysis

The recession affected many economies in 2009 which had a profound impact on demand for products in this market. Although stagnation is likely to persist in 2010, a return to growth is forecast for the years afterwards. According to Datamonitor 2010 the global construction and farm machinery market declined by -25,5% in 2009, to reach a value of 80,15 billion EUR. The market contracted overall during the years 2005- 2009 with a compound annual rate of change of -2,2%. Harvesting equipment was the most lucrative segment of the market, with sales of 12,8 billion EUR in 2009 accounting for 16% of the total revenues. Earthmoving equipment contributed a further 13,5% of the total, equating to 10,8 billion EUR. The market's performance is forecast to accelerate, with a compound annual rate of change of 6,6% for the years 2009- 2014 expected to drive the market's value to 110 billion EUR by 2014 an increase of 37,4% since 2009. (12)

Size and composition of the market in Czech Republic

At the end of the year 2006 there were 46 279 agricultural producers in the Czech Republic. Almost 2000 enterprises (4,3%) were focused on livestock production. The others (44 279 plant producers) and therefore potential customers for AKP farmed on 3 518 072 ha of farmland in 2007. More than 71% of them are legal persons. After the year 1995 there is steadily growth of personal entities in the agricultural sector. (11)

Number of the potential customers

The main indicator for the companies which delivered spraying systems is the area of the arable land in hectares. If the company wants to sell sprayers with the minimal length of the booms of 18 meters they should focus their attention to the potential customer farming on the area larger than 100 ha. From the table 3 is apparent that the potential number of the AKP's customers which are likely to buy a sprayer is around 5300. However other businesses with the arable area smaller than 100 ha could be potential customers of the company buying backpack sprayers or other spare parts.

Groups of the business according to the size of arable land (ha)	Businesses Total			
	Number of farmers		Arable land area	
	abs.	%	ha	%
0 < 5	24 171	53,9	37 099	1,0
5 < 10	5 163	11,5	35 813	1,0
10 < 50	9 148	20,4	205 027	5,7
50 < 100	2 096	4,7	146 423	4,1
100 < 500	2 391	5,3	516 956	14,4
500 < 1000	800	1,8	582 866	16,3
1000 < 2000	695	1,6	981 179	27,4
2000 and more	362	0,8	1 080 360	30,1
TOTAL	44 826	100	3 585 723	100,0

Table 3: Size structure of the businesses and their arable land area

Adapted from: Ministry of Agriculture, (16)

Supply on agricultural market

Agricultural engineering has an outstanding impact on working productivity, economy of the production and competitiveness of the agricultural enterprise. These equipment can be considered as indispensable in today's business conditions. However the level of the engineering facilities in the Czech companies is very obsolete with relatively slow shift to modernization of the machines.

On the Czech agricultural market around 250 dealers, sellers, importers, customer services and manufacturers are operating.(18) Therefore supply of the machines and spare parts is wide and fully covers the needs of agricultural enterprises thus sellers have to offer various range of high quality brands, innovative products and good service to satisfy customer's needs and to remain competitive.

According to the Czech statistical office (11) the current number of sprayers count with 10 868 own pieces of sprayers, where 1481 pieces are self- propelled sprayers and 547 pieces of hiring sprayers. It can be assumed that plenty of them are obsolete. Newly offered machines have to meet certain laws and conditions to fit in with the Czech and EU legislative. For example obligation to incorporate the machine to the official register.

Competition analysis

The company is situated in quite strong competitive environment in the area of spare parts for sprayers and also in the area of the production of sprayers. Among the main competitors of AKP are: AGRIO Křemže, MGM Holešov, Tecnomat (Agrokonzulta Žamberk), Hardi, Grene-Kramp, Berthoud, Prodag Zlín.

All competitors are offering sprayers with lots of different technical features but all of these installations are very similar. There is no offer of spraying machines which goes out of the box. In this case certain comparisons of the main competitors were made and it was found that the technical solutions and equipments are very comparable (see table 4). However AKP has a competitive advantage in carbon booms, which is patent pending technology produced by the firm's own development.

<u>Manufacturer</u>	AKP-MAZZOTTI	BERTHOUD	HARDI	TECNOMA
<u>Model</u>	IBIS 4200	Raptor	Alpha plus i	Laser
<u>Tank (l)</u>	4000	4200	4100	4200
<u>Boom material</u>	Carbon	Steel	Aluminium	Steel
<u>Boom size(m)</u>	36	36	36	36
<u>Pump type</u>	AR 280-460	550l, Omega	463H-322	PM 700
<u>Weight (kg)</u>	7500	9510	8930	9420
<u>Control unit</u>	Yes	Yes	Yes	Yes
<u>Engine power (HP)</u>	180-225	200	210	200
<u>Work speed</u>	16- 20	16-22	16- 22	16-20
<u>Height from ground (m)</u>	1,3	1,1	1,25	1,6
<u>4 wheel drive (4x4)</u>	Yes	Yes	Yes	Yes

Table 4: Main manufacturers of the sprayers- top line machines comparison

Adapted from: Author's research, (2; 4; 20; 42)

Because current trend is to use sprayers with large tanks and long booms the comparison was made between the top product line of sprayers.

From the figures shown in the table above can be concludes that booms made from carbon is an advanced technology. It is apparent that the weight of the AKP Mazzotti machine is more than 1 tonne lighter than Hardi sprayer and about 2 tonnes lighter than two other sprayers. Thanks to the lighter weight of the machine the fuel consumption is lower (in case of IBIS it is less than 0,85l per hectare), the engine power yield per hectare is higher and there is also the ability to drive on the wet soil. Another advantage is minimum fatigue of the boom material (carbon) which give farmers possibility to drive faster on rough terrain.

3.3 Internal analysis of the company

3.3.1 Segmentation and target marketing

Porter (1985) claims that, competitive advantage cannot be understood by looking at a firm as a whole. It comprises from many activities a firm performs in producing, designing, delivering, marketing and supporting its product. Each of these activities can contribute to company's cost position and create a basis for differentiation. Examination of all the activities the company performs is necessary for analyzing the sources for competitive advantage. (45)

AKP's market is segmented into the 5 parts, where the highest share belongs to the farmers (approximately 60% of the company's sales), second and third position belong to wine growers and fruit-growers with the similar sales of around 12%, on the fourth position is forestry with stable share of 10% and the last one is industrial nozzles market where company started to operate in 2009 and has considerable growing potential.

Company deals mostly with the business segments, especially with the collective farms, private family businesses and large agricultural companies. Number of all potential customers is around 44 830 in the Czech Republic.

All the potential customers are well defined and are known from statistics with available addresses and area of their arable land is also known. It is useful to identify if the client is potentially interested in self propelled sprayers or just small ones. AKP is running its own database with 4135 of customers which represent about 10% of the whole market.

Due to the global financial crisis consumers are more price-sensitive and price of the product became the most important tool hence AKP should try to keep costs and inventory levels on the minimal height, because all operational activities can represent significant or growing proportion of costs.

3.3.2 Positioning

To attract the right customer on the right time and place AKP's positioning strategy is divided according to the segments, which means there is totally different offer and marketing channels for foresters or for farmers, which have more than 100 ha of arable land. For example company is trying to attract potential clients on fair trades which are focused especially for farmers possible to buy self propelled or trailed sprayers. Other distribution and marketing channels will be discussed in marketing mix afterwards.

3.3.3 Objectives of the company

On a long-term basis company AKP focuses on the quality products supply to their customers, which increase buyer's productivity and quality of work and at the same time these products will be highly competitive and price affordable.

To measure performance more accurately objectives are divided into several groups:

- *Economic*- maintain the positive economical figures during the crisis and start up sustainable growth in selected segments. Wide commercialization of carbon boom technology is one of the priorities in agricultural segment in the next 3 years.
- *R&D*- continual tuning of the carbon booms, to take advantage of innovative and unique product. Increase of utility value of the carbon booms in the area of resistance to abrasion.
- *Manufacturing*- during the manufacturing of carbon booms use modern winding technologies, which increase endurance and at the same time reduce weight and resistance to stroke for example Kevlar coating, which is at the surface of carbon booms.
- *Environmental*- reduce of the carbon foot print using the modern production technologies and by decreasing amount of the waste which overburden environment. For example the manufacturing of the carbon booms is without

usage of gas and chemicals which contained in coat of paints and there is no need to welding the components together.

- *Human resources*- stabilization of the working team and offer employees maximum chance to educate themselves while salaries are constantly annually growing, based on the individual performance.

3.3.4. Marketing Mix

Product

Company has quality products in all the segments and is capable to fully satisfy requirements of the customers. Carbon booms is unique product by which company trying to attract customers on agricultural market. For other clients AKP has wide range of products with appropriate customer service and stock adequately supplied with goods. AKP's products can be divided into:

- Agriculture- farmers on arable land- range of products which are offered by the company are:
 - Sprayers- self- propelled, driven, mounted- with all necessary components and accessories.
 - Carbon booms- from length of 24 meters to 40 meters also with air support. From the product life cycle point of view carbon booms are oriented somewhere between introduction and growth position.
 - Spare parts- for example-pumps, nozzles, nozzle holders, filters, valves or electronics.
- Vineyards, orchards and forestry
 - Orchard sprayers and spare parts.
 - Manual or electric back pack sprayers (1,5- 20 litres).

- Weed stick, Herbaflex and herbi low-volume applicators- environment friendly treating.
- Industrial segment
- High pressure power jet cleaners.
- Industrial nozzles and accessories.

Price

Price is the only revenue generating element amongst the four Ps, the others all represent costs. Approach to the price can be considered by lots of ways and AKP decided to calculate the price cost oriented way. All the costs such as shipment, packaging, stocking or promotion campaign are calculated and the margin is added with regard to the competition price on the market.

If the prices of AKP products will be compared with competition it will be found that to stay on a same market position, prices of spare parts and special products for vine and fruit growers are similar.

However company decided to set the price of carbon booms differently. Price comparison of 36m long booms with spraying equipment for final consumer:

- Agrio Křemže (Czech Republic)	13 200 EUR
- Tecnomat (France)	14 800 EUR
- Hardi (Denmark)	15 230 EUR
- Toselli (Italy)	15 640 EUR
- Berthoud (France)	14 500 EUR
- AKP (Czech Republic)	19 800 EUR

From the list above can be concluded that the price of AKP's carbon booms is about 30% higher than competitor's aluminium or steel solution. Nevertheless carbon booms have considerable advantages and consumers are willing to pay for these positive

features. Calculation of price corresponds with quality of the product and interest of the customers. Regarding to the current sales of the carbon booms it is evident that the price goes hand in hand with customer's contribution.

Promotion

AKP's promotional strategy is focused on increasing customer familiarity with a product, encouraging potential customers to buy and maintaining loyalty of existing clients. The company is also trying to keep product quality on a high level to make positive customers perception and thus take advantage of word of mouth as one of the marketing channels with no costs.

Most users of the sprayers and possible customers of the AKP are all agricultural subjects having the size of arable land larger than 100ha therefore AKP can be seen on every Tech Agro and Země Živitelka trade fare in the Czech Republic and also in some trade fares abroad.

Passive sales promotion

These trade fairs are aimed especially to potential and existing customers which farms on arable land larger than 100 hectares and are able to buy a trailed or self propelled sprayer.

- Brno, Tech Agro (Czech Republic).
- Bologna, Eima (Italy).
- České Budějovice, Země Živitelka (Czech Republic).
- Hannover, Agritechnica (Germany).

Active sales promotion

- Field Day- show of sprayers with carbon booms working on field- focus on farmers.
- Leaflets- for all segments (see appendix 3) also with AKP's catalogue.
- Advertisements in technical journals such as- Zemědělec, Agrospoj or Agrární Noviny.
- Articles in technical journals (for example in Mechanizace).

- Seminar meetings in the form of planned presentations mainly for farmers which are managed by trained employees of the company. These seminars maintain relationship with potential customers. Every year about 12- 15 seminars are taking place with attendance of 500 farmers in total.
- Direct marketing- personal invitations for the trade fairs and other offers, web page.
- Web page- according to the seo-service analyse of source code (37), company has fair result with 85% which enables to be more visible when customers use fulltext searching. Further pacing of the website on Seznam and Google reach considerable result of 10/10 when users can find AKP on the first places.
- Direct sale face to face.

Marketing costs for all AKP's products are approximately 6% from the overall turnover.

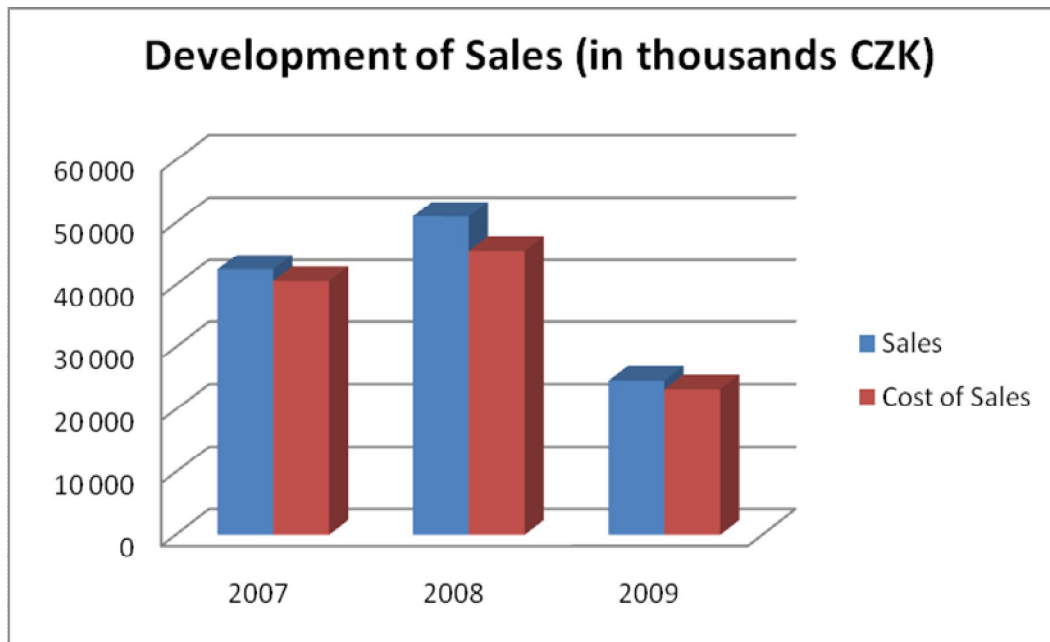
Place- Distribution

Distribution channels into the company of all range of products are always going directly from manufacturers- Italy (Arag, Annovi Reverberi, Polmac, Mazziotti, ProJet) or UK (Hypro).

Nevertheless much more important are channels going from the company which are based on direct distribution of products. Customers order goods via e-mail or telephone, then it is packed and sent to the client. However customers also can buy the goods in store in Brno every week day from 8:00 am till 4:30 pm with possibility of the professional advices. One of the new distribution channel, where the company is interesting is e-shop, but this project is just at the very beginning.

Indirect selling of goods work by using distributors in different regions of the Czech Republic which know very well what exactly customers need and are also able to provide them quality service.

3.4 Basic financial figures and ratios of the company



Graph 3: Development of AKP's sales

Adapted from: AKP Profit and Loss statement 2007, 2008, 2009 (3; 22)

The above diagram (graph number 3) shows three consecutive years of the development of sales and their costs. Comparing 2007 with 2008 the sales were 17% higher in 2008 and cost of sales were 11% higher than in 2007 which means that also profit in 2008 was slightly higher. Good performance of the company in 2008 considerably decreased in 2009 especially due to the global financial crisis. Sales in 2009 dropped down of 34% and AKP's profit was on the lowest level in these 3 years.

Currently AKP is supported by the investment from the European Regional Development fund and the Ministry of Industry and Trade of the Czech Republic on the operational programme enterprise and innovation.

3.4.1 Ratio analysis

Following ratio analysis (see table 5) was made based on the company's last 3 years profit and loss statements and balance sheets. Facts and figures was provided by and discussed with AKP's accountant Mrs. Štroblíková.

RATIOS	2007	2008	2009
Profitability Ratios [%]			
ROA- Return on Assets- EAT/Total Assets	5,59	15,8	1,84
ROI-Return on Investment- EBIT/Total Liabilities	7,49	20,56	2,87
ROE-Return on Equity- EAT/Equity	20,21	29,07	2,39
ROCE-Return on Capital Employed-EBIT/Capital Employed	18,01	32,47	3,65
Activity Ratios			
Total Asset Turnover-Sales/Total Assets [a year]	1,64	2,75	1,83
Stock Turnover- Sales/Stock [a year]	8,34	7,03	6,69
Stockholding Period- Stock/Sales*360 [days]	43	51	54
Debtor Turnover- Debtor/Sales*360 [days]	32	42	51
Creditor Turnover- Creditors/Sales*360 [days]	54	48	42
Gearing Ratio [%]			
Equity Ratio- Equity/Total Assets	27,65	54,36	76,94

Table 5: Ratio Analysis

Adapted from: AKP Profit and Loss statement 2007, 2008, 2009 (3; 22)

Profitability ratios are vital for the survivability of the company and can give insight into the all important "profits". It provides a good understanding of how well AKP utilized its resources in generating profit.

Impact of the financial crisis is visible on the first sight on profitability ratios where are considerable differences are between years 2008 and 2009. Therefore the table above

shows that the year 2008 has totally different results, mainly because of twice higher profit than in 2007 and almost ten times higher than in 2009.

ROA illustrates how well company is employing its total assets to make a profit, the higher the return, the more efficient the firm is in utilizing its asset base. The ROA ratio should be around 5% or more, instead of year 2009 AKP fulfilled this limitation, however if it is compared to the average of close business branch (according to OKEČ (29)- “manufacturing and repairs of machines and devices”) the rate is oscillates around 8% therefore performance of AKP is not sufficient in 2007 and 2009.

Return on investment is indicator of business activity performance. ROI indicates how effective are total liabilities invested in the company. Profitability of all paid capital is very low in 2009 (2,87%) comparing to 2008.

ROE ratio is an important measure of a company's earnings performance. It shows how much the owners earned for their investment in the company. The higher the ratio the more efficient company is in utilizing its equity base and the better return is to investors. A share in the company yield a better return than benchmark (12%) of 20% in 2007 and 29% in 2008, but again 2009 represents huge fall in profitability and ratio reached only 2,39%.

Nevertheless ROE ratio is higher in all shown years than ROA ratio which means that the company effectively uses sources of finance and therefore influence of financial leverage is positive.

ROCE measures company's ability to generate returns from its available capital base, so it is a key factor to gauge company's profitability. Profit before interest and tax is 3,65% in 2009 of the total capital invested. Hence it can be concluded that it exceeds the inflation rate (which is according to Czech Statistical office 1, 0% in 2009) and so the invested capital brings appreciation. It is also valid for 2007 and 2008 where the inflation rate was 2,8% and 6,3% consequently invested capital brings appreciation.

The total asset turnover ratio measures the ability of a company to use its assets to generate sales. Turnover of total assets during the monitored years oscillate between

1,64 and 2,75 in a year. As a good result the ratio value between 1,6- 2,9 turns per annum is considered, so the conditions are meet and AKP fits to the segment average.

Stock turnover ratio shows how many times over the business has sold the value of its stocks during the year. The higher the ratio the better, because money is then tied up for less time in stocks. A quicker stock turnover also means that the company should be more competitive. AKP's stock turnover falling yearly, in spite of the stock amount reduction in 2009 by half. Decreasing sales are the main reason why the ratio is in 2009 the lowest.

Same trend can be seen from stockholding period where number of the days represents how long the inventory is tying in the business. Year 2009 represents 54 days, which is the longest period comparing to average which is around 40 days.

If the debtor's turnover ratio is higher than creditor's then the company is doing a poor job of collecting receivables. In the case of AKP rule is valid in both years 2007 and 2008, where the company has money from its customers earlier. However in 2009 the ratio is vice versa particularly due to the financial crisis, debtors are paying their payables in average 9 days later than company pays to its suppliers thus the cash flow of the company could be exposed to risk.

Equity ratio characterizes long-term financial stability of the company and indicates the relative proportion of equity used to finance a company's assets. From the figures above can be seen that company is prefer to use its own resources, which is a wise decision in current global financial situation. Segment average according to close business branch (29) is 40,26% and recommended percentage is around 50% therefore AKP performance for the last two year is favourable.

It can be concluded that AKP has some problems related to its profitability. Two reasons explain it, firstly company's profit considerably decreased in 2009 and secondly profitability of manufacturing of the machines is very poor whereupon AKP has to "finance" it from revenues from sales. Otherwise company is relatively financially healthy, it only needs to bare in mind that long-term tenability of performance in 2009 is dangerous for the future existence.

3.4.2 Short-term solvency ratios

Ratios concerned with current assets and liabilities in 2009:

Current ratio= Current Assets/ Current Liabilities= 10 066/ 2 871=3,5

The current ratio is generally expected to be within a range of values of 1,8:1 to 2:1 to be acceptable. At a minimum the current ratio should be greater than 1. The ratio is measuring the short-run solvency and it is use to measure a company's liquidity or ability to pay off short-term debts. AKP's immediate ability of paying its current debts as they come due is very good, the ratio is greater than 1.

Quick (or Acid test) ratio= Current Assets- Stocks (Quick assets)/ Current Liabilities= (10 066- 3 685)/ 2 871= 2,2

Quick ratio is judging the financial stability and short-term liquidity of the company. The higher the quick ratio, the better the position of the company. It appears that an acceptable range of values for the quick test ratio is between 1:1 and 0,8:1.

The acid-test ratio shows that AKP can meet its obligations without having to liquidate or depend too heavily on its inventory. In other words the quick ratio is 2,2 which means that company is not dependent on inventory and other current assets to liquidate short-term debt.

3.4.3 Quick Test

This type of quick test as shown in table 6 was invented by Králíček 1993 cited in Konečný and it is a very good tool to appraise overall financial situation of the company.

	FINANCIAL STABILITY		STABILITY OF REVENUE	
Formula	Owners' Equity/Assets	(Current+ Non-Current Liabilities- Cash and Cash Equivalents)/ Operating CF	Operating CF/Sales	Pretax Profit+ Interest Expenses)/ Assets
	[%]	[years]	[%]	[%]
	Power of capital	Indebtedness	Financial efficiency	Profitability
Classification:				
1 Excellent	> 30	< 3	> 10	> 15
2 Very Good	> 20	< 5	> 8	> 12
3 Average	>10	≤ 12	> 5	> 8
4 Poor	≤10	> 12	≤ 5	≤ 8
5 Threat of Insolvency	< 0	> 30	< 0	< 0

Table 6: Quick Test

Adapted from: Konečný, (23)

Quick test of AKP Ltd. in 2009

	FINANCIAL STABILITY		STABILITY OF REVENUE	
Formula	10 355/ 13 458	(3 083- 2 858)/ 2 106	2 106/ 24 636	(315+ 71)/ 13 458
	[%]	[years]	[%]	[%]
	Power of capital	Indebtedness	Financial efficiency	Profitability
Value of the ratio	77	0, 107	8, 5	2, 9
Grade of the ratio	1	1	2	4
Grade of financial stability	1		-	
Grade of stability of revenue	-		3	
TOTAL Grade	2			

Table 7: Company's Quick Test 2009

Adapted from: AKP Profit and Loss statement 2007, 2008, 2009 (3; 22)

Quick test of the year 2009 (see table 7) showed that AKP has total grade (arithmetical average of all grades) of 2 which means good overall financial standing of the company. However while result of financial stability is excellent and company performance in this field is very good the result of revenue stability is very bad. Thus the company should try to solve the problem quickly especially in the profitability where proportion of profit from total assets is very poor. Problems with profitability are proved again in Quick test.

3.5 SWOT Analysis

Concerning all previous analysis identification of internal strengths and weaknesses of the company together with external opportunities and threats were made using the SWOT analysis.

Internal factors	
Strengths	Weaknesses
<ul style="list-style-type: none"> • Strong market position on the Czech market, but company is also known abroad especially in Slovakia. • Well-established name, stability and long history of 19 years on the market. • The fact that company owns BSEN ISO 90001 can help to ensure the customers about standardization of offered products and services. • AKP is the only one manufacturer of the carbon booms in the world. Product is an industrial property and it is patented in the Czech Republic as well as in Europe. • Websites of AKP are very well structured which enables to be more visible when customer uses fulltext searching. • Company is flexible to change which allows the firm to preserve amongst competitors, especially when external threats, such as changes in regulation with respects to the industry, occur. • High retention of the staff, which is very loyal to the company. 	<ul style="list-style-type: none"> • Need to invest huge amounts of money on the continual development of the carbon booms. • Weak organisational culture and communication that inhibits employees from expressing their views and concerns. • Insufficient capacity of the production facilities. • Poorer organisation of production, due to the fast grow of manufacturing. • Some mistakes occurred because of the continual innovation. Employees are not informed enough about the changes. • Lack of motivation of the staff, especially verbal motivation is missing.

External factors	
Opportunities	Threats
<ul style="list-style-type: none"> • Continuous development of carbon booms especially with the air support. • Wide commercialization of carbon boom technology. • Cooperation with the main manufacturers of the spraying technologies (such as John Deer, PLA or Hardi). • Introduction of e-shop which is in today world almost indispensable. • Focus on the industrial market where is considerable potential of grow especially in the segment of industrial nozzles and high pressure cleaners. • Spread of the company's awareness using proper ways of marketing support. • Extension of activities on the present markets and penetration on the new markets. • Saving of time and labour force. 	<ul style="list-style-type: none"> • Increasing prices of inputs. • An economic recession, which reduces consumers' consumption and firm's revenue. • Loss of the key staff and rising labour costs. • Lack of financial resources to finance research and development of the carbon booms. • Increased competition. • Possible enter of the new company with technology which will use better materials than carbon. • Change in population age-structure thus aging customers in agricultural field may not be used to use internet for buying goods because of their unfamiliarity with internet. • Agriculture is highly dependent on weather therefore harvest and also incomes of farmers are changing every year.

The result from SWOT analysis for AKP is evident. It will be essential for the company to take advantage of strengths and opportunities and repress weaknesses and threats. Some of the opportunities mentioned in this analysis will be discussed more deeply in author's proposals to the company.

4 PROPOSALS AND SUGGESTIONS

For the companies which operate on a market for such a long time and know both, what they can offer as well as to whom to offer the products it is very difficult to propose improvement which would essentially influence company's operations. Nevertheless on the basis of all previous analyses and facts in this thesis which author have been familiarized with, which among others resulted in a conclusion that AKP has to extend its sales forces in form of active direct face to face sale and focus on modern technologies and marketing support in the form of e-shop or more comprehensible web pages.

Proposals are based on all the previous analyses and author's considerations of the company situation. This part is reflecting particularly opportunities, where development of the company is possible and threats, which could be preclude or minimized.

Based on the analyses it was found that company has quite good potential to survive current global financial crisis, in the future remain competitive and return to sustainable growth. Therefore AKP is able to create both profit and job opportunities and at the same time offer the customers important and satisfying products and services in appropriate quality.

Following proposal is divided into several parts considering company's operations-marketing, selling, human resources, economics, R&D and manufacturing.

Marketing

One of the above mentioned opportunities in SWOT analysis was suggestion of introduction of e-shop as a way of distribution channel and a new component of firm's marketing strategy. Thus author would suggest to AKP to introduce an e-shop which might be beneficial to keep the market position.

To support this proposal internet research of efficiency of e-shop was made. After analyzing of the competitors it was found that most of them sell their products

personally in stores or on the basis of phone or email order. However 2 of the main competitors have already started to build their own e-shop (Grene-Kramp and Prodag Zlín). Even though both Grene-Kramp and Prodag Zlín are still at the very beginning of the implementation and customers which would like to buy their products have to be registered, it is evident that AKP is not the only company who considers this distribution channel. This may be a good signal for the company that it is on the right way and should keep up with the competition.

The author also focused attention to other potential competitors, who may have not so strong position on the market with agricultural machinery equipment, but may provide their products and services via e-shop. To find agricultural companies who use e-shop, internet analyse was applied by searching some key words in fulltext. Research was made in the area of the Czech Republic and the results are following:

Key words used for fulltext searching:

- *zemědělská technika online (agricultural engineering online)*
 - Mainly second-hand shops for agricultural machines were found.
 - Zemědělské potřeby M+S s.r.o. České Budějovice
www.vltava2000.cz/zemedelske-potreby/default.asp. However company focuses more on products for livestock farms so range of products regarding to agriculture is limited.
- *trysky k postřikovačům e-shop (spraying nozzles e-shop)*
 - Ešner, Poděbrady- www.esner.eu and Garden technik, Hranice-
<http://www.garden-technik.cz/> - both companies have wide range of products including orchard sprayers, but specialized mainly for gardeners.
 - Marolex, Třinec- www.marolex.cz- selling only hand and backpack sprayers.
 - Mercata Třebíč with Medwěd eshop- www.webareal.cz/medwedshop- offering products for foresters.
- *náhradní díly pro postřikovače online (spare parts for sprayers online)*

- Dal Degan, Císařov- www.agro-daldegan.cz/index.php/- selling backpack sprayers.

This research showed that there are some companies which offer products and services online in the Czech Republic. However the range of the products offered via e-shop is usually very low and poor, focused more on gardeners or foresters. Therefore author can conclude that by implementation of quality and wide product range e-shop with specialized products for target group of farmers, foresters, fruit and wine growers will AKP achieve strong competitive advantage. Furthermore the fact that some competitors are already building e-shop can ensure author's suggestion that this way of distribution is in agricultural sector feasible.

Other evidence of growing influence of internet together with growing tendencies of internet shopping was proved in PEST analysis where was found that in 41,7% of households in CR were connected directly to internet in 2008. This trend has growing tendencies year to year and estimation for 2010 is more than 50% of internet users.

There are lots of companies offering creation of e-shop, price depends on individual requirements and expectations of the company. Table 8 compare some internet shop providers together with their actual prices. The author would first recommend AKP to buy the cheapest one and after testing of e-shop effectiveness, invest to the more expensive solution.

Provider	Creation of e-shop (in CZK)	Monthly maintenance cost (in CZK)
Zoner In shop 3 Standalone I	0	2 500
Webseller	20 650	750
Fast Centrik	0	2 290
Evron	2 900	499

Table 8: Prices comparison of e-shop providers

Adapted from: Author's research, (15; 17; 44; 46)

To assumed suggestion to come up with e-shop it is essential to consider all advantages and disadvantages which e-shop might have. It can help the company to build its brand name, reduce transaction costs (for example- generate savings on printed materials), attract new customers as well as increase sales. On the other hand AKP has to realize that it could lose personal contact with the customers and also customers could be uncertain about deliveries, payments and complaints. Therefore company should carefully calculate return on investment and implementation and maintaining costs of e-shop. It is necessary to focus on usability of e-shop and on communication with customers.

Author found that creation of e-shop would be beneficial to AKP's competitive advantage. On one hand it opens a new distribution channel for customers, reduces costs and could help to gain new customers as well as gain additional profit. Furthermore e-shop is a good tool to offer additional services and offers (for example customization of sprayers or discounts when buying on internet) which should be periodically once a week updated.

Selling

Follow up new trends

Threat for almost all businesses is increased competition therefore AKP should try to be a step before the others and continually introduce new or innovative products on the Czech market. One of the ways how to be better than others is follow up new trends which are now precision farming systems. The increasing cost of inputs has caused everyone thinks about how to save money and hence precision farming is a good solution. According to Farm Press 2010 (21) in the last year or two there have been large increases in first-time buyers of precision agriculture technology. For example with guidance system a producer first drives a pass in the field and the system provides navigation aid to the driver and they can also apply agronomic inputs such as fertilizers, spray chemicals and spread litter.

Benefits of using guidance systems:

- Decreases skips and overlaps.
- Minimizes driver error.
- Eliminates guess rows (in row crop- 8,5% decrease in overlapping).
- Increase efficiency, allowing the grower to operate at faster field speeds.
- Extend operational hours and work more at night.
- Helping to get more accurate placement of input.
- Environment friendly solution because the application is precise thus when it is implemented there is no waste of chemicals.

Based on Farm Press 2010 (21) it can result in a savings of about 12% overall and if farmers add implement guidance, variable-rate application, auto-swath, boom control and assisted steering total savings could amount to 27%.

AKP have already started to offer global positioning satellite (GPS) technology but these GPS was defective and not comprehensible for the users. Therefore company should try to find a new supplier and make it easy to install and help farmers to set up and update it. These systems also have to be latest and might be offered with other equipment for precision farming such as assisted steering or auto-swath.

Development of selling power

To be able to extend activities on the market company should pay attention to individual customers on face to face basis, because currently company rely more on marketing sales promotions, consequently the number of sellers should be increased from 1 salesman to 3. Therefore company has to increase the selling power with educated sales people which would be able to grow revenues. It is also important to improve communication and cooperation with current distributors so that distributors will be better supplied with goods and therefore could immediately react on customer's needs. Company should also provide to the both sales people and distributors regular education. These actions ought to result in growing turnover and profitability in following years.

Human Resources

The result from analyses above are very low rate of staff fluctuation. Currently all employees are in the firm more than 6 years which means they are well experienced and loyal to the company. Therefore AKP should better motivate its employees by quality opportunities and self-actualization in new working chances. Thereby company will have higher yields from its employees, however it is connected with better motivation not only financial but also intrinsic. Staff should feel recognition, esteem, how important they are, or that employees are full-valued part of the team. Author would suggest an introduction of motivational programme according to the individual working positions which is currently missing in AKP. Further one of the above mentioned professional salesman could be chosen from existing technicians, to reduce costs of recruitment process and training.

Economics

As it was previously mentioned current Czech agricultural machinery market is strongly influenced by the global financial crisis. Thus performing of the market is poor, consequently it intensifies rivalry among competitors. Furthermore buyers search for better deals including extended terms, price cuts and value-for-money sales promotions.

From the financial analyses emerged that AKP has considerable problems with profitability not only due to the financial crisis but also in addition due to the poor profitability of the sprayers manufacturing, while other segments are relatively well profitable. AKP should focus on:

- Calculations of manufactured sprayers. Responsible employees have to calculate where exactly in the production process is the weakest point. Afterwards these points with poor profitability replace by another solution, which will be profitable.
- Increase the price of all manufactured sprayers to have margin on level 20%, however with the danger that machines can lose competitiveness.
- Reduction of the manufacturing costs by using more cost effective materials, solutions and technologies.

- Depression of the sprayers manufacturing and increase sales in other segments where profitability is higher.
- Reduction in costs of doing business and variable costs which will also have positive influence on increasing profitability.

Certainly combination of all above mentioned factors will result in profit increase, but all actions should be implemented fast, means before the end of the year 2010.

In the field of cost savings company should negotiate a better price of particular components with all suppliers to achieve product profitability. Moreover decrease logistics costs, which means use the consolidated shipment of the goods. Besides, in the sphere of human resources, the company should reduce employee's extra work.

Next emerging problem for the company was discovered in activity ratio analysis. Debtor turnover was higher than creditor turnover thus from the longer perspective it is not a sustainable position. AKP should react quickly and try to collect the claims from bad payers and not allow the problematic customers to pay on invoice. Therefore the company needs to have a detailed database of the nonpayers. AKP has to create a database of overdue invoices on a monthly basis and push customers for payment by using all legal available methods (according to the Commercial Code).

Based on the fact that AKP is a debt-free company with a good liquidity, there is no real problem with the cash flow in case the amount of overdue invoices will be reduced.

R&D and Manufacturing

It is necessary for the company to finalize uncompleted projects and continually improve technical parameters of carbon booms. Current projects are:

1. Optimization of opening and closing of carbon booms:
 - Mainly in length of 30- 42 meters.
 - Changes in opening trajectories in opening/closing mechanism to adapt the booms to the Western Europe market conditions.

- Selection of suitable materials for opening/closing mechanism to increase endurance of dynamical tensions.
2. Carbon booms with air assistance- it is a question whether continue with this project or not because lots of holes are needed to fix the air assistance system and these holes considerably disturbed carbon booms construction hence potential defects can occur.

Costs, benefits and schedule of these projects are not exactly defined. Thus author as an independent evaluator would suggest to express in numbers finances needed to project realization, return on investment and deadlines of the projects which company should unambiguously calculate and define whereby can evaluate if the project can be potentially profitable or not before.

In the field of production the reduction of price and related costs of manufacturing are vital by using new modern methods in production process. Individual manufacturing operations should be unified so that same production segments can be used for different types of machines. Consequently pressure on reduction of manufacturing financial expenses leads to the increase of the profit.

5 CONCLUSION

The main objective of this thesis was to analyze and propose recommendations and suggestions to the AKP Ltd.

The analytical part was made based on the theoretical background which is described in the first chapter. External, internal and financial analyses are provided together with introduction of the company. Individual analyses reflect the situation in each of the company's operation (manufacturing, marketing, etc.) and are designed with contribution of internal company's materials and financial statements.

Finally the recommendations and suggestions are introduced to help the firm to maintain or increase market position and competitiveness. Generally speaking if AKP will adhere to the individual recommendations it will have a considerable chance to go through the current period without financial losses.

The main focus is apparently to increase profitability of the company and increase selling activities. Consequently if the process in economical recommendation will be followed this aim is relatively quickly accessible.

Author assumes that independent insight and evaluation of the firm from outside has for the recommendations positive effect of unbiased person and could be beneficial to the company.

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8 APPENDICES

Appendix 1: Picture of the AKP Mazzotti sprayer with carbon booms

Appendix 2: Nozzle holder

Appendix 3: Leaflet of the carbon booms



Appendix 1: Picture of the AKP Mazzotti sprayer with carbon booms



Appendix 2: Nozzle holder

CBS/CBM/CBL



Composite Boom for Sprayers

*Highest level
technological solution*



- **outstanding (components) firm boom** made from composite reinforced by carbon fibres
- **low weight:** without steel frame
- **long life:** resistant to material fatigue
- **corrosion resistance:** resistant to all known pesticides and liquid fertilizer
- **original conception:** patent pending
- **module component solution:** possibility to produce any boom diameter

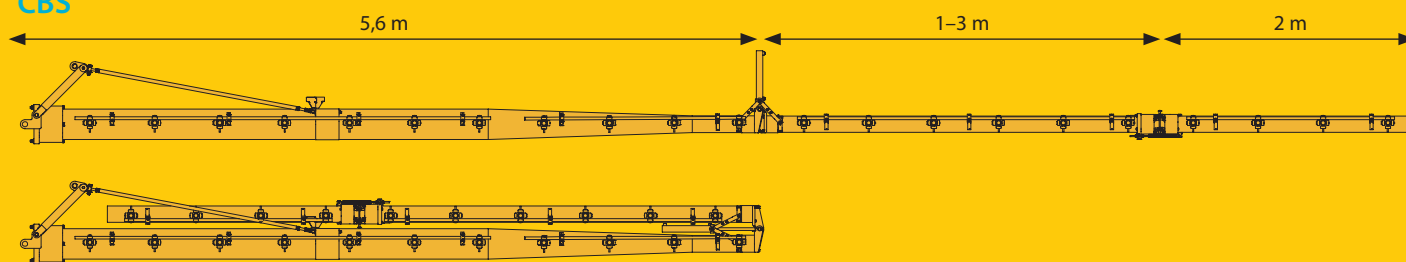


Technical specification



The European Regional Development Fund and the Ministry of Industry and Trade of the Czech Republic Support Investment in your future.

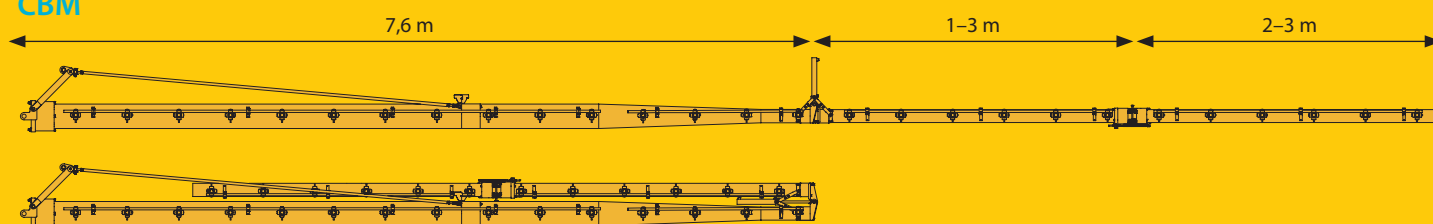
CBS



Model	CBS 18	CBS 24
Boom span (m/foot)	18/59	24/79
Boom weight (kg/lbs)	124/273	130/287

Weight without spraying equipment and hydraulic parts

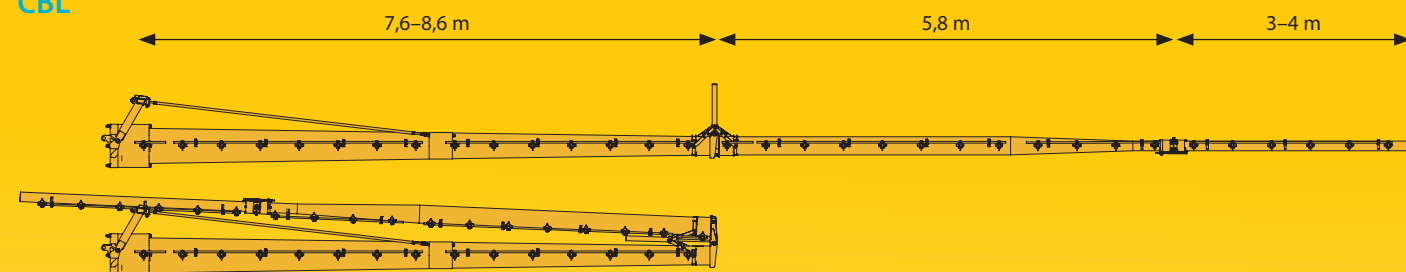
CBM



Model	CBM 27	CBM 30
Boom span (m/foot)	27/89	30/98
Boom weight (kg/lbs)	138/304	141/311

Weight without spraying equipment and hydraulic parts

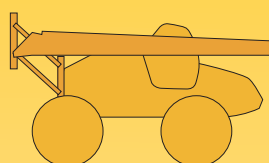
CBL



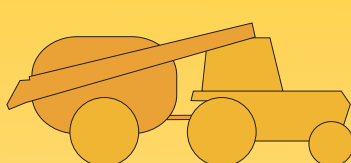
Model	CBL 36	CBL 40
Boom span (m/foot)	36/118	40/131
Boom weight (kg/lbs)	316/697	326/719

Weight without spraying equipment and hydraulic parts

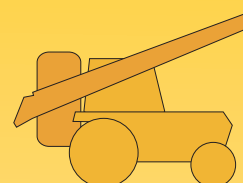
The booms are modified for fitting to all types and models of the sprayer's frames



Self propelled sprayer



Trailed sprayer



Held sprayer



AKP, spol. s r.o.
Proškovo nám. 21, 614 00 Brno, Czech Republic
telephone and fax: +420 545 235 772-3, mobile: +420 603 543 700, e-mail: info@akp.cz

www.akp.cz