

Faculty of Commerce, University of Economics in Bratislava



**THE PROCEEDINGS**  
of the International Scientific Conference  
for PhD. Students and Young Scientists  
**MERKÚR 2014**



INTERNATIONAL SCIENTIFIC  
**CONFERENCE**  
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The background features a faded image of a modern building with a glass facade and a group of people walking in front of it. The text "INTERNATIONAL SCIENTIFIC CONFERENCE" is in a light blue font, and "MERKÚR" is in a larger, bold, dark blue font.

Virt, December 4 – 5, 2014

## **The Proceedings of the International Scientific Conference for PhD. Students and Young Scientists MERKÚR 2014**

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# Adopted and implemented measures within the European Youth Opportunity Initiative<sup>1</sup>

Dáša Bebiaková<sup>2</sup>

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## **Abstract**

*The aim of this paper is to analyze the adopted EU measures to reduce youth unemployment and their implementation in the various EU member states through specific supporting programs. This problem does not only burden the social systems but also reduces the standard of living for young people. Additionally this also prevents the participation in the work process and the creation of added value. Based on this the youth unemployment is considered to be on the most significant problems in current development in Europe. The youth unemployment causes the migration of the workforce within the country or between member countries. In many cases it is a migration from one temporary job to another temporary job. The article also analyses the progress of the various measures that have been implemented through programs to reduce youth unemployment with the focus on the individual member states of the European Union.*

## **Key words**

*employment, European Commission, job migration*

**JEL Classification:** J60, J62, J21

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## **Introduction**

Youth unemployment - it is a global problem that adversely affects the economies of the countries. This problem stems primarily from the disproportion between the demands for labor on the one side and the qualification that young people offer on the other side. The main cause of the problem is the lack of estimation of the required professional workforce by government authorities. This estimation should state the fields of study that are needed on the labor market on one hand and the expression of the workforce having classic professions that are in decline due to the introduction of modern industrial technologies on the other hand. This problem does not only burden the social systems, reducing the standard of living for young people, but also prevents the participation in the work process and the creation of added value. In this paper we will focus on the analysis of this issue through actions of the European Union on the basis of programs aimed at reducing youth unemployment and also on the effective use of skilled labor. In the first part of the article we will analyze what measures have been taken to reduce unemployment and what limits the growth of the labor market persistently. In the second part we list the findings of the implementation of these measures focusing on individual member countries of the European Union.

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<sup>1</sup> The article is referred as a part of research project VEGA 1/0391/13 The importance of third countries for the strategic development objectives of the EU in the post-crisis period (with implications for the Slovak economy)

<sup>2</sup> Ing. Dáša Bebiaková, University of Economics in Bratislava, Faculty of Commerce, Department of International Trade, Dolnozemska cesta 1, 852 35 Bratislava, Slovakia, [dasa.bebiakova@gmail.com](mailto:dasa.bebiakova@gmail.com)

## **1 Methodology**

From a methodological point of view we use the analysis and synthesis in this paper, which allow us to examine the development of the issue more closely to the date of adoption of programs and support measures by the European Commission and the implementation within individual member states, then we analyzed the measures taken and their quality of implementation with an impact on addressing the issues. Then we use induction, which allows us to use the approach based on the study and the analysis of the facts to make individual statements and general information to specific documents implemented by EU.

The methodology contains also deduction, which allows us to approach the research from the general to the specific, i.e. how the various measures in member countries, including Slovakia have been implemented. Using comparisons, we compared the reality of multiple subjects for example European Union and the member states, the European Union and Slovakia, i.e. comparison of the two aspects of reality. We also compare the measures adopted in EU and the measures adopted in other countries as well as the implementation in the EU conditions.

In this paper, we use also statistical methods that allow us to gain knowledge from individual statistics, analytical materials, predictions of strategies, and major economic indicators in individual member countries for comparative purposes.

## **2 Results and Discussion**

### **2.1 The measures adopted by European Union**

Measures to increase employment of young prepared by the European Commission and implemented in the Member States addressing high unemployment and social exclusion of young people focus mainly on the offer of new jobs, education and training. This process was completed through a package of measures, which were created to ensure a progressive successful integration of young people into work (Eurofond,2012). According to the recommendations of the Commission package of the European Parliament and the European Council, member states should develop strong partnerships between the parties to ensure the involvement of employment services to support young people. The package should be financed by the Social Fund and the Structural Funds of the European Union.

The European Commission has set out a package of measures in compliance with the main programs:

#### *Convergence*

This objective has to ensure the growth in regions that do not reach 75 % of the average level of GDP, then further growth in the least developed Member States and regions, as well as the development of favorable conditions. This objective will cover 17 Member States of the 28 countries in which 84 regions and 154 million people. Under this program another very important group of regions was identified containing 16 regions with 16.4 million inhabitants and a GDP only slightly above the threshold due to the statistical data of the enlarged EU. Because of this ratio of GDP the group will gradually be incorporated and will not need to use funds from this program. As part of this program 251.1 billion EUR were allocated, representing 81.5 % of the total amount. The amount

is divided as follows: 189.6 billion EUR for the regions covered by the Convergence program, 12.5 billion EUR is intended for regions phasing and 61.6 billion for the Cohesion Fund from which the 15 Member States can benefit.

#### *Regional competitiveness and employment*

This program is aimed at strengthening the regions' competitiveness and push to the forefront in the development. This important objective can be met through development programs which ensure the economic change and boost innovation and the knowledge economy, entrepreneurship, environmental protection and the improvement of accessibility. On the other hand, it is necessary to create support for new and better jobs while adapting the workforce and invest in human resources. In the EU 28 member states, which create new and better jobs, with a workforce from 168 regions and 314 million inhabitants, contain the 13 regions with 19 million inhabitants, for which are allocated special funds amounting to 49.1 billion EUR of which 10.4 billion is allocated for regions phasing, which represent the percentage of 16% of the total allocation. Currently, 19 member states participate on this target.

#### *European territorial cooperation*

This objective ensures that cooperation through joint local and regional initiatives is carried out. The aim is the cooperation directed at regions for Integrating Territorial development and to strengthen cross-border cooperation, interregional cooperation and exchange of experience. There are 18.7 million people living in the border areas (37.5% of EU population) which are included in one of 13 areas of international cooperation. For this purpose EUR 7.75 billion were allocated (Euroinfo, 2014).

## **2.2 Programs for young people adopted by EU**

The European Union has adopted the following programs and initiatives:

- Initiative and opportunities for young
- Guarantees for young
- Work placements for young
- European Association of apprenticeship
- The mobility of young people
- The European Employment Strategy
- Compact for Growth and Jobs

#### *Opportunities for young*

In 2011, the EU adopted an initiative for young "Youth Opportunities" on which admonished the EU Member States, through appropriate procedures to take steps to improve the employability of young people through the use of EU Structural Funds and the European Social Fund under which are currently funded by many investment projects such as the creation of apprenticeships, cross-border mobility and social innovation projects aimed at youth.

Simultaneously, this initiative funded internships and cross-border business exchanges and promoted mobility based on the initiative of "Your first EURES job" and supported measures to improve education and social innovation projects aimed at youth. Based on the project of the European Council and the European Parliament, it stressed the importance of addressing youth unemployment through initiatives that focus on

safeguards for the young and the resulting quality of traineeships for young people. At this time the package called "Rethinking Education" and a package of measures to promote the mobility of young people called ERASMUS+ (starting January 2014) were adopted.

### *Guarantees for young*

This initiative was adopted because of the deep crisis of youth unemployment, but also to promote sustainable growth and inclusion on the medium-long term. This tool should either provide a new job for the young people within four months after leaving school or job loss or deepen their practical skills and qualifications through training. The initiative is based on six measures, namely: "developing an approach based on partnership, activation measures and measures for early intervention, measures facilitating the integration of the labor market, drawing from EU structural funds, evaluation and improvement of the system of guarantees for young people and their swift implementation."

### *Work placements for youth*

Through this initiative, students or the graduates have the opportunity during their studies and after its completion to gain practical skills and thus contribute to solving the mismatch between the skills of the respondent and the required skills. Measures have been taken that these internships are really good and do not encourage speculation employers in terms of abuse of funds or misusing young people as a source of cheap or free labor. Very significant progress in this area is the establishment of the international internships, but also in this area it is necessary to adopt relevant international guidelines. Very significant is the recognition of professional qualifications easing the work placement in the Member States.

### *European Association of apprenticeship*

This tool of support was used mainly in the field of cooperation between the employer and apprenticeship institution. This should improve the quality of the apprenticeship by ensuring a smooth transition from school to work, and is based on the following three principles:

- The creation of an effective partnership between business and educational institutions as well as state institutions through traineeships.
- Ensuring that the apprenticeship provides skills required on the labor market and up-to-date education, its corresponding quality level including the recognition of the educational-level,
- Adoption of measures that this initiative was included in the national and regional systems of education and training within the national regulatory framework. This objective is carried out through tax breaks, subsidies and support from the ERDF and ESF.

### *Mobility of young people*

Via this model unemployment among young people and students can be significantly reduced using increasing mobility through international training and apprenticeships and foreign exchange of the students called ERASMUS or LEONARDO DA VINCI. This tool is

significantly used by a European network of EURES jobs through initiatives "Your first EURES job" for young people from 18 to 30 years with the aid of an employment agency in another Member State (Euroactiv.sk, 2013).

### *The European Employment Strategy*

The European Employment Strategy has been evaluated after five years, namely in 2003 and progress has been made in the area of job creation, suppression of long-term unemployment, decrease of the tax burden for lower-paid workforce, definition for support of the lifelong learning policies and equal employment opportunities for both male and female. Another initiative is also supporting employment program for the Competitiveness of Enterprises and small and medium enterprises through programs COSMO a program focused on research and innovation, Horizon 2020 (European Commission, 2014).

### *Compact for Growth and Jobs*

The European Council approved a package of measures for growth and jobs compact with funding of EUR 120 billion. These funds were allocated to the single market strategy, innovation, digital agenda, services, energy and taxes. This strategy is also like other monitored and annually the results are submitted (EC.EUROPA, 2014).

## **2.3 Prognosis and development results of actions for the period 2014 – 2020**

From the relevant researches, we found that across Europe 15 million participants are engaged in thousands of projects co-financed by the ESF. Further that 20-35% of participants enter into new employment following the training financed by ESF. Another major event is that the work of the action teams contributed to the fight against unemployment and for the European Union this has a beneficial effect. The result is a redistribution of 30 billion EUR, and the redistribution of 14 billion EUR for certain projects to support employment of young people. As for the next period 2014-2020, the European Commission with the member states agreed on the use of funding for growth and job creation. Very important was the elimination of the consequences of the economic crisis and focus on groups of people who are most at risk of losing their jobs through the promotion of professionalism but also opportunities for at least part-time jobs. These measures saved one million jobs by 2011.

Another important task was to allow a smooth transition from school to work through training and studies premature termination barriers. This helped 20 million people during the 20 years 2007-2012. In 2007, EUR 4.2 billion were reallocated for more than 1 million young people. Against social exclusion were used EUR 12.9 billion (16.9% of the total funds allocated for ESF) but by the end of 2012 was divided between projects EUR 10.3 billion for more than 1 million beneficiaries (EC.EUROPA, 2014).

### *The results of the measures taken in the different member states of the European Union*

The European Commission launched "action teams for youth employment" in 2012 to accelerate the implementation of structural funds and their effective utilization in countries

that achieve the highest youth unemployment. For this purpose about 16 billion EUR from EU funds were allocated, which were targeted for swift implementation of commitments, which are estimated to help more than one million young people. This is the most significant example of the realization of this initiative. On the overview of the results of Eurostat, we see how European Union member states managed the funds received (European council, 2014):

*In Portugal*, through the initiative called "Impulso Jovem" should in 2015 bring benefits for 90,000 young people and support 4,500 SMEs through financial grants € 143 million. Based on this support are funded internships for young people in economic sectors. Moreover, the employment of persons aged 18-30 years is promoted with reimbursement of employers' contributions to social security schemes. Within this initiative additional 500 million have been provided for internships, school infrastructure and competition.

Other tools that have been used are:

- support for regional competitiveness through program grants amounting 70 million EUR from ERDF under 3 regional operational programs Convergence,
- the use of 10 million EUR for the internships for young people from the ERDF Operational Programme Madeira,
- fight against leaving school early by providing funds amounting to 98 million. EUR to educational opportunities for young people,
- promoting competitiveness under the Convergence objective.

*In Spain*, more than 286 million EUR has been allocated for this purpose from the ESF funding reserved for measures relating to youth (namely 135 million EUR under the operational program Adaptabilidad y Empleo, then 101.3 million EUR was used for the regional operational programs and 50 million EUR program to combat discrimination). Around 9,500 young people attended the workshops and seminars at schools organized using these funds.

Furthermore, these funds were used to subsidize the companies which focus on youth employment through reductions in social security contributions, in particular to ensure employment 142 000 young people. In this strategy, business and employment of young people is mentioned together with further 100 measures to combat youth unemployment. This strategy has been allocated 3,485 billion EUR, portion of which will be co-financed by the ESF and the second part from the ERDF in the regions with the highest rate of youth unemployment. This program includes the promotion of public employment services through the funding of EUR 135 million EUR to secure suitable employment for young people. Other funds used amount to 1.26 billion EUR.

Subsequently, we found that measures have been taken by the ERDF totaling 1,032.9 million EUR, which were used for:

- working capital and establishment of the 5-revolving funds, which should in the near future help SMEs to a simpler drawing of funds. For this purpose were used 372.1 million EUR,
- to promote the industrialization of strategic industries, which have the possibility to draw loans from ERDF amounting to EUR 446.2 million,
- support the regions with the highest unemployment rate of young people through the agro-food sector specifically SMEs,
- 214.6 million EUR to improve the education and skills development of young people.

*In Italy* through "Action Plan cohesion area" was allocated 1.4 billion EUR for measures targeting young people through "youth employment plan in Sicily", where the total value of funds allocated for this purpose was 452 million EUR. Through the Convergence objective focused on four regions which are also the focus target of the program "Competitiveness". These programs were funded by the ERDF and ESF totaling in 12.1 billion EUR. They are implemented through the Europe 2020 initiative and action teams. Another form of aid were the allocated funds for education programs for 65,300 students from southern regions and 13 000 new job opportunities for supporting mobility through the Erasmus / Leonardo. In the next stage, 620 million EUR were "used for new measures to support young people who are not employed, do not study or do not participate in training". Under this program, funds were provided to support child care, entrepreneurship and fight against early school leaving.

Measures to support apprenticeship system have been allocated 100 million EUR from ESF. To further ensure guidance and placement of students and young graduates 36 million EUR were allocated. Also, two working groups for Campania and Sicily exploration projects we created especially for proper use of financial engineering instruments and for SMEs. However, we found that the last 12 months the situation for the majority of convergence programs was behind the target, but the amount of the expenditures is almost the same compared to the previous year. Then in May 2012, Italy spent on national and inter-regional operational programs 2.3 billion EUR (including 620 million EUR used for operational programs for young people). These funds were used for childcare (400 million EUR), then the elimination of early school leavers (77 mil. EUR), assistance in obtaining profit projects for young entrepreneurs (38 million EUR), support for self-employment (50 million EUR) and initiatives for young people, who are neither employed nor in education, participate in training or to support researchers (5.3 million EUR). In December 2012, the Italy focused on the regions Sicily, Kompany, Kalabar under the Competitiveness of 5.7 billion EUR from ERDF and ESF, namely 219 million EUR. These funds were used for youth, tax credits (175 million EUR) as against persistent crisis in the amount of 200 million EUR.

*Lithuania* adopted a funding totaling 31 million EUR namely in April 2012; the program financed from ESF "Join the labor market", professional programs for 6,000 people. This project was supported by funding from the ERDF. From the ERDF, 1.3 million EUR were sent to the measure "Assistant-3" and 12.45 million EUR to the measure "Invest LT-2" to support different business activities of young people. Fund ESF in addition to business support in the amount of 14.5 million EUR provides loans for self-employed persons and for start-ups.

From another measure called "ESF grants business" 3 million EUR are aimed on the support of start-ups and self-employment. In August of 2012, the project was prolonged "Be active in the labor market" till the 1st September, 2013 and also increased the budget by 6 million EUR which were provided to 6000 young people. Another initiative was "Support the first job" worth 9.3 million EUR. A very important part of the support is the training for 12 000 beginning entrepreneurs and 25 000 young people were given professional financial advice.

*Latvia* has been granted 91 million EUR to improve school facilities equipment. Under this program, we found that the ratio of young people receiving support has increased from 24% to 40% and the number of young people participating in the promotion doubled. Under this program 62.2 million EUR were allocated to modernize schools. Moreover, 94 programs with the duration of 1 to 1.5 years for 54 different professions

with employers were established and were granted 11 million EUR. These were intended for young people with no qualifications and for people who are seeking a qualified job on the labor market.

*Ireland* was granted a total of 63 million EUR. On this basis, in December 2011, obtained 25 million EUR based on the "Youth reach" program providing education, training and work experience, especially for young people who left school early. This program by the end of 2013 should support more than 3,700 study places.

To promote the knowledge economy and innovation 38 million EUR have been allocated. Through this program Labor Market Education & Training Fund was built. The Fund provides training for 6,500 long-term unemployed people through initiatives "Momentum", which should underpin the long-term unemployed in four areas, 3 of them consist of employment, in which it will increase the number of vacancies and 4th one will focus on the long-term unemployed up to 25 years. This program should be supported by funds from the ESF 20 million EUR.

*Greece* received for the period of the program 1.15 billion EUR of which EUR 635 million were used. Measures were focused on 182,812 young people. During this program, additional funds amounting to 517 million EUR were spent for 350 thousand people. Another element, aimed to support this activity were 8 programs by the European Regional Development Fund (ERDF). These were outlined in third quarter of 2013. Additionally 4 programs of the European Social Fund (ESF) were subsequently approved in December 2013 specifically aimed at:

- providing further support 1.2 billion. EUR to overcome deficiencies in the performance of SMEs,
- establish the operation Guarantee Fund,
- further promoting the ESF by the amount of 466 million and additional 51 million EUR from the ERDF (a total of 517 million. EUR) to promote youth employment,
- funding the Guarantee Fund from the transfer of projects from regional operational programs to national operational programs in order to make efficient use of funds from national programs to regional operational programs,
- revision of the national operational programs through financial support of 255 million EUR Operational Programme Competitiveness.

*Slovakia* has been granted 70 million EUR to create 13,000 jobs in regions where unemployment rate is the highest recorded a 225 million EUR to support small and medium enterprises which are linked to the youth employment.

The action teams have helped significantly reducing youth unemployment by encouraging employment young people which increased from 24% to 40% and the number of people participating in training for future employment doubled. On the other side we have to note that this problem grows not only on the European level, but also at the national level. (Európska komisia, 2013) Then we can see, that through established action teams, the unemployment rate in Ireland and Lithuania decreased by 0.8 and 4.3 percentage points. On the other hand, in Spain and Greece, unemployment has increased, while in Spain reached 55% and Greece 59%. Our results show that individual member states of the European Union that are the most affected by youth unemployment should focus on knowledge economy, which should be readily adjusted to labor market needs. For the purposes of these programs in 2012 the funding of 82 billion EUR was granted. Individual Member States drew the Structural Funds for the financial period 2007-2013. These funds provided 30 billion EUR to 8 for Member States, which have established

action teams. Individual funds have been reallocated giving us the following table (Godfrey M., 2003).

**Tab. 1** Allocation of funds among the Member States

	<i>Allocated funds, including funds allocated under Labor Action teams (in mil. EUR)</i>	<i>Number of young people who measures will bring probably benefit's (estimate)</i>	<i>Number small and medium enterprises, who measures will bring probably benefit's (estimate)</i>
<i>Total sum for 8 member states</i>	15,633	780,000	approximately 55,000
<i>Greece</i>	1,150	350,000	12,400
<i>Spain</i>	1,260	150,000	7,700
<i>Ireland</i>	63	5,200	50
<i>Italy</i>	12,100	128,300	28,000
<i>Lithuania</i>	31	18,000	400
<i>Latvia</i>	91	25,000	1,400
<i>Portugal</i>	643	90,000	4,500
<i>Slovakia</i>	295	13,000	410

Source: Prepared by the author based on data from: European Commission. 2014. *Allocation of funds among the Member States*. Retrieved on October 25, 2014, from: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2010:232:0011:0013:SK:PDF>

## Conclusion

Based on the conclusion of the research of youth unemployment, the European Union and its member states, we found that nearly 6 million young people under the age of 25 have no job and are not participating on any educational training. European Commission for this purpose implemented documents focused on reducing unemployment in the form of programs for young people focused on the following initiatives: guarantees for youth, work placements for young people, youth mobility, employment strategy, the Compact for growth and jobs. The measures that have been implemented for the period 2007-2013 are focused on the smooth transition of young people from school to work directly in the form of training, and to avoid premature termination of the studies. This affects around 20 million people. In 2012, the EU launched an initiative, "Action Teams for youth employment". For this initiative 16 billion EUR were allocated within the following countries: Portugal, Spain, Italy, Latvia, Lithuania, Ireland and Slovakia. This initiative also aims to use practical work experience and skills of young people obtained during the studies in their use on the labor market.

European Commission within the framework of this initiative focused on the development of entrepreneurial skills of young people with improving the quality of entrepreneurship, education in secondary schools and professional experience on institutes and universities. Furthermore, the promotion of youth employment abroad has created cooperation among Member States in order to create a European space for skills and career development, to promote recognition of the skills and qualifications abroad. For young people this initiative also created the possibility of other forms of participation in

programs such as: Erasmus, Leonardo da Vinci, Progress or the Youth in Action program which is a part of the Strategy Europe 2020 strategy.

We can conclude that the European Union adopted advanced programs for young people enabling career in promising fields including ICT. Their implementation depends on the maturity and quality of business bodies of their countries, where they can implement professional practice and gain practical skills. Further, this matter also depends on the approach of the member states and will be flexibly able to use the funds to prepare the programs approved by the European Union. The achieved quality level of practical implementation of employment policies, however, differs together with their implementation in the different Member States.

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# A Social Marketing Approach to Behaviour Change

Eva Bikárová<sup>1</sup>

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## **Abstract**

*The article discusses the essential aspects of social marketing and its influence on the change of behaviour. Social marketing can provide tools to solve serious problems in society in the area of health, environment or education in the most efficient way with maximum results. Human behaviour and its determinants are therefore at the centre of attention of social marketing and its study is of great importance for social marketing experts. People do not always behave in their best interests - simply trying to tell people to change or giving them information and expecting them to act on it, may not work if they do not consider the benefits people derive from certain behaviours. This aspect, the social marketing specificities, its limits and the fact that serious social problems are usually a major issue for non-profit organizations must be taken into account when preparing strategic and marketing plans.*

## **Key words**

*marketing, social marketing, marketing strategies, behaviour, non-profit organizations*

**JEL Classification:** M31

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## **Introduction**

Many social and health problems have their origin in the character of human behaviour. All these situations require individual or social behaviour change with the aim to improve the life quality of individuals and society as a whole. Social change comes with a change in attitude, values or with rejecting an existing practice and accepting a new one. Social change is a long-lasting process that needs the synergy of efforts of all parties involved. Social marketing offers the tools and strategies to help to influence attitudes and behaviours not only of individuals but also of governments, decision makers and various influential groups or even media. Social marketing campaigns are usually focused on serious problems in society in the fields of health (antismoking, drug abuse, safe driving or obesity campaigns), environmental protection, human rights or educational reforms. There is now even increasing demand for non-profit performances in the era of economic crises, the increased gap between poverty and wealth, a decrease in the credibility of public institutions, demographic changes and a crisis in values.

Social marketing is the utilization of marketing theories and techniques to influence behaviour in order to achieve a social goal. It is similar to commercial marketing except that its goal is not to maximize profits or sales; it means that during the whole process marketing strategies and tools specified for non-profit organizations are applied. Social marketing techniques can have great direct planned effects on the target public but also have limitations and might have many unintended effects that have to be taken into account when designing a social campaign.

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<sup>1</sup> Ing. Eva Bikárová, University of Economics in Bratislava, Faculty of Commerce, Department of Marketing, Dolnozemska cesta 1, 852 35 Bratislava 5, eva.bikarova@gmail.com

## **1 Methodology**

The objective of the article was to make a comparative analysis of the different approaches towards social marketing and its effective use to influence human behaviour. The literature search was concentrated mainly on international resources e.g. textbooks on social marketing, articles from reviewed journals, proceedings from conferences and internet sources. The methods of abstraction, deduction and comparison were applied.

The critical literature review suggests further need for research and importance of following all the positive and negative aspects and the impact of the social marketing approach. In conclusion, summarization of benefits, generalization and final evaluation of results are drawn.

## **2 Results and Discussion**

Social marketing has a special place within the marketing of ideas that are socially beneficial. With the help of specific tools it tries to establish certain ideas, change of opinion, attitudes, prejudices and values and thus change peoples' behaviour. Definitions of social marketing have modified since 1971 when it was first mentioned in the article by Kotler and Zaltman. It is also often confused with socially responsible marketing (companies have found social marketing attractive for their own social programmes, they sponsor various social campaigns managed by non-profit organizations or organize their own as a part of their public relations activities), social media marketing and possible translations of the English word "social" might cause misunderstanding in many languages.

### **2.1 Social marketing – a definition**

Social marketing is a part or a specific aspect of non-profit marketing that tries to stimulate and facilitate the adoption of ideas or social behaviour that are considered to be beneficial for society in general or, conversely, that tries to stop or weaken ideas or behaviour that are meant to be harmful. On the bases of voluntary changes strategies social marketing intends to change opinions, attitudes, behaviour of certain groups with the target to improve the situation in society as a whole or partly (Kita, 2005).

Social marketing has its roots in the commercial sector. More than 50 years ago a sociologist, G. D. Wiebe examined social campaigns and found out that the more the conditions of a social campaign resembles those of the product campaign, the more successful the social campaign (Why can't you sell brotherhood like you sell soap?) (Andreasen, 2003).

Later in 1971, Kotler and Zaltman were the first to introduce the term social marketing in their article published in the Journal of Marketing: Social marketing: An Approach to Planned Social Change. According to them social marketing is "the design, implementation, and control of programs calculated to influence the acceptability of social ideas and involving considerations of product planning, pricing, communication, distribution and marketing research." (Kotler – Zaltman, 1971). The definition was later altered (Kotler – Roberto, 1989, p. 24): „social marketing ... the term has come to mean a social change management technology involving the design, implementation, and control of programs aimed at increasing the acceptability of a social idea or practice in one or

more groups of target adopters. It utilizes concepts of market segmentation, consumer research, product concept development and testing, directed communication, facilitation, incentives, and exchange theory to maximize the target adopters' response. The sponsoring agency pursues the changes goals in the belief that they will contribute to the individual's or society's best interest. "

In the 1990s after many years of experience the concept and practice changed and started to focus on behaviour change, older definitions also made it hard to distinguish social marketing from socially responsible marketing. One of the newer definitions (Andreasen, 2003) explains social marketing as "the application of commercial marketing technologies to the analysis, planning, execution, and evaluation of programs designed to influence the voluntary behaviour of target audiences in order to improve their personal welfare and that of the society of which they are a part." This definition helped distinguish the field from its disciplinary competitors – i.e. it was not about education or attitude change except to the extent that this would lead to the intended influence on behaviour.

Many marketing experts have published their own definitions of social marketing, but most of them agree that selling the ideas and influencing the behaviour change of individuals as well as society as a whole inevitably uses commercial marketing principles in social marketing.

### *Downstream, upstream and midstream social marketing*

Social marketing can be viewed from more perspectives. Downstream social marketing is most widely perceived (targeted at the individual level - use of tactical interventions, projects and campaigns aimed at influencing specific behaviours related to social challenges such as smoking, obesity etc.). In recent years a broadening of social marketing's horizons beyond the individual was proposed, to attempt to influence those that help shape the determinants of human behaviour such as policy makers, regulators, and the media. This vertical perspective – upstream social marketing "involves the adaptation and application of marketing and other approaches, to change the behaviour of decision makers and opinion formers, which alters the structural environment (policy formulation, and prioritization, budget allocation or influence on strategy) and has a resultant positive influence on social issues" (Gordon, 2013). It means that it must be admitted that also those persons or groups are an important target group with its influences, motivations, its needs and barriers. Between these two social marketing perspectives there is a third dimension a midstream marketing (Cheng – Kotler, 2011, p. 7). Midstream refers to the more immediate social environment such as community level, school, etc. It tries to reach those with the ability to influence others in the target markets' community, including family members, neighbours, co-workers, and friends. This strategy is often crucial for the success of the social campaign.

These are approaches that should ideally work together and enable social marketers to offer a strategic approach to behaviour change operating downstream, midstream and upstream.

### *Social marketing approach*

The social marketing definition suggests five key elements of the approach (Smith, 2006):

- a programme management process (sequenced action steps);
- designed to influence human behaviour on a large scale;
- by creating benefits and reducing barriers that matter to specific audiences;
- through consumer oriented decision making (audience behaviour is key);
- leading to increased societal benefit (as defined by somebody).

In the non-profit sector marketing is more about philosophy than about business function. According to Bruhn (Bruhn, 2005, p. 63) non-profit marketing is a special way of thinking that is made specific by analysis, planning, realization and control of all the internal and external activities that through the orientation on needs and expectations of all stakeholders (target group, sponsors, members, general public) focus at meeting the organization's goals connected with finances, employers and marketing objectives. Non-profit organizations often struggle with funding problems, they have to rely on public subsidies, projects, grants, sponsors or they organize fundraising activities and campaigns.

*Marketing analysis* of the target market is also very important. The size of the market, identification of trends and the ability to anticipate the developments of the market are critical issues to identify the opportunities and risks of the social campaign (Lesáková, 2010).

*The marketing mix* is the primary element that differentiates social marketing from commercial communication and advertising approaches with which it is often confused. When a soft-drinks producer introduces a new drink it must first design the product, its colour and taste. Prices have to be competitive, distribution in places where people are most likely to look for it and then they promote it, using a wide variety of approaches including events, publicity, advertising, and discounts. In social marketing, however, the product is often the desired behaviour itself ("breastfeed your child") and/or some supporting device or policy necessary to make the behaviour possible (a breastfeeding room in a shopping centre or office building); price is an embarrassment and time required to breastfeed, while promotion is all the activities the organization takes to reduce the embarrassment and support the behaviour (Smith, 2006). Social marketing discipline is based on the idea that all marketing is an exchange, if we want people to change their behaviour, they must be offered them something – security, information, an image, a feeling of belonging.

Many social marketing campaigns are dealing with *ethical dilemmas*. Ethics is about norms and values of certain seriousness, about standards and ideas, i.e. ones that people cannot easily neglect without harming others. It is not as simple as deciding what is right and what is wrong. Social marketers often work with the behaviour that is illegal, socially sensitive or taboo. They work with vulnerable groups – defenceless people, ill or infected people living in poverty, addicted people, minorities etc. As a result, the solutions that social marketing offers often demand difficult mental changes in behaviour.

## **2.2 Social marketing and behaviour changes of the population**

*Behaviour* is composed of three components: it must an observable action, by a specific target audience, under specific conditions (e.g. going to the supermarket, women ages 18 to 24 who have moved into a new home will buy an energy saving lamp) (Smith – Strand, 2008, p. 22). Information, understanding the problem, belief in something are the

determinants of the behaviour (people understand the problem, the benefits, but they do not buy energy saving lamp in the end). The goal of social marketing is to make the target groups know the problem; understand the need of changing the behaviour and to practise the new behaviour in the long term.

Human behaviour is studied in detail by behavioural sciences with the help of psychology, sociology and anthropology. Everything people do they do with reasons. These may not be rational or people may not even know what their reasons are. Research of people and their behaviour is the key element of social marketing. It is important to know the determinants of human behaviour that are external (legislation, environment, access to services or products) and internal (education, motivation, beliefs, values, attitudes). Changes in behaviour are achievable more easily way if the new behaviour is compatible with the old, if it is easy to implement, with low cost and offers some immediate benefit. There are stages of change - people go through their own process in changing to a new behaviour. At each stage, they may have unique needs. For example, someone in the pre-contemplative stage may need information about a behaviour but is not ready to discuss how to integrate the behaviour into his or her daily life.

The stages of changing behaviour are (Smith – Strand, 2008, p. 31):

1. Precontemplative: People in this stage do not intend to change their current behaviour in the foreseeable future, are unaware of the benefits of changing their behaviour, or deny the consequences of their current behaviour.

2. Contemplative: People are aware that a change might be good, are seriously thinking about changing their behaviour, but have not yet made a decision.

3. Preparation/decision-making: People intend to take action in the near future and may have taken some inconsistent action in the recent past.

4. Action: People modify their behaviour, experiences, or environment to overcome the problem; the behaviour change is relatively recent.

5. Maintenance: People work to prevent returning to the old habits and maintain behaviour change over a long period.

When setting the goals of the social marketing campaign it is crucial to know the factors that influence the behaviour of the target group. The important factors are: benefits, barriers, competition and the influential groups. Benefits are positive effects or advantages that the change of the behaviour can bring. Barriers are the reasons, either real or not-existing, why the target public do not want to change their behaviour. The competition is behaviour, or the organization supporting the behaviour that is in contradiction with our goals and efforts. Influential groups are very important with great impact on the target public – family members, local communities, social networks or religious leaders (Cheng – Kotler, 2011, p. 20).

### *Behaviour management framework*

Prior levels of motivation, opportunity and ability in the target group determine behaviour and lead to a target being prone, resistant, or unable to behave (Andreasen, 2001, p. 24). *Motivation* to behave considers goal-directed interest, which occurs when individuals can see that their self-interest will be served. *Opportunity* to behave considers the presence of environmental mechanisms in situations where the individual would like to act. *Ability* to behave considers individual skills or proficiency at solving problems, and

may include breaking a well-formed or addictive habit, or countering the arguments of one's peers.

There are various combinations of the three elements – according to the situation the three main strategies leading to behaviour change can be used: education, marketing, and the regulation of behaviour by law. When motivation, opportunity and ability are all high (see Table 1), the target will be prone to behave appropriately, and education generally will be sufficient to achieve the desired end. When motivation is low, but opportunity and ability are present, then the target will be resistant to respond appropriately, and regulation by law generally will be necessary to achieve the desired goal. Between these two extreme points, there are various combinations of levels of high and low motivation, opportunity and ability, where the target is unable to respond due to various circumstances. In these situations some combination of marketing, education and law will be needed to effect change.

**Tab. 1** Behaviour management framework

<b>Motivation</b>	<b>yes</b>		<b>no</b>	
<b>Opportunity</b>	<b>yes</b>	<b>no</b>	<b>yes</b>	<b>no</b>
<b>Ability</b>				
<b>yes</b>	1 prone to behave  education	2 unable to behave  marketing	3 resistant to behave  law	4 resistant to behave  marketing, law
<b>no</b>	5 unable to behave  education, marketing	6 unable to behave  education, marketing	7 resistant to behave  education, marketing, law	8 resistant to behave  education, marketing, law

Source: A.R. Andreasen, 2001, p.25

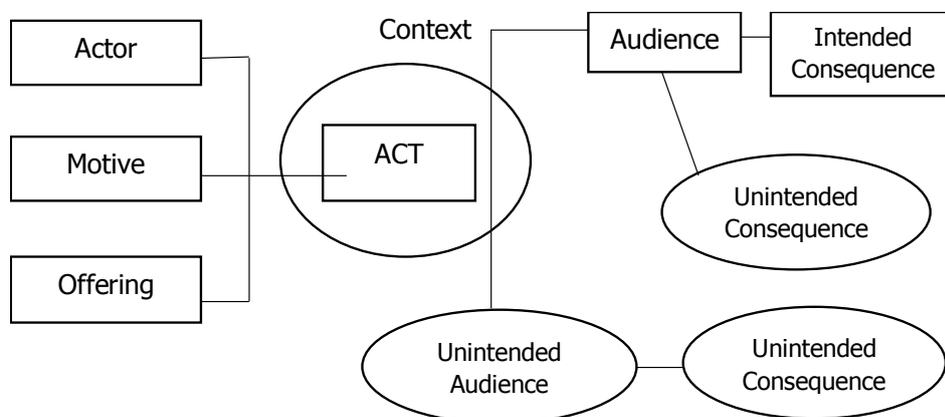
There are various social marketing strategies applied to achieve the desired behaviour change. The strategies can be divided into 8 groups:

1. Information and education – spreading of information among the target public without the explanation. It is up to the recipient to set his own opinion.
2. Persuasion and promotion – aggressive information campaign with the objective to change the attitude of the target.
3. Social control – pressure or lobbying of the social groups that influence social norms and values of other people in society.
4. Social services system – better accessibility to public services.
5. Economic incentives – savings (tax benefits) and direct payments (parents allowances or similar contributions).
6. Economic sanctions – provisions to reduce socially unaccepted behaviour (alcohol tax).
7. Medical counselling – elimination of the socially unaccepted behaviour or education and motivation to adapt the desired behaviour (disease prevention programmes).
8. Regulation and control – prevention of unaccepted behaviour by legislation (maximum speed).

## Unintended effects of social campaigns

Marketers have to ask questions to help determine all possible effects of the programme. Besides the desired goals there might be various effects of the campaign that were not planned and which might to occur. The process of behaviour influence strategy can be seen in the Figure 1.

**Fig. 1** Effects of social campaigns



Source: A.R. Andreasen, 2001, p.4

There is an actor, someone who produces or sponsors the product. The product or offer can be an object, a service, or a behaviour. A motive guides the actor, the act of offering the product, and the context in which that act occurs. The act affects audiences, both an intended and unintended audience. And finally, consequences affect both the intended and unintended audiences.

A wide range of potential unintended effects of communication campaigns have been reported in the literature; possible side effects of health communication campaigns as an example are listed in Table 2 below.

**Tab. 2** Examples of the unintended effects of the social campaign

<i>Effect</i>	<i>Definition</i>
<i>Obfuscation</i>	Confusion and misunderstanding of risk and risk prevention methods
<i>Dissonance</i>	Psychological discomfort and distress provoked by the incongruence between the recommended health states and the audience's actual states
<i>Boomerang</i>	Reaction by an audience that is the opposite to the intended response of the persuasion message
<i>Epidemic of apprehension</i>	Unnecessarily high consciousness and concern over health produced by the pervasiveness of risk messages over the long term
<i>Desensitization</i>	Repeated exposure to messages about a health risk may over the long term render the public apathetic
<i>Culpability</i>	The phenomenon of locating the causes of public health problems in the individual rather than in social conditions
<i>Opportunity cost</i>	The choice of communication campaigns as the solution for a public health problem and the selection of certain health issues over others may diminish the probability of improving public health through other choices
<i>Social reproduction</i>	The phenomenon in which campaigns reinforce existing social distributions of knowledge, attitudes and behaviours
<i>Social forming</i>	Social cohesion and control accompanying marginalization of unhealthy minorities brought about by campaigns
<i>Enabling</i>	Enabling Campaigns inadvertently improve the power of individuals and institutions

	and promote the images and finances of industry, such as designated-driver campaigns which allows the alcohol industry to portray themselves in a positive light by supporting the campaign, deflecting attention from issues such as underage drinking and drink driving
<i>System activation</i>	Campaigns influence various unintended sectors of society, and their actions mediate or moderate the effect of campaigns on the intended audience.

Source: L. Eagle, 2009, p. 6

Given the potential negative effects outlined in Table 2, there is a clear need for systems or structures to help present or resolve these issues.

### **2.3 Limits of social marketing**

There are several areas of problems and challenges that organizations face attempting to apply social marketing principles. In general, social marketing is more difficult than conventional commercial marketing, requiring more endurance and greater invention. The marketers have usually limited budgets but the campaign should be efficient at the same time. For market analysis, social marketers have much more difficulty accumulating valid, reliable, and relevant marketing data. In the area of market segmentation, they often face pressures against segmentation, especially segmentation that leads to the ignoring of certain segments. Target segments often consist of those consumers who are most negatively predisposed towards their offers (Hameed, 2014). There is also a variety of socio-economic constraints that must be addressed by social marketers – e.g. antithetical marketing of the competition, unhealthy lifestyles, lack of supportive public policies or lack of consensus among the coordination of the various organizations concerned (Lefebvre – Flora, 1988, p. 313). Those are also weaknesses in social marketing – it usually focuses on the individual persons not on the context or the system as a whole – the existence of related services, infrastructure, legislation, coordination or other regulations needed to secure and preserve behaviour change.

### **Conclusion**

The experience with social marketing demonstrates that the use of its tools in the proper manner might help to solve serious social problems in the era of globalization, environmental problems, economic crisis and increasing social differences. Governments, organizations and people that care about these problems and believe in social changes can use their resources more efficiently and effectively and achieve maximum results. The process of effectively influencing the beliefs, attitudes and actions of target public relies on communicating the right mix of offers, facilities, information and promotion. The potential is there - people are interested in the problems of society, health, education or those of local communities, they are publicly discussed and people want to see the solutions. New technologies and social media provide great opportunities and access to many different target groups.

There are many advantages of this approach and many challenges for social marketing but social marketers also have to be aware of its limits, weaknesses and unintended effects. Human behaviour is dictated by culture, society, values, morals, ethics and genetics and its study is crucial for social marketing activities. Change in behaviour is

a long-lasting process but it is unavoidably necessary to invest time, money and energy to achieve positive social changes in society.

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# Community-led tourism development

Michal Blaško – Vladimír Vavrečka<sup>1</sup>

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## **Abstract**

*Tourism is without a doubt one of the world's most important economic sectors. With the growth of the market and the development of the tourism sector the competition is gradually increasing. The complexity of the sector is defined by its structure (a predominant number of small enterprises) and linkages with other sectors affecting tourism and contributing to its success. An important role is played by the public sector and in particular by self-governing institutions. Therefore collaboration and cooperation of stakeholders is the main criteria for the success of the tourist destination. Community planning principles can be successfully applied in terms of tourism management as demonstrated by the example of the method implementation CLLD (Community-led Local Development) in the tourist destination Jeseníky-East.*

## **Key words**

*tourism, community planning, destination management, attendance of tourists, employment*

**JEL Classification:** L83, M31

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## **Introduction**

Tourism is a full-fledged economic sector, creating business opportunities, jobs and income. And not only in sectors or areas of services directly related to tourism and travel, but also in sectors, often seemingly unrelated to tourism at all (producers of local products, local service providers etc.). Worldwide, tourism is considered the industry of the future, because its development is accompanied by a strong multiplier effect. It represents a complex economic sector that significantly affects employment, balance of payments and socio-economic development of the regions, contributes to the GDP, has affected the incomes of local budgets, contributes to the protection and preservation of natural and cultural resources and last but not least also supports investment activity in the regions. (Enterprise plc, Ltd., 2003). Countries and destinations with advanced international tourism have for several decades (since the 1970's to 1980's) needed to organize and manage tourism and guide its development (Holešinská, 2012), and as a result destination management was created.

In the context of destination management are interactions of public and private sector subjects. This essentially means managing attractions and accompanying services providers. Strong links between these bodies may have very positive impact on the creation of tourist products and their application in target markets. Under certain conditions, these links can generate innovations and competitive advantages. The current challenge for destination management is community-led tourism development in the

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<sup>1</sup> Ing. Michal Blaško, Euroregion Praděd – Tourism, Nové Doby 111, 793 26 Vrbno pod Pradědem, Czech Republic, +420) 607 025 629, michal.blasko@europraded.cz

Ing. Vladimír Vavrečka, CSc., Department of marketing and value-creating processes, Ostrava Business School,plc Michálkovická 1810/181, 710 00 Ostrava – Slezská Ostrava, Czech Republic, +420 595 228 121, vladimir.vavrecka@vsp.cz

destination based on the principles of community planning inspired by institutional theories of regional development. Unlike neoclassical and neoliberal theories that promote labor mobility or Keynesian theories supporting the outflow of labor from the periphery to the core, Community Planning is based on the use of local resources, mainly local human potential, as well as the use of formal institutions in terms of institutions with an address and also the use of informal institutions such as local traditions and practices, routine behavior, habits, shared values and individual values. According to institutionally-oriented theories of learning, it is possible for Regions with strong contacts between network entities to create non-codified knowledges that can be acquired only by experience and participation in the specific activity. This knowledges then forms an important competitive advantage for the given locality.

The concept of community planning in the international literature begins to appear in the late 80's of last century, at a time of initiating discussions about locations based on critical-realistic approaches and a boom of the theory of institutional directions. In the last two decades, especially in Europe, USA and Australia in the framework of regional policies various different community planning methods were tried, including the involvement of local actors in various processes which led to the cooperation of local residents with local government, to new types of organizing services and to promote the emergence of new structures. "At the level of the European Union there is very noticeable development of regional policy in this direction, a the characteristic feature of this policy is the increased emphasis on strategic planning, setting measurable objectives, timelines, quality systems of implementation, monitoring the support programs and evaluation of their efficiency and effectiveness" (Blažek, Uhlíř, 2011, p. 254). A particularly powerful tool is the method of CLLD (Community-led Local Development), the use of which is in line with the Strategy of Europe 2020. The objective of this paper is to describe the experience of the implementation of the principles of community planning in terms of tourism management in the tourist destination Jeseniky-East and methodological approaches in addition to this evidence and a case study documenting the use of the method CLLD in this tourist destination.

## **1 Methodology**

A number of authors at the international level deal with cooperation partners from the public and private sectors through the application of methods of community planning with the impact on local sustainable development. Among them, the most recently quoted are Kelly Wates and Sarkissian.

Kelly, an American, is the author of one of the latest publications which was issued, namely "Community Planning: An Introduction to the Comprehensive Plan", released in 2010. A substantial part of the book refers the planning process, covering in particular the creation of conditions for the implementation of a comprehensive community plan, analysis of conditions in the investigated area, SWOT analysis, techniques determining feasibility of a community plan and the sustainability of its outputs including action plans. Kelly says that "a community plan represents the future of local communities composed of interest groups who live together as part of an organized system" (Kelly, 2010, p. 91). Kelly outlines a management planning processes, policies and impacts of these processes in the 1st and 2nd edition of "Managing Community Growth", published in 1993 and 2004.

Englishman Wates is engaged in community planning since the late 1980's and raising awareness of the concept of community planning with the publications, "Community Architecture" and "Action Planning", published in 1987 and 1996, and recently "The Community Planning Event Manual", published in 2008. In "The Community Planning Handbook", Wates and other experts and consultants deal with methods involving the local community in planning processes. Generally, it is described in this book involving the local community in the process of community planning in the form of table 1.

**Tab. 1** Degree of community involvement in the community planning process

		<i>Project stages</i>			
		<i>Initiate</i>	<i>Plan</i>	<i>Implement</i>	<i>Maintain</i>
<i>Level of community involvement</i>	<i>Self Help</i> Community control	Community initiates action alone	Community plans alone	Community implements alone	Community maintains alone
	<i>Partnership</i> Shared working and decision making	Authorities & community jointly initiate action	Authorities & community jointly plan and desing	Authorities & community jointly implement	Authorities & community jointly maintain
	<i>Consultation</i> Authorities ask community for opinions	Authorities initiate action after consulting community	Authorities plan after consulting community	Authorities implement with community consultation	Authorities maintain with community consultation
	<i>Information</i> One way flow of information Public relations	Authorities initiate action	Authorities plan and design alone	Authorities implement alone	Authorities maintain alone

Source: Wates, 2000, p. 19

According to Wates the level of community involvement in the planning process may have different forms, and each form carries both pros and cons.

Australian author Sarkissian with colleagues Hofer, Shore, Vajda and Wilkinson in his book "Kitchen Table Sustainability" addressing the relationship between the involvement of local actors in community planning and sustainability of local development and the development of local communities. Sarkissian in this publication asserts that "local community is the heart and hands of sustainable development" (Sarkissian, 2008, p. 6). Sarkissian, together with other 1980's colleagues deals with local communities cooperating in the process of community planning, including other publications, such as "Community Participation in Practice", "The Community Participation Handbook", "Community Participation in Practice", "Casebook, Community Participation in Practice", "A Practical Guide", "Community Participation in Practice", "Workshop Checklist and Community Participation in Practice", "New Directions". These publications were issued between 1986 – 2003.

As already mentioned in the introduction, a particularly effective tool used in the European Union is the CLLD method, the use of which is in line with the Strategy Europe 2020. According to the European Commission CLLD is a method for involving local stakeholders in developing and implementing local integrated strategies. CLLD focuses on areas of specific sub-regions. Institutions engaging in the implementation of Development Strategies must be composed of representatives of the Regional Public and Private sector. On the Decision Making Level there must not be Public Authorities as defined in accordance with National Rules and Regulations, or any other Special Interest Group with more than 49% of the voting rights. It can be argued however, that the public sector would not be able to guarantee the fulfillment of the Development Strategy of the development strategy in accordance with the Public Interest and public funds would not be spent effectively (they would prefer private sector projects). Therefore, it must be programs and projects implemented through integrated and multi-sectoral development strategies taking into account long-term effects and must be designed with regard to local needs and development potential. Among the priorities are specifically territorial cooperation and networking, where appropriate. Table 2 presents the principles of the functioning of CLLD.

**Tab. 2** Operating Principles of CLLD by the European Commission

<i>Principle</i>	<i>Explanation</i>
Sub-regional, local territorial approach	The funds are concentrated on the areas that need it most. Solutions are tailored to meet the varying needs flexible and opportunity - at the right time and the right place.
Community-led partnership. Participatory and partnership approaches	Shared responsibility and ownership. No special interest group, whether public or private, will dominate. Partnership mobilizes knowledge, energy and resources of local actors.
Integrated multi-sectoral local strategy	Actions are mutually reinforcing and building on their strengths in the area. Links are being established between local actors horizontally and vertically with partners at other levels. It may have different priorities and entry points.
Innovation	In the local context method generates new ways of thinking and doing - new markets, new products and services, ways of working and social innovation.
Networking and cooperation	Local areas and communities to learn from each other and locate allies to strengthen its position in the global economy.

Source: European Commission

What benefits do the European Commission see in the CLLD method? Local actors have better knowledge of local problems that need to be addressed with the resources and opportunities to use them. Therefore, they are able to mobilize local resources for the development process as it would not have happened with an Top-Down Approach. It gives local players a greater sense of ownership and commitment to the projects that allow them to use the best of local benefits / advantages. However, a community-oriented

approach can be effective only if it develops trust between stakeholders and is supported by permanent local structures with the necessary experience and knowledge. At the same time delegating certain functions to the local level partnership entails certain costs and risks. In a special report no. 5 of the European Court of Justice in 2010, it is stated that the subsidy system must be so arranged as to strengthen the added value of a Bottom-Up Approach, and at the same time keep costs and risks to an acceptable level.

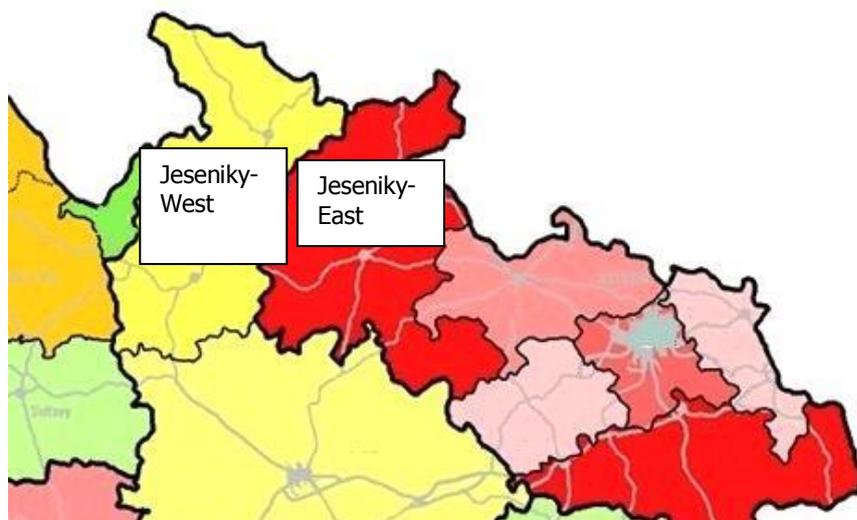
CLLD method is very useful for the tourism industry. "Tourism is often presented as a selective motor of economic development, especially on a regional scale. For these reasons, in many countries the public policy of promoting tourism justified by the creation of jobs and thus a solution for the problem of unemployment, often in peripheral and problem areas. A study by the Austrian Institute for Economic Development from 2005 shows the six basic reasons for public support of tourism in Austria, it is a fact that tourism is an important generator of new jobs. Employment multipliers in tourism in the overall economy usually ranked the highest and tourism is the driving force in creating jobs, especially for young people "(Franke, 2012, p. 12).

## 2 Results and discussion

### 2.1 Case study

The Case Study refers to the Jeseníky-East destination (Moravian-Silesian part) and serves as a basis for comparison of the relevant indicators for the destination Jeseníky-West (Olomouc part) as well as for other destinations in the Czech Republic. Within the fig. 1 are defined both destinations by the state agency CzechTourism zoning scheme.

**Fig. 1** Definition of destinations Jeseníky-East and Jeseníky-West



Source: CzechTourism

In terms of the degree of community involvement in the community planning process destination management Jeseníky-East operates solely on the basis of partnership between the public and private sectors. The key institution that is the initiator of the destination management creation is the Association of Towns and Municipalities of the Eurore-

gion Praded. An important role, however, plays private sector entities (providers of accommodation, catering and ancillary services, local producers of original products) who are involved in the implementation of action plans at a higher rate than public sector entities (relevant representatives of public administration, administrators attractions, service providers from the public sector). The funds within the action plans are focused specifically on measures to promote education, the creation of regional tourism products, promote their sales, service quality and the implementation of innovations. The degree of involvement in the process of community planning by various sector representatives and the number of cooperating subjects and the shares in the total number of cooperating entities is represented on table 3.

**Tab. 3** Destination Jeseniky-East - the degree of involvement of representatives of sectors in the preparation and implementation of action plans

<i>Kind of activity</i>	<i>Public sector</i>		<i>Private setor</i>		<i>Total</i>	
	<i>Number</i>	<i>Share %</i>	<i>Number</i>	<i>Share %</i>	<i>Number</i>	<i>Share %</i>
<i>Institutional involvement</i>	23	37,7%	38	62,3%	61	100,0%
<i>Educational activities</i>	14	28,0%	36	72,0%	50	100,0%
<i>Creation of tourism products</i>	8	17,4%	38	82,6%	46	100,0%
<i>Promotion offers of destination</i>	15	31,3%	33	68,8%	48	100,0%
<i>Sales promotion offers of destination</i>	8	30,8%	18	69,2%	26	100,0%
<i>Marketing intelligence</i>	2	40,0%	3	60,0%	5	100,0%

Source: own processing

Compliance with the rules of public support by partner organizations from the private sector is guided by directive no. 3/2012 of Euroregion Praded. Because the funding of action plans for the period 2011 - 2015 is 85% financially ensured by the Regional Operational Programme NUTS II Moravia-Silesia, their approval of this directive is necessary. Public aid rules are thus consistent with the methodology of the operational program and the relevant regulations of the European Commission. The remaining 15% is funded in the form of membership fees by partners in the so-called Regional Tourism Forum. To do this it is necessary to add that the public aid rules encourage private sector partners to invest in innovation, quality of staff and the quality of tourism facilities. This joint proposal becomes more competitive and complex. The key, however, is the leading role of the Euroregion Praded, who must advance the public interest in pursuing mainly the influx of tourists, revenue from tourism and employment in the region. It is also important for the public sector to join with the members of the Regional Tourism Forum to create a comprehensive plan for the tourists' increasingly demanding requirements, makes the public sector's role one of leadership. This role could easily be taken over by the private sector, which is of course why the motivational component of the regional tourism products is involved in a very small way as they could mainly support private interests associated with hygienic regional component of the product (accommodation, food, etc.). Membership currently consists of 72 member cities and municipalities of Euroregion Praded and 24 entities of the private sector, while 15 members are operators of certified accommodation facilities with a total capacity of about 700 beds. Regional Tourism Forum

has procedural rules where they vote for a total of 11 elected members for the Council for Tourism, 6 members of the public sector competent to decide on public funds and five members from the private sector. Council for Tourism is the executive body of the Regional Tourism Forum and approves the action plans for a given period based on a community development tourism strategy. Decisions by the Council for Tourism perform Office for Tourism is part of the Secretariat of the Euroregion Praded. The institutional structure and functioning of Destination Management may at first glance appear too complex; however, for the application of the principles of methods CLLD it is functional. Partnerships between Euroregion Praded and private sector entities are on the horizontal level adjusted under partnership agreements and all partners' performance are non-financial. The bearer of innovation for the competitiveness of destination Jeseniky-East in relation to competing destinations in the Czech Republic and abroad is the Marketing Working Group composed of experts in marketing, public economics, journalism, graphics and IT technology. All innovations are operationally implemented after approval by the Council for Tourism, which usually meets once a month. Partners from the public and private sector, while learning from each other transfer newly acquired knowledge and experience to their work and to other entities in the area. This leads to the deepening of partnerships in the area as well as synergistic effects. The primary impetus for the involvement of Attraction Owners, Accommodation Providers and ancillary services together with members from the field of tourism and other stakeholders were to initiate educational activities during the period of 09/2011 - 12/2011. The aim of these training activities was not only to initiate the growth of quality in the destination area, but also to agree on competences of the entities forming the "core" network. Another impetus for network creation was the initial intensive fieldwork, including research, implemented by "Focus Groups" in collaboration with the Ostrava Business School plc. In practice, it proved to be a very powerful tool to support community-led tourism development, and professional consultations for those interested in cooperation. In the period from 01/2012 - 09/2012 almost every consultation led to the involvement of the interested entity to cooperate in community planning and this trend is with high probability expected to continue. After ending the action plan for the specific period the planned and expected spending is analysed. To get an idea of the results it is important to at least summarize the basic data on realized and future action plans:

Action Plan I. for the period 07/2011 - 05/2012, planned spending 3.5 mil. CZK, actual costs 2.9 mil. CZK, financing 85% of ROP NUTS II Moravia-Silesia, 7.5% the Moravian-Silesian Region, 7.5% own resources of Euroregion Praded, pre-financing a project by loan from member cities of Euroregion Praded.

Action Plan II. for the period 06/2012 - 05/2013, planned spending 3.8 mil. CZK, the actual costs 2.4 mil. CZK, financing 85% of ROP NUTS II Moravia-Silesia, 15% own resources of Euroregion Praded, pre-financing a project by loan from member cities of Euroregion Praded.

Action Plan III. for the period 06/2013 - 07/2014, planned spending 3.8 mil. CZK, financing 85% of ROP NUTS II Moravia-Silesia, 15% own resources of Euroregion Praded, ie. contributions from members of the Regional Tourism Forum, of which is about 10% of the public sector's mandatory contributions of member municipalities of 2 CZK / person / year and about 5% of private sector member contributions as determined by the Council for Tourism, pre-financing a project by loan from member cities of Euroregion Praded.

Action Plan IV. for the period 08/2014 - 09/2015, planned spending 3.8 mil. CZK, financing 85% of ROP NUTS II Moravia-Silesia, 15% own resources of Euroregion Praded,

ie. contributions from members of the Regional Tourism Forum, of which about 10% of public sector mandatory contributions of member municipalities of 2 CZK / person / year and about 5% of private sector member contributions as determined by the Council for Tourism, pre-financing a project by loan from member cities of Euroregion Praded.

Experience has shown that through community-led tourism development during the short period has created dozens of partnerships in the destination Jeseníky-East between Euroregion Praded and private sector entities and partnerships between private sector entities other. In terms of management of public finances, this fact has great importance, since cooperation between the public and private sector based on community planning already in the first two years brought a number of findings:

- clear rules for public support of private entities in tourism (Directive no. 3/2012 Euroregion Praded) increases the confidence of those who want to collaborate,
- cooperation subsequently brings innovation and competitive advantage,
- where cooperation works, increasing attendance and length of stay,
- mandatory certification of accommodation facilities (the first and so far the only ones' in the country) ensures the quality and comprehensiveness of services,
- voucher system Jeseníky (only one in The Czech Rep.) is an effective tool for motivating tour operators to cooperate with the Euroregion Praded and brings new economically stable tourist to Jeseníky,
- cooperation on a vertical level with CzechTourism, Moravian-Silesian Region and Ostrava Agency for Regional Development a.s. offers great savings in the implementation of action plans, activities,
- Regional Tourism Forum is a necessary prerequisite for institutional cooperation (networking) actors in the tourism and finance action plans.

### *Measuring the impact CLLD destination Jeseníky-East*

In the Czech Republic there is on regional levels long-term tendency to measure only "spent" public expenditure aimed at promoting tourism. A successful destination is regarded as one that releases the "most interesting" printed marketing material or comes with some innovation in marketing, or their printed marketing materials will be successful in some competition. This way is not the best way and in this manner it is hard to justify public support for tourism development. Rather, it is necessary to direct public support to activities that will lead to the cooperation of stakeholders in the region and to increase attendance of tourists with the impact on revenue from tourism and employment. Especially in economically weak and structurally affected regions, such support is desirable because it can generate a greater number of small economic activities diversifying economic potential of the region.

To measure the impacts of CLLD on the Jeseníky-East destination a method of calculating the income of accommodated guests is used. This method was presented at the international conference COME AND STAY 2012 in Prague and in the Czech Republic was used several times in the strategic planning of tourism development. The method consists in converting the attendance of tourists to income from accommodated guests and is based on statistical data of the Czech Statistical Office, the investigations of residents by state agency CzechTourism and investigations of non-residents by STEM/MARK agency. Calculations are performed according to the relation:

$$P = L_r \cdot U_r + L_n \cdot U_n$$

where P are incomes from accommodated guests in collective accommodation establishments for the period, Lr is the number of overnight stays by residents in the period, Ur is average spending by resident in destination, Ln is the number of overnight stays by non-residents for the period and Un is average spending by non-resident in the Czech Republic. Table 4 presents data on the evolution of incomes from accommodated guests (residents and non-residents) in the destination Jeseniky-East in the period 2010 - 2012. In 2013, the Czech Statistical Office carried out the changes of attendance of tourists, and therefore is suitable for further evaluation of trends begin new time series starting in 2013.

**Tab. 4** The evolution of incomes from accommodated guests in the destination Jeseniky-East

<i>Status 31.12.</i>	<i>Incomes from residents (CZK)</i>	<i>Incomes from nonresidents (CZK)</i>	<i>Total (CZK)</i>
2010	184 018 377	30 054 563	214 072 940
2011	187 707 635	22 248 183	209 955 818
2012	199 758 808	23 768 831	223 527 639

Source: ČSÚ data, own processing

While incomes from residents since 2010 are growing in line with increased attendance of tourists, incomes from non-residents in 2011 decreased due to a reduction in the number of accommodated guests and reduction in the average duration of their stay. This was also the reason for the increased consumption of the product offering by foreign target markets (Poland, Russia, Germany, Slovakia, Benelux) requiring intensive cooperation with all relevant partners in the network of contacts and requiring an increase in marketing activities towards these markets. However, if we compare the data on incomes from the accommodated guests with the data of the destination Jeseniky-West, we find that for the period when destination management established Euroregion Praded began implementati-on, incomes increased from accommodated guests in the destination Jeseniky-East total of about 5.4 mil. CZK, while at the destination Jeseniky-West they generally declined by about 22.0 mil. CZK. This is documented in Table 5, which lists the data on the incomes of the accommodated guests (residents and non-residents) in the destination Jeseniky-West.

**Tab. 5** The evolution of incomes from accommodated guests in the destination Jeseniky-West

<i>Status 31.12.</i>	<i>Incomes from residents (CZK)</i>	<i>Incomes from non-residents (CZK)</i>	<i>Total (CZK)</i>
2010	547 771 416	79 356 641	627 128 057
2011	570 020 096	62 678 847	632 698 943
2012	537 671 646	61 909 817	599 581 463

Source: ČSÚ data, own processing

If we used the consulting firm KPMG study entitled "Role and Importance of Tourism in the Czech Republic - the Benefits of Tourism to the Czech Republic", prepared by KPMG for the Ministry for Regional Development in 2010, we could arrive at specific impacts of increased or reduced incomes from accommodated guests on public budgets. The study showed that out of every 100 CZK spent on services and tourism products in total (directly or indirectly) in the period from 2006 to 2008 carried into public budgets 40.79 CZK. We can therefore conclude that the increased attendance of tourists in the destination Jeseníky-East contributed to public budgets in the amount of around EUR 2.2 mil. CZK and a decline in attendance of tourists at the destination Jeseníky-West caused a drop in public budgets by an amount roughly 9.0 mil. CZK.

Incomes from the accommodated guests can be further analyzed using the so-called Tourism Satellite Account, which for a given period prepared by the Czech Statistical Office. Thanks to the Tourism Satellite Account is possible to determine the consumption patterns of residents and non-residents (accommodation, meals, transportation, goods, other).

## Conclusion

An important element to ensure effective, targeted and sustainable development of tourism in the destination region by using the synergy of local marketing, is the collaboration and cooperation between stakeholders, regardless of their economic sector, size or form of ownership. A prerequisite is a willingness of stakeholders, especially eagerness and professional skills of the organizers. An appropriate foundation for such an approach is community-led tourism development, based on principles of application of the CLLD method. This is illustrated by a case study describing the principles and results of community led tourism development in the destination Jeseníky-East. Due to the achieved results we can recommend measuring the impact of application of the method CLLD tourist destinations in the European Union. The limiting factor in measuring the impact is the availability of relevant data sources.

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# Relationship between success of suppliers and the length of their operating on the market

Andrej Čikel<sup>1</sup>

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## **Abstract**

*The automotive industry is characterized by high entry barriers today. Entity, which decides in its business plan to enter today the market of the automotive industry is facing a several years of thorny path with an uncertain outcome. It must count with meeting today known conditions for entry into this market. In this work, we therefore analysed two groups of suppliers to the same customer in terms of length of operating on the market. We hypothesized that the active (successful) suppliers operate in the market longer than the passive (unsuccessful) ones. This hypothesis was confirmed with very high statistical significance. In absolute terms, successful suppliers operate in the market on average by 3.16 year longer than unsuccessful. From this we derive the assumption that the new entity takes on average more than three years, until able to participate in the supply chain in the automotive industry.*

## **Key words**

*automotive industry, suppliers, time on the market*

**JEL Classification:** M30, L22

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## **Introduction**

Automotive industry today is characterized by high entry barriers. Entity, which now in its business plan decides to enter the market of the automotive industry is facing a several years thorny path with an uncertain outcome. It must reckon with meeting today known conditions for entry into this market, whether it is to invest in modern technology, training of personnel at all levels, multiannual process of management system certification, successful completion of audits of potential customers and financial stability. Of course, the network economy such as the automotive industry is a constantly changing living system. The consequences are changing requirements for individual subjects requiring their high flexibility. And to all this new entity has stood the test of competitiveness compared with established players. Phenomena such as the financial crisis even more closely join individual links in the supply chain and reduce willingness to take risk by implementing a completely new entity in the network. After 2010 there was a fundamental change in the nature of relations between the supplier and customer. We observe the transition from hostility and rivalry of companies to a friendly transparent functioning of supply chain. Here it gets to a personal level of individual subjects, where long-time personal contacts represent a significant barrier for new players. Strategy of supply chain operation is long-term cooperation beneficial to all parties. Such a strategy definition allows formulating the following hypothesis:

H: Active suppliers are active on the market longer than passive suppliers.

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<sup>1</sup> Ing. Andrej Čikel MBA, University of Economics in Bratislava, Faculty of Commerce, Department of Marketing, Dolnozemská cesta 1, 852 35 Bratislava 5, Slovakia

The main research objective is to prove the effect of company length of operating on the market on its success by testing hypothesis H. This topic found very poor reflection in scientific literature yet. Some authors analyzed partial subjects of company's maturity. Westerman et al. (2012) states that companies mature in transformation management intensity are more profitable. But this isn't directly connected to company age alone. More authors researched longevity of companies. OECD statistics (2001) show firm survival rates in manufacturing after 4 years as following:

- United Kingdom 42%
- Canada 50%
- USA 57%
- France 55%
- Portugal 64%
- Italy 61%

It is obvious that about a half of companies don't survive first 4 years. This implies the connection between longevity and success of company.

## **1 Methodology**

The method of this paper is to analyze the database. For this purpose, we used data from supplier database of one of the largest global automotive suppliers. This database contains information about 15216 suppliers of all levels. For the purposes of this work and to define hypothesis, we chosen the following information on suppliers from the database: Year of incorporation/formation.

Due to the requirements of the database provider to remain anonymous, the identification data of provider and the individual suppliers are not published. The information in this database was valid at the ultimate of 2013.

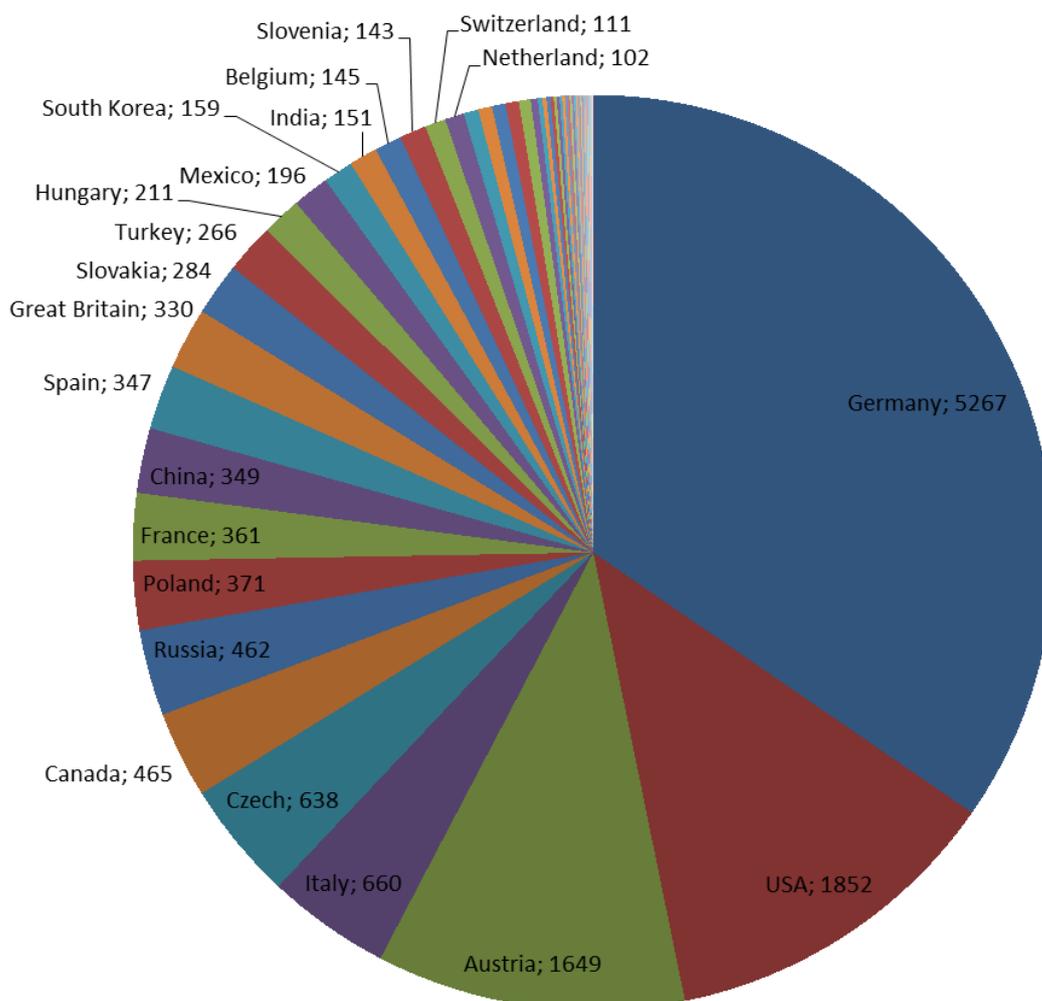
### **1.1 Geographical structure of suppliers**

For the needs of a globalized generalizations and conclusions of this work has to be done a detailed analysis of the suppliers database geographic. From the 15,216 suppliers an indication of the country of origin exists by 15210. By 6 suppliers the country of origin could not be identified. As we talk about the supplier's country of origin, in this work we have in mind the physical location of a particular supply unit with its own DUNS global classification identification number. Thus, we do not work with the country of residence of the main headquarters of the company or the country of residence of the owners of the company. Through detailed analysis, we found that in the database are represented suppliers from 64 countries of all continents. Representation structure of individual countries is in Figure 1.

Despite representation of suppliers from all continents, we can see a clear preponderance of suppliers from Western Europe and North America. With the distance the largest number of suppliers has its headquarters in Germany. Their share represents 34.63% of the total number of suppliers. In second place is the USA (12.18%), followed by Austria (10.84%). Other countries share does not exceed 5%. Extremely high

proportion of German suppliers has many causes. The first is the high proportion of production plants of database provider in Germany. This currently represents 13.33% of its manufacturing plants, but this proportion was clearly higher in the past. The second and probably the most serious cause is the customer structure of the database provider. This is dominated by premium German car manufacturers. A third is the fact that the German supply industry today is absolutely the most developed in the automotive industry globally. USA supplier's representation has similar causes as is the case in Germany. Surprise is the relatively low representation of automobile superpower Japan. Here, we must realize logistical context and location of the country itself. If we would analyze a database of suppliers according to ownership structure, the share of Japanese companies would substantially increase. These are in this database mainly represented by their foreign factories. Given the fairly comparable (high) wage costs, there is a perceptible difference between Japan and Germany. This has two causes. The first is logistically better position of Germany with respect to major world markets (this situation could change radically in the future). The second is the ability of German companies to succeed through brand and quality in world markets despite the relatively high price. Clear sign of globalization tendencies is the fact that while the database provider directly manufacturing operates in 26 countries around the world, its direct suppliers are based in 64 countries and their number is constantly increasing.

**Figure 1** Geographical structure of suppliers



Source: author's calculations, 2014



$s_1, s_2$  – sub-file variance

Function Excel T.TEST

one-sided distribution

5. step: Result interpretation

Comparison of the T-test value with the value  $\alpha = 0.05$ , respectively. 0.01, respectively 0.001, adopt or reject the hypothesis  $H_0$ .

## 2 Results and Discussion

Confirmation or refute the hypothesis was tested by comparing two sub-files of the entire suppliers database. The first sub-file consists of active suppliers of database provider. These are the companies that responded positively to the question: Do you trade it with a database provider? As this is the supplier database, it is necessary to understand the term trading in the sense of being a supplier. There are 7122 such firms in the database. Second sub-file represents companies that responded to this question in the negative. There are 5607 such firms in the database. This division allows us to define the basic postulate of this work. Affirmative answer to the question: Do you trade it with a database provider? - is the result of the correct application of industrial marketing practices in terms of network economy. As an argument we state that for register to the database it is required:

1. Invitation to the provider's database registration (buyer's expression of interest)
2. The provision of the required data by supplier (seller's expression of interest)

This means that both parties have an interest in another business and implementation of trade is the result of this effort. Conversely, if it not comes to a realization of trade, co-operation is not successful.

Parametric unpaired t - test:

1. step: Hypothesis definition

$H_0$ : Active suppliers operate on market as long as passive ones

$H_a$ : Active suppliers operate on market longer as passive ones

2. step: Analysis plan formulation

$\alpha=5\%$

$\alpha=1\%$

$\alpha=0.1\%$

3. step: Collected data analysis

	Number of suppliers	Average Year of incorporation/formation
Active	6348	1975,479364
Passive	5085	1978,643068

11433

4. step: The test of the significance of the difference between the two averages for independent selections

Parametric unpaired t - test:

$$S_1 = 1241,638358 \quad S_2 = 1027,046444$$

Function Excel T.TEST      T - test      0,000000266336431      one-sided distribution

5. step: Result interpretation

As the value detected by the T-test (0.0000 ...) is less than 0.05, respectively. 0.01, respectively 0.001, result is statistically very highly significant, it means in these files was among the active suppliers very highly significantly longer average time of operating on the market than among passive, it means we accept the hypothesis  $H_a$ . The results of hypothesis  $H$  show that the active suppliers operate longer on market than passive ones.

In hypothesis  $H$  we also confirmed a statistically significant difference of almost four years with an average age of 38 years of active suppliers and passive 34. In connection with requirements on the new company entering this market, we hereby confirm the relevance of this marketing information.

## Conclusion

Adoption of hypothesis  $H$  is confirming main research objective and author's statement about significance of length of operating on market for supplier's success. It is the first time that this fact was confirmed on such big sample of companies with more than 11 thousands individual companies. We can say with very highly significance, that successful suppliers in automotive industry are longer operating on the market than unsuccessful. We can assume relevance of this conclusion for other network industries too.

In the context of ideas and theoretical basis of this work it is necessary to draw attention to its limits. These are mainly the fact that in this work defined hypothesis was verified in only one set of suppliers, which is tied to one customer - provider database. As the theme for further research it would be useful to test our hypothesis on supplier databases of other customers.

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# Consequences of socio-technological change on the demand of services and the development of innovative systems

Miroslava Čukanová<sup>1</sup>

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## **Abstract**

*Changes in social and technological environment in the last two decades triggers a series of necessary changes in market needs with respect to offering production services. Services are embedded in the development of the present society. Service sectors and activities form an increasing share of today's economies, and the emergence of new technologies creates and needs services. Solutions to the biggest societal challenges, such as unemployment, ageing population, climate change and social exclusion, require systemic innovations, which often manifest themselves as new or improved services. New or improved services are required by citizens, firms, public organizations and the third sector to answer these challenges.*

## **Key words**

*social changes, technological changes, innovative systems*

**JEL Classification:** 030

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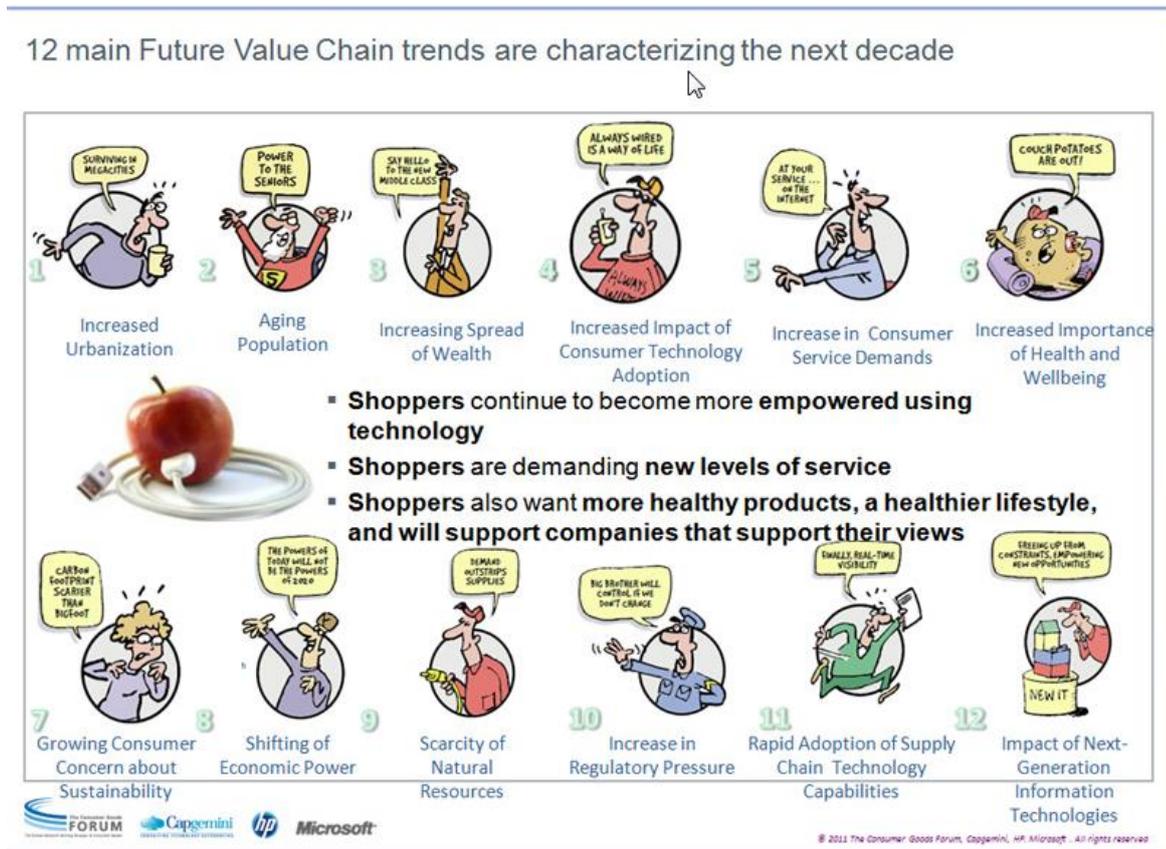
## **Introduction**

Consumer markets for goods and services have undergone over the last 25 years considerable immense transformations. Drivers of change, regulatory reform, more open global markets, development of new technology and the growth of consumer services. These developments, in many cases provide consumers significant benefits. Relatively a little attention has given to the challenges of this development for consumers and consumer policy makers. For example a modern market comprises increasingly becoming more complex products. Moreover, the related products and services is a significant difference, which makes the consumers increasingly difficult to assess and compare the value of products and services offered. Although a growing global trade and development of the internet provides new opportunities for consumers, there have been some new forms of fraud, which requires authorities to protect consumers be vigilant and active collaborate with foreign colleagues. Consumers themselves have also changed (OECD, 2014). Their value supply chain changed too (Figure 1).

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<sup>1</sup> Ing. Miroslava Čukanová, University of Economics in Bratislava, Faculty of Commerce, Department of Services and Tourism, Dolnozemska cesta 1, 852 35 Bratislava, cukanova.miroslava@gmail.com

**Fig. 1** Future Value Chain trends



Source: [http://www.scdigest.com/ASSETS/NEWSVIEWS/11-10-20-1\\_Supply\\_Chain\\_Graphic\\_Week.php?cid=5093](http://www.scdigest.com/ASSETS/NEWSVIEWS/11-10-20-1_Supply_Chain_Graphic_Week.php?cid=5093), Capgemini, 2020 Future Value Chain Report

12 of key trends that are going to affect companies in the consumer goods to retail value chain from now through 2020. The trends cover a wide range of issues, a few with relatively little connection to the supply chain. This value supply chain was drawn up on the basis of knowledge of Capgemini - one of the world's foremost providers of consulting, technology and outsourcing services (SCDIGEST, 2011).

## 1 Methodology

There are some socio-technological changes, which influence on the demand of services. The aim of this paper is trying specified sources of these changes and areas, in which realising. According to Kubičková (2009) it is important to point out position of Slovak republic within the innovation performance of EU countries.

## 2 Results and discussion

### 2.1 Impact of social changes on society

The change is a part of human existence and social changes are examined several of Social Sciences (psychology, economics, political science, anthropology). These changes are taking place in the following areas family, stratification, population, education and

training, changes in power relationships and economics. Among the sources that cause the changes in these areas we include (Sopóci, 2007):

*Natural environment and population development* - they caused and causing significant changes in society, regardless of the scientific and technical progress. It's important to target on Environmental pollution and its consequences.

*Science and Technology* - scientific and technological development is still accelerating and changes are being made at shorter intervals. Especially technological innovation has always been the driving force behind changes affecting the life in the society.

*Ideology and Politics* - greatest impacts on social change have political ideologies; these can be considered as the most powerful source of change in the society. They are the most complete and elaborate kinds of ideologies.

*Competition* - encourages the efforts of opponents of the development of knowledge in all areas of life. Rise of people's efforts on the improvement and innovation. Competition causes commercial firms to develop new products, services and technologies, which would give consumers greater selection and better products.

*Conflict* - there is always a lack of what is desirable, and it will always build between human beings. Therefore, each person experiences in their lives different types of conflicts. Individuals and groups in society struggle to maximize their share of the limited resources that exist and are desired by humans. Given that there are limited resources, the struggle inevitably leads to conflict and competition. These struggles can lead to changes in institutions and societies as different groups come into power.

*Economy* - in connection with the process of globalization is increasing the role of international financial and economic institutions. Its dynamic development also affects urbanism. Internationally, causes economic expansion more developed countries to less developed or economic dependence of one country by another, resulting in particular social and cultural changes.

*Structural tensions* - it is a conflict between two or more elements of the social system. For example, demographic imbalances often create tension under which changes are made. The discrepancy between the birth rate and the number of existing - and planned schools and pre-schools, the educational and age structure of the population and the need for labour force, the number of inhabitants and affordable food.

## **2.2 Impact of technological changes in society**

During the coming years, both the developed and developing economies will be increasingly dependent on technological knowledge. From the viewpoint of services, the advancement of ICT – that has fostered the growth of this sector in the past decades – will be central also in the future. More and more data are gathered and the growth of data is no longer limited to active human creation, but is linked to automated data collection and storage by internet, phones and other digital devices and sensors. Making sense out of data requires new, improved methods for communication both between humans and machines and between machines. It also requires the development of data management and data governance methods: standards, practices, applications and services.

Big Data, Open Public Data and crowdsourcing are among the topical phenomena that should be more deeply studied in the service context. Big Data refers to the huge mass of

data created via digital devices and being now in silos: enterprise data, financial data, health data etc. The analysis of the content of these silos helps to reveal potential new data categories, and consultancy based on Big Data is one promising new service area. Open Data includes the idea that certain data is freely available to everyone to use and republish. Recently, Open Public Data has gained popularity with the launch of initiatives in several countries. The third important ICT-driven trend is the development of crowdsourcing: a collaboration model enabled by social media to solve problems by interested people who respond to an open call. Crowdsourcing illustrates how technological facilitation can promote collective innovation (RESER, 2014).

By company Gartner, who is the world's leading information technology research and advisory company, we have the following a top ten Strategic Technology Trends for 2014 (GARTNER, 2014).

1. Web-scale IT - Web-Scale Singularity Means Goodbye to Conventional IT Wisdom. During the past decade, leading cloud services organizations have been experimenting with new ways to deliver IT services. Their efforts have resulted in a singularity event that changed the trajectory of the IT landscape. Enterprise IT leaders ignore this development at their own risk.
2. Smart machines - The Rise of Smart Machines- IT leaders need to aggressively examine and act on the promise, threat and effects of smart machines on work patterns staffing shifts and enterprise business opportunities.
3. 3D printing - transforms organizations, industries and markets. CIOs, CTOs and IT leaders must learn about and apply the key 3D printing trends that are driving changes to their organization.
4. The era of personal cloud - As the personal cloud rises in importance, IT organizations will find current approaches to dealing with users will fail. IT leaders must be flexible and respond with new techniques, tools and policies, or risk irrelevance with their user base.
5. Software-defined anything - Server virtualization is a mature technology but, as an IT initiative, it can still be disruptive to IT users and providers. Virtualization provides a foundation for software-defined anything, cloud computing and cost-effective, greener data centres projects. Software-Defined Networking Will Change the Data Center Network Vendor Landscape. Adoption of software-defined networking will spark a new race among traditional and new data center networking vendors with a reorganization of the supply side, creating competition and opportunities for all vendors.
6. Mobile device diversity and management - Our consumer-driven, BYOD culture pressures IT leaders to give enterprise end users a wider range of device choices. Gartner's managed diversity model is a structured compromise that offers end-user device choice while protecting enterprise assets and supporting end-user productivity. ODMs and EMS Companies Are Ready to Capture Their Share of the Future Wearable Device Market
7. Mobile apps and applications - Use Mobile Apps to Provide Customer Value, and Revenue Will Follow IT and business leaders supporting e-commerce should incorporate the five attributes of successful mobile apps, which improve the customer experience. Providing a valuable customer experience will increase mobile commerce app adoption, drive usage, and increase both loyalty and revenue. How Apps Will Impact the Management of Application Development. Apps, an emerging software construct that ties value to purposefulness, will have dramatic impacts for enterprise IT

application leaders on design strategies, software life cycle management and funding arrangements.

8. The internet of everything - The Potential Size and Diversity of the Internet of Things Mask Immediate Opportunities for IT Leaders. The Internet of Things will be big, but just how big depends on exactly what is included. This research helps business and IT leaders understand this emergent technology and applications, and describe how IT leaders can help identify significant new opportunities.
9. Hybrid cloud & IT as a service broker - No cloud service stands alone, but mastery over hybrid IT eludes all but a few enterprises. This road map prepares line-of-business managers and IT leaders to capitalize on the contributions that cloud makes to business process innovation.
10. Cloud/client architecture - Enterprises are faced with the increasing power of mobile devices, the advantages of cloud computing as a delivery model for applications, and the need for better and more-differentiated user experiences. The client-cloud application model sits at the intersection of these trends. Application development organizations continue to face rapid changes. Cloud and mobile will change the type of applications developed, while the need for business agility will change how they are developed.

### **2.3 Examples of changes in demand for services in the hotel business and tourism**

Developments in Slovakia for the last 25 years is reflected, for example, in the hotel, which was associated with extending the range of accommodation services, requirements for higher quality, language proficiency of personnel, the arrival of tourists from countries that our country has so far not attended. Opening hotels brand global hotel chains. Opening of borders, the intensity of travel and the availability of air transport have brought on the other hand, the increased competition and at the same time also affect the indigenous population that wants to get to know more other countries. Appear where quality of service, which then require at home.

The number of older people in Europe continues to grow. Many seniors leaving early retirement, a higher disposable income enjoys better health. This results in faster growth in demand of this category of people for tourism. Health awareness of visitors is increasing and particularly affects the choice destination and mode of life during the holidays. An increasingly popular holiday associated with education. When planning a vacation is an important role of history, art and cultural events. Grow self-confidence of customers, their needs and knowledge of their rights. Grow share critical views on the quality and emphasis on quality-price ratio. Grow importance of the Internet, which allows not only the visual presentation, but also the direct purchase of tourism products. The services come to the fore interested in traveling by rail, and in particular high-speed trains.

Current trends in tourism - the growth of interest in quality, luxury, comfort and safety, - interested relax, relaxation, active holidays and wellness stays spa stays, - demand for products for one person - the growth of interest on short-term stays abroad - individually organized holiday focused on culture, art and history. Customer satisfaction is reflected in their relapsing. Increase interest in a more personalized approach to service. Lack of interest mediated leave the organization versus the increased interest in direct reservation and purchase of services via the Internet.

## 2.4 Innovative systems

A modern economy is characterized by a predominance of demand for services in the total demand. Services are becoming an increasingly important driver of economic growth, accounting for more than two-thirds of employment and gross value added produced in the EU. Services provide the most of economic growth in Europe. Increasing the representation of services in the economy is the result of several factors (demographic, social, economic, and political). Providing quality services today is closely linked to their innovation.

Services innovation is a topic of growing interest for innovation researchers and policy makers alike. This has particularly been so in the last decade, as services have grown to constitute the larger part of employment and output in most industrial countries. The services sectors of these economies are important for their productivity, economic competitiveness, and quality of life. But innovation in services is important for other reasons beyond the economic importance of the sector (Miles, 2005).

Service innovation is seen as a strategic resource for increasing the competitiveness of production and the products themselves. The European Union will concentrate all their efforts to overcome the crisis and create conditions for a more competitive economy with higher employment through the Strategy Europe 2020 strategy. In an effort to achieve sustainable growth and jobs across Europe will be based on the broad concept of innovation. Service innovation plays an important role in the strategies. On service innovation should be viewed strategic and integrated manner to develop new industries and restructure old ones. Europe 2020 priorities to achieve growth that is:

- smart - through effective investment in education, research and innovation,
- sustainable - with the transition to a low carbon economy
- inclusive - with a strong emphasis on job creation and poverty alleviation.

In order to assess progress in meeting the targets of Europe 2020, it was agreed five main objectives in the areas of employment, innovation, education, poverty alleviation, climate and energy for the European Union as a whole. The closed set of objectives at European Union level was reflected in the national of each Member State, which took account of individual conditions and premises of individual countries.

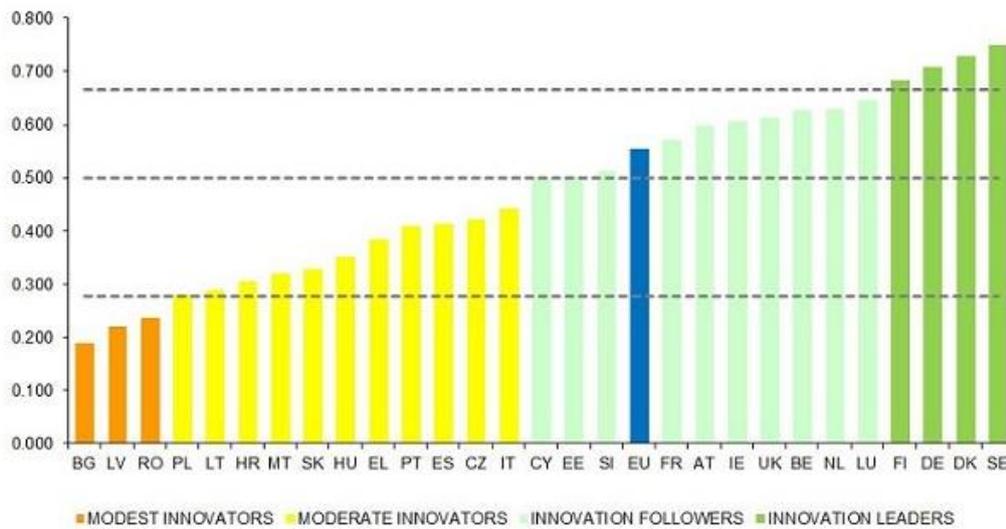
Europe 2020 objectives are reflected in national research and innovation strategy for smart specialization SR (RIS3), approved by the Government at its session on November 13 2013 Resolution no. 665/2013. Constitutes the basic framework strategic document to support research and innovation in the forthcoming programming period 2014 - 2020 Its role is to define the vision, objectives and measures on the basis of a comprehensive analytical and prioritization of economic specialization and research and development in Slovakia and are taken into account principles of smart, sustainable and inclusive growth to strengthen the competitiveness of the Slovak Republic (EUROPEAN COMMISSION 2014).

The Slovak Republic is a long time in an international comparison Innovation Union Scoreboard (hereinafter referred to as "IUS") between the EU states that the innovation performance lagging behind the EU average. In 2011, Slovakia in international comparison ranked 20th place in the 27 EU countries and belonged to a group of moderate innovators with the second lowest innovation performance in the group. For a more precise specification development that Slovakia was one of the countries with the highest growth in innovation performance in the period from 2010 to the year 2012 (19.9%), i.e. at the

beginning of the implementation of the Europe 2020 strategy. Member States are divided into the following four groups (Figure 2):

- Innovative leaders - countries with innovation performance well above the EU average.
- Innovative followers - innovation performance is above average or near average.
- Moderate innovators - innovation performance is below the EU average.
- Modest innovators - with innovation performance are much lower than the EU average.

**Fig. 1** EU member States' innovation performance



Source: [http://ec.europa.eu/enterprise/policies/innovation/policy/innovation-scoreboard/index\\_en.htm](http://ec.europa.eu/enterprise/policies/innovation/policy/innovation-scoreboard/index_en.htm)

## Conclusion

Demand for services greatly affects population density, size of settlements and the living standard of the population. Our services are given level of economic development, production deployment, equipment transport network, the quality of labour and investments. Type of evolutionary change in the technological and social environment is replaced by evolutionary change. The time interval for which the accelerating economy can cope with the pressure of demand on supply shocked. Accelerating phase of expansion and recession at the time raise issues about the ongoing process of innovation in the world of robotics, miniaturization, digitalization streamline costs and achieving planned performance. Forecasted trends in the technological world gradually extend and alter the demand for services in Slovakia. However, the Slovak Republic is not yet ready to satisfy that demand both from a legislative point of view, on the other hand, for the development of technological infrastructure. From the perspective of EU precisely because they are available transnational strategy, which should facilitate and gradually these differences offset each Member State.

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# Adaptability and its determinants as important factors of competitiveness from the view of international transport and logistics<sup>1</sup>

Lenka Drobcová<sup>2</sup>

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## **Abstract**

*This paper is aimed to introduce adaptation, its determinants and process as an important factor of competitiveness of logistics and transport in international trade. The current trend of sustainable economic growth together with the phenomenon of wide spread globalization forces companies and businesses to search for new sources of competitive advantages. Nowadays, the ability to be competitive in present economic surrounding is becoming a tool for its achievement. Global decisions are affected by a turbulent and inconsistent base accompanied by not only positive but also negative externalities. In this context, the work demonstrates present situation and character together with determinants of adaptability.*

## **Key words**

*adaptation, competitiveness, transport, logistics*

**JEL Classification:** F60, L90

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## **Introduction**

The issue of globalization in its present form represents, on one hand, an increasing integration and openness of individual economies while on the other hand increases the importance and significance of mutual comparison of regions, countries, organizations or groupings. Particularly, in relation to economic growth and long-term progress it is important to evaluate objectively the current situation, opportunities and possibilities compared to the competition. To the fore comes the question of competitiveness, but not as a target of individual companies or countries, but especially as a means of sustainable economic growth. The concept of competitiveness is neither new nor unknown; however, it is an element difficult to measure. Ability to compete in today's global world is a complex and specific tool for maintaining on the market. Examination of competitiveness is focused on the identification and characterization of critical factors. From a macroeconomic point of view, as the most important factors are considered relevant statistical indicators such as the very essence of competitive advantage linked to a technological level of the production process, applied information technology, innovation capability and individual labor costs or a real exchange rate.

Undergoing the process of globalization are also areas of business such as production area and associated supply chains, thus increasing the need for transportation. In recent years, there has been a rapidly increasing importance and the importance of logistics as a whole not only within the countries, but especially in the context of a united Europe and European international trade relations. Globalization, through the competition between

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<sup>1</sup> VEGA 1/0550/14 Nové výzvy v oblasti Európskej energetickej bezpečnosti a ich vplyv na konkurencieschopnosť v horizonte do roku 2020

<sup>2</sup> Ing.Lenka Drobcová, University of Economics in Bratislava, Faculty of Commerce, Department of International Trade, Dolnozemska cesta 1, Bratislava, lenka.drobcova@centrum.sk

Europe, the United States and the Far East in particular, is an important factor that affects the capacity of the hubs (especially seaports and airports) and public infrastructure.

## **1 Methodology**

The aim of this paper is to point out, in terms of international transport and logistics, the possible sources of competitive advantage with emphasis on economic growth, adaptation and its determinants. Ecology and sustainable growth also play an important part. Theoretical basis are presented by selected theories and the theory of competitiveness, cumulative causes and institutional economy. The work focuses on the definition of adaptability and adaptation as a complex. Through historical analysis, specified will be chosen strategies and management methods, which contains such elements as business ethics and knowledge. By characterizing the main elements and their application to the transport and logistics, we will point out potential sources of competitive advantage of companies operating on the present markets.

## **2 Results and Discussion**

### **2.1 Theoretical Background**

Economic growth represents such changes in the economy, which reflected in the increase of basic macroeconomic indicators over time. There are two basic periods: in the short term represented by the increase in real gross domestic product (GDP) and in the long term the potential output grows. Prerequisite for the real growth of the GDP is the growth per capita (GDP per capita). Such a situation occurs when the GDP growth rate is higher than the rate of population growth.

Economic growth can be expressed as an absolute value (GDP growth between the two periods), the coefficient of economic growth and the pace of economic growth.

S. Kuznets (1955) characterized economic development by the following features:

- High rate of growth in gross domestic product per capita.
- High rate of growth in factor productivity (output per unit of factor of production).
- High rate of structural transformation of the economy. In the past, the transition to agricultural industry, today more and more frequent shift from industry to services, especially from the microelectronic and electronic nature of the information economy.
- Rapid changes in the overall social nature of the economy. Growth in importance of ethical and moral principles.
- Process of convergence and divergence of the economies of developed and developing countries.
- Global interdependence of various countries of the world.
- Deepening economic, technical, technological and social disparities among developed and developing countries.

According to neoclassical theory, the increasing production of input (including tangible capital and labour) affects the growth of the region. Infrastructure, in accordance with this knowledge, has a positive effect on regional growth and particularly its ability to support

productivity growth of physical and human capital. On one hand, the output growth could be reached by reducing the production and logistics costs and on the other hand, by ensuring a higher level of infrastructure (Baláž et al., 2010).

The UN General Assembly presented in 1987 the report *Our Common Future*, which first introduced the concept of sustainable development. This report was made by the World Commission on Environment and Development, while this report contains a definition that is most commonly used and says that:

- "Sustainable development is such development that enables to satisfy the needs of current generations without compromising the ability of future generations to ensure their own needs,
- a process in which the exploitation of resources, direction of investments, the orientation of technological development and institutional change are all in harmony and support both current and future potential to meet human needs and demands." (UN, 1987)

At present, the concept of sustainability is evaluated based on three basic elements: economics, ecology and justice. One of the priority areas has become adaptation and adaptation process, which is an effective and important element to achieve competitive advantage.

## **2.2 Competitiveness in the field of transport**

In terms of international trade, a company or a country never meets only with domestic or geographically close competitors, but gets into the environment of global competition. The effort to place the products on world markets is forcing producers to come to this kind of a competition by reducing their costs. In the past, the main production increasing engines were automation and computerization. Nowadays, these elements are taken for granted. To the foreground come logistics creating opportunities for cost reduction via the following individual operations and management processes. Logistics offer a more efficient and less costly source of competitive advantage creation.

In the theory of cumulative causes, the focus is on regional growth through gaining benefits and increasing savings. Benefits are created from the interaction of grouping economies and economies of scale. Considered are subsidies and funds in the form of a good return on investment. In return they attract more investment and thereby influence the consolidation of regional advantages. They have an impact on decision-making companies in the location of their operations, the growth of private capital while increasing investment in infrastructure in the way of a modern and improving transport infrastructure, interconnections and technical equipment. In this regard, there exists a reduction of production and transaction costs. Improved technology reduces input costs what has the effect of raising the quality of goods and services, which should boost demand for regional output.

Competitiveness itself can be examined from various angles. These days comes to the fore particularly the ability of countries to compete. From the theoretical point of view, M.E. Porter as the first considers pioneer investigation of competitiveness. Although, M.E. Porter studied this matter from the corporate level, at the same time he pointed out the interconnection between micro and macro levels. Competitiveness of enterprises creates business environment and subsequently reflects in the competitiveness of the country. (Porter, 1998)

In this context, benefits of D. North (Nobel Prize, 1993) should be mentioned since in his studies he highlights the role of law and institutions. While the state maintains the order and prevents violence, institutions play a role in limiting the state from abusing their powers. Institutional economics offers different professional views on the development of countries. Countries with either weak or no institutions are characterized by high transaction costs which contribute to their slower development during stagnation. Basic condition of the exchange is a fact that profits must be greater than the costs of its implementation. If this basic economic rule does not apply, the exchange will not take place. Transaction costs in different countries are different as they are other institutions. It can be said that where institutions are credible and where low transaction costs are kept, markets function well.

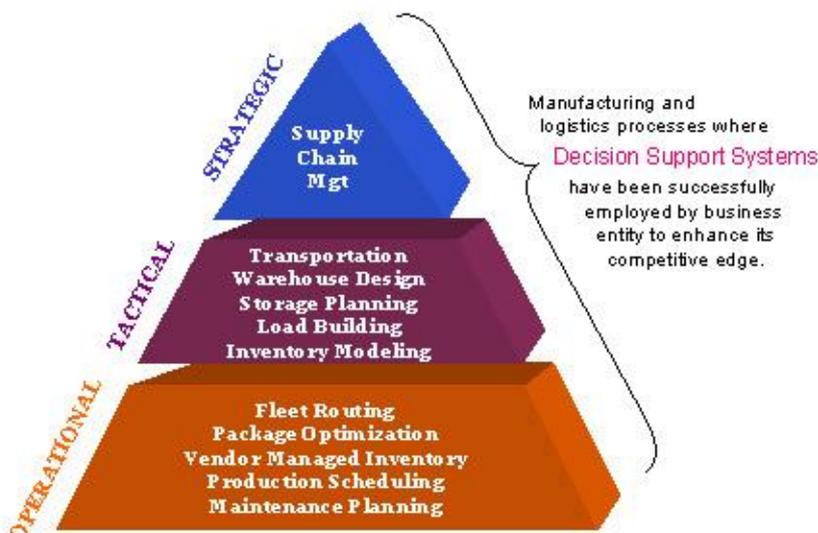
Among the factors affecting the ability to succeed at the company level, T. Lalinsky considers (Lalinsky, 2008):

- Educational level of people
- Information – better quality
- More efficient government decisions
- Infrastructure of high quality
- Research – developed research institutions
- Ability to adapt

### 2.3 Adaptability and its determinants

Adaptability means generally the ability to change your points of view and ideas so they become suitable and applicable in different conditions or changed environment. It may be considered as a kind of a process in order to deal with the newly arisen situation successfully. "Adaptation in complex systems can be described as the way individuals; parts, elements, as well as collections of these, in competitive and cooperative ways act on and react to changes perceived in their environments. What by this means is that entities adapt to adaptations by other entities in their local context." (Nilsson, 2003)

**Fig. 1** Field of adaptive and strategic decisions implementation



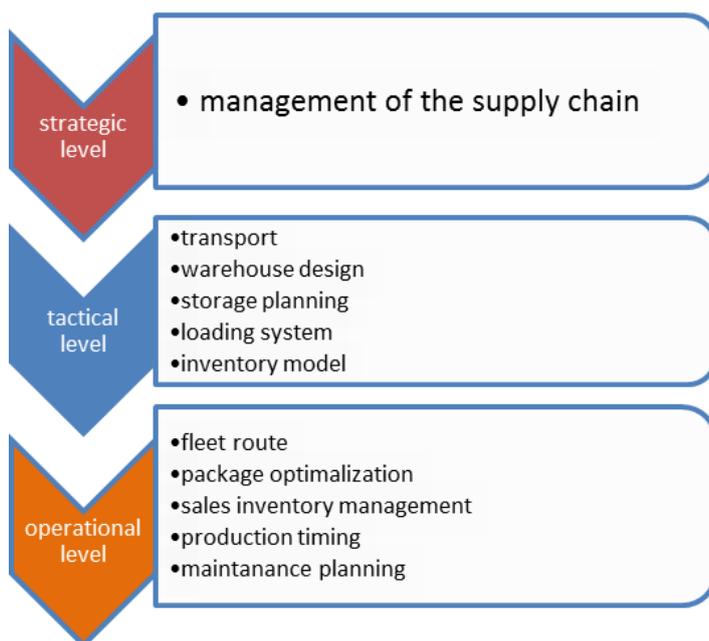
Source: [http://www.idsc.com.sg/services\\_logistics.htm](http://www.idsc.com.sg/services_logistics.htm)

Character of adaptability may be various. If the company wants to be adaptive, firstly it must recognize things what to do and then implement the management decisions into everyday process. Based on a successful and good implementation into operational, tactical and strategic level, a company will most likely gain a higher competitive position. The field of decision implementation is shown in figure 1.

However, this process must be considered as a whole containing many elements that are adapted and implemented in mutual interaction. An appropriate strategy in respect of this scheme requires operational focus in pursuit of continuous improvement in the internal system and also the ability to react quickly. Figure 2 indicates a decision support system successfully applied by companies to increase their competitiveness in production and logistics processes.

The constant pressure to reduce costs and create added value for the customer is forcing companies and their management to increase their innovative potential, create new sources of competitive advantage or to deal with intense marketing logistics. Marketing logistics means to reconsider the idea of the essence of marketing which is aimed at creating demand while representing a strategic approach and from the logistics point of view focusing on fulfilling resp. meeting demand what represents operational approach (Furdová, 2013).

**Fig. 2** Decision support system



Source: processed by author

In terms of adaptation of logistics processes it is necessary to mention some determinants such as knowledge, competitiveness, business ethics, social and ecological environment.

- *Knowledge*

In the field of logistics, the importance of knowledge varies at different stages of the process. Figure 3 indicates different kinds of knowledge needed to make important final decisions.

**Fig. 3** Field of knowledge for strategic decisions

<i>field of knowledge</i>	<i>description</i>
transportation	knowledge of principles and methods for moving goods from one place to another, including the relative costs and benefits.
administration and management	knowledge of business and management principles involved in strategic planning, resource allocation, leadership technique, production methods.
production and processing	knowledge of raw materials, production processes, quality control, costs.
sales and marketing	knowledge of principals and methods for showing, promoting and selling products or services. This includes marketing strategy and tactics, product demonstration, sales techniques and sales control systems.

Source: <http://www.mymajors.com/career/logistics-management-specialist/skills/>

Currently, as the result of turbulent changes in the world markets, the center of attention becomes smart but also sustainable growth, which means the emphasis, is on expansion of green logistics - green supply chains. Minimizing transported kilometers (seeking new transport routes), the usage of more efficient transport of goods by improving transport capacity by consolidating shipments of goods reduces energy consumption and transport costs.

Individual changes in the strategic management and development of logistics substance affect the determination of the overall strategy of the company, which is reflected ultimately in the implementation of specific business operations and detailed specification of business terms and conditions. (Furdová, 2013)

- *Business ethics*

Business ethics itself is not defined clearly. There are many definitions that should represent the very essence of the concept. Most of them identify moral elements, principles and rules related to individual behaviour. The most accurate definition is expressed by Ferrell and Faedrich "Business ethics involves moral principles and standards that guide the behaviour of the subjects in the business world. Whether a specific behaviour is right or wrong, ethical or unethical, it is often determined by the public through the media, interest groups, business organizations, as well as through personal morality and individual values of individuals." (Ferrell and Faedrich, 2010)

However, business ethics suggests the application of ethical values into business behaviour. It covers a wide area of business aspects starting from business strategy and the manner in which companies treat their suppliers, to selling and accounting practices. Ethical behaviour does not represent just following the law. Ethics examines how business actually works and behaves.

It can be said that generally trade resp. business ethics are represented by moral values and principles that govern management behaviour in the world of business. It

applies in all directions like to business with other businesses or individual customers. These specific rules should be used in all aspects of business itself, from the business plan realization through production to sales. In the companies used are social resources to produce goods and services and thereby a certain level of wealth is provided. The objective of every business is to generate profit; however, the objective of the individual should be a decent behaviour. Nowadays, in practice there are many cases when to the greed of an individual conducts unethical business practices, causing legal consequences resulting in a general lack of confidence of the company.

Putting into practice, companies themselves have a significant position. In professional publications arose approximately in the middle of the 20th century a new concept, especially in the field of management, which is nowadays known as a Corporate Social Responsibility (CRS). This phenomenon was described by Howard R. Bowen in his book *Social Responsibilities of the Businessman* as "the commitment of business to pursue a strategy to make a decision or carry out such activities, which are desirable in terms of objectives and values of our society." (Bowen, 1953)

Social responsibility includes the position of the company, its practical activities and programmes presented to/by managers. Even though this area is not chartered by legislation, nowadays comes to the fore a business idea taking into account all economic, environmental and social factors.

## **Conclusion**

Among the most important factors which affect present economic events is, without any doubt, the ever-deepening process of globalization currently associated with turbulent changes in the world economy due to the ongoing financial and economic crisis. The process of globalization worldwide has not only opened, but also made possible and facilitated the relative movement of people across the countries and continents. In economic terms, in particular, it is also able to realize the movement of products, materials, raw materials, energy, information, financial flows, information technology and systems.

In terms of companies, due to such increased movement of all parts of the national economies, in the forefront on the market comes logistics and transport, which are one of the most dynamic factors in the present global economy. As the impact of globalization, there is a significant improvement and building of transport systems in all areas of transportation with road, rail, water, air and combined. Information technology and information systems had and still have a huge impact, which includes a network of high-volume and high-capacity "information highways". Individual companies, in order to obtain a competitive advantage, keep increasing such tools of the modern business such as the usage of electronic trading, which increases efficiency, productivity and management of their business.

Deepened globalization and integration process can be seen in the focus on the usage of foreign financial funds, goods and services placement onto foreign markets while creating global supply chains. These specific features have started adaptation processes in transport and logistics, management strategies and functions of transportation and logistics service providers themselves.

During this period of constant acceleration of pace in the field of technological development and innovation, the capability of individual subjects to be able to adapt their

business to these changes is necessary. Among important factors belongs also the ability to respond and adapt quickly to new conditions of present international environment. Every single part of the economy has to be able to react flexibly to the present requirements of current international trade. Necessary is to start new processes and production with low energy and raw material demands, with the respect of the principle of minimizing transport costs.

Used means of increasing competitiveness in present surrounding have become more complex and not avoidable. To force come factors such as the ability of fast adaptability and implementing adaptation processes into the practice effectively and with the respect of sustainable growth and environment.

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# Implementation of the Balanced Scorecard in the Companies in the Slovak Republic

Katarína Dubcová<sup>1</sup>

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## **Abstract**

*The following paper presents issue of the Balanced Scorecard (BSC) implementation in the companies in the Slovak Republic. The article consists of the brief information from the literature review and the results of our own research. Questionnaire survey was focused on the reasons of the BSC implementation. Main reason of the BSC implementation in the Slovak companies is the complexity of the company performance measurement in the present and in the future as well. The survey result emphasizes companies' focus on the connection between the strategic and operational thinking, the internal business processes and the complexity of the performance measurement. Nevertheless the number of possibilities and the positives which are connected with the BSC, it is still not well known in the Slovak republic. For the success on the international markets, it is necessary to improve the Slovak companies' interest in the improvement and using new techniques and methods of the business management.*

## **Key words**

*Balanced Scorecard, BSC implementation, performance measurement, strategic management*

**JEL Classification:** M21

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## **Introduction**

Nowadays companies try to be as effective as possible in order to ensure the long term survival of the company and maximize the company's value. This is the reason why they are interested in the new methods of the measuring company's performance, connecting the actions with achieving the goals and the strategy and they are trying to connect results of the processes with the responsibility of the people. These actions are necessary for the right decision making process which is based on the appropriate information and helps company to achieve the aim of its establishment.

The Balanced Scorecard method is one of the modern methods used in the various companies all around the world. Implementation of this method in the companies is based on the several positives which could be gained after its successful implementation. The form of its utilization depends on the managers' understanding as well as the managers' decision. The essential condition for the Balanced Scorecard implementation in the company is its knowledge between the company's owners and managers. The authors who are interested in the Balanced Scorecard method in the Slovak republic claim that this method is still not well known and used across the Slovak companies. The survey presented in this paper is focused on the detection of the ownership of the companies in the Slovak republic which implemented the Balanced Scorecard method and also on the main reasons for the Balanced Scorecard implementation.

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<sup>1</sup> Ing. Katarína Dubcová, Matej Bel University, Faculty of Economics, Department of Corporate Economics and Management, Tajovského 10, 975 90, Banská Bystrica, Slovakia, katarina.dubcova@umb.sk

## **1 Methodology**

The aim of this paper is to point out the reasons of the Balanced Scorecard implementation in the Slovak companies. The paper is based on the two types of the research. The first type is the secondary research. This research presents the summary of the findings from the literature review. Brief review consists mainly of the information gained from the publications of the authors of the Balanced Scorecard method and also from the other authors who deal with the Balanced Scorecard method.

The second type of the research consists of the questionnaire findings. Questionnaire was distributed through the e-mail. Data collection was realized from October 14<sup>th</sup> 2013 to December 2<sup>nd</sup> 2013. Small, medium and large companies participated in the survey in the Slovak republic.

When processing the article following scientific methods were used: analysis, synthesis, abstraction and basic statistical methods.

## **2 Results and discussion**

Companies all around the world use different strategic management methods. One of the methods used in the successful companies is the Balanced Scorecard method. We decided to research its using in the companies in Slovak republic. Following text presents the results of the secondary research and the questionnaire survey.

### **2.1 Theoretical background of the Balanced Scorecard method**

The Balanced Scorecard method was first introduced in the United States of America. The Balanced Scorecard method was developed by Robert S. Kaplan – professor at Harvard Business School and David P. Norton – cofounder and chairman of the Balanced Scorecard Collaborative. Kaplan and Norton summarize their survey findings in an article “The Balanced Scorecard – Measures That Drive Performance” in the 1992 published in the Harvard Business Review (Kaplan – Norton, 1992).

The basic idea, which was behind the birth of the Balanced Scorecard method, was insufficient explanatory power of the financial indicators of business performance. Kaplan and Norton divided the business performance measurement to four basic perspectives. Authors of the Balanced Scorecard method extended the concept of business performance measurement on the non-financial perspectives.

The Balanced Scorecard method is divided into the four main perspectives in its basic form:

1. Financial perspective.
2. Customer perspective.
3. Perspective of the internal-business processes.
4. Learning and growth perspective.

From its first introduction the Balanced Scorecard method was improved by its authors but also by the companies all over the world. In the 1996 the authors of the Balanced Scorecard method have written the publication The Balanced Scorecard – translating strategy into action. In this publication they wrote that the Balanced Scorecard is the

revolutionary tool which is helpful in mobilizing people from the company to the fulfilling the company's mission (Kaplan – Norton, 1996). Kaplan and Norton (1996) also wrote that the Balanced Scorecard method is more than just a measurement system. It is, by the words of the authors, a management system that channel energies, abilities, and specific knowledge held by people throughout the organization towards achieving long-term strategic goals.

Nowadays, the Balanced Scorecard implementation brings a number of positives to the implementing company. Authors, who are dedicated to the Balanced Scorecard method, identified the following positives.

One of the positives of the Balanced Scorecard method is its complexity and the balance in several directions. For example Lesáková (2004) wrote about the balance between: the short-term and long-term objectives, the financial and non-financial indicators of the evaluation and between the internal and the external performance factors. Lang (2007) and Hasan and Tibbits (2000) added to these factors also the balance between the past, the present and the future of the company and the balance between the early and the late indicators of the business performance.

Another positive of the Balanced Scorecard method is the help with the implementation of the mission and strategy of the company to its targets and measures (Kaplan, Norton, 1996). Balanced Scorecard method is one of the ways of strategy communication and its understanding across the company. This method is also useful in coordination of the individual targets of the employees with the targets of the company. Kaplan and Norton (2007) also wrote that the Balanced Scorecard's measures should be used mainly as the support for the formulation of the company's strategy, for its communication and for the correlation between initiatives of the individuals and the company. The correlation between the initiatives should lead the company towards the goal fulfilment. The authors argue that the Balanced Scorecard method should be used as the system for the communication, information and learning, not as the controlling one.

According to information in the paper named „How a Balanced Scorecard can help your organization“ is the properly implemented Balanced Scorecard useful for the company in:

- Increasing focus on strategy and results instead of tasks,
- Breaking down communication silos between departments of the company,
- Better understanding and reacting to customer needs,
- Improving organizational performance by measuring what matters,
- Helping managers make better decisions based on leading performance indicators instead of lagging financial data,
- Helping managers budget time and resources in more effective way,
- Helping managers and employees prioritize the work they do.

Gavurová (2011) wrote about some other positives of the Balanced Scorecard method. Gavurová ranks among the positives of the Balanced Scorecard also help in the measurement and improvement of the company's performance and support of the reliability of traditional performance indicators. Horváthová (2012) adds another positive of the Balanced Scorecard method which is the improvement of the loyalty of company's employees and the loyalty of the customers as well.

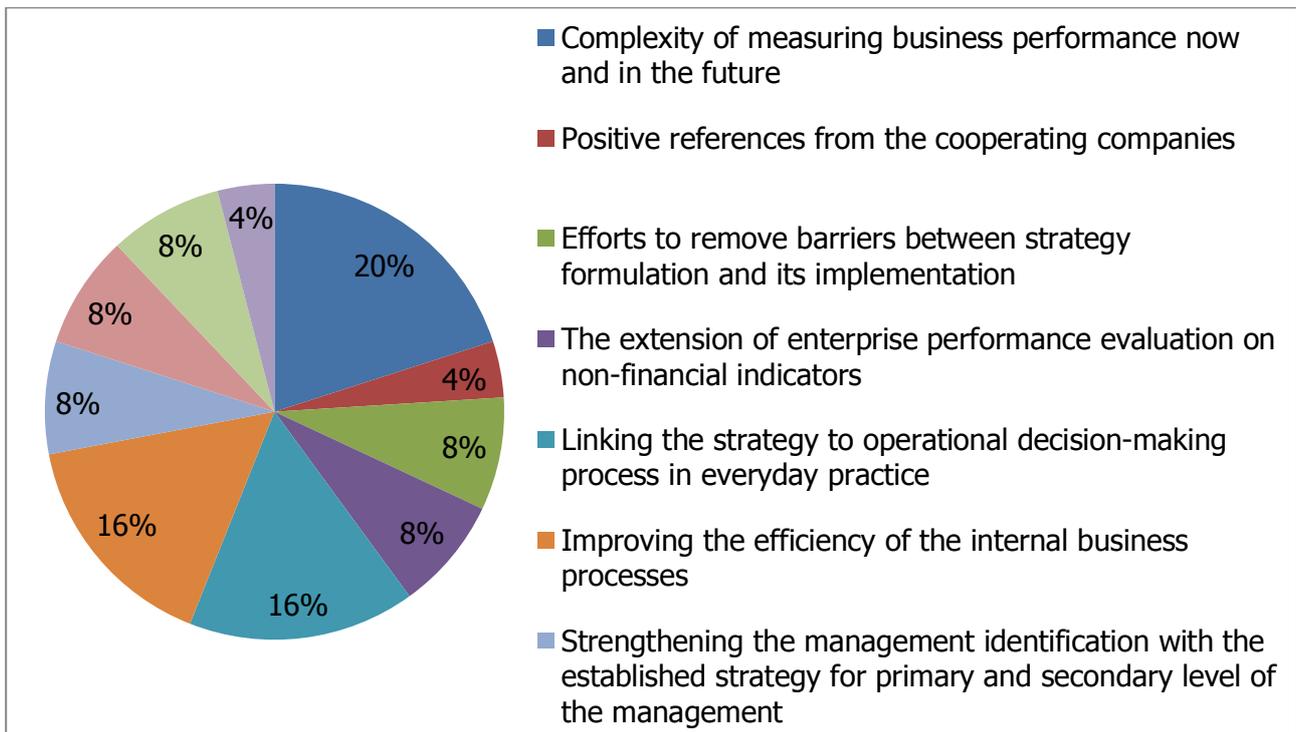
According to mentioned positives of the Balanced Scorecard method and its implementation in the several companies all around the world we decided to make a research in the Slovak republic.

## 2.2 Results of the survey in the companies across the Slovak republic

The Balanced Scorecard method brings a number of positives to the companies after its successful implementation. The positives of the Balanced Scorecard method were written in the first part of our article. A couple of benefits connected with this method are the main reason for its implementation. We decided to make a survey focused on the main reasons of the method's implementation in the companies in Slovakia.

Respondents could have chosen from the several possibilities. One of the possibilities was the open answer, where the respondents could have written their own answer. Next graph (Graph 1) contains the percentage of the chosen answers.

**Graph 1** Reasons for the Balanced Scorecard implementation



Source: based on the results of the questionnaire

The most frequent reason for the Balanced Scorecard implementation in the survey among the Slovak companies was the complexity of measuring business performance now and in the future. Decision about the implementation of the Balanced Scorecard method was mainly influenced by its complexity. It means that the twenty per cent of the Slovak companies which implemented the Balanced Scorecard method decided to measure their performance from the different points of view.

Another two reasons for the Balanced Scorecard implementation which came out important from our survey were with the sixteen per cent respondents:

- Improve the efficiency of the internal business processes,
- Strengthening the management identification with the established strategy for primary and secondary level of the management.

The companies are trying to be as effective as possible in the present. They are forced to improve the efficiency of the internal business processes by strengthening the

power of the competitors. One of the possibilities of how they can improve their internal business processes and coordinate them with the company's strategy is thanks to the Balanced Scorecard method implementation. Improvement of the efficiency of the internal business processes can be one of the main reasons for the Balanced Scorecard implementation because of the mentioned importance of its efficiency.

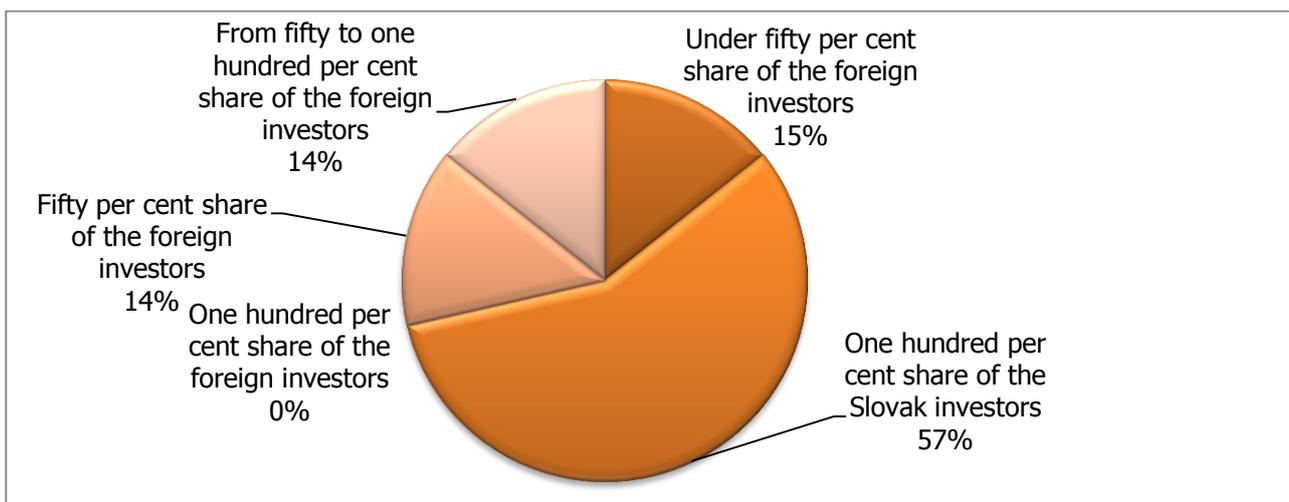
Every company wants to achieve its goals. This is possible only when the managers know the goals and also know the way how to reach them. It is not a problem if the company is the small one with one manager who is also the owner of the company. The problem is in the big companies where the owners are different people from the ones who are responsible for the management of the company. In such type of the company owners usually communicate only with the managers on the highest level. One of the common rules in such company is that the top managers are the one who are responsible for the goal and strategy formulation. The problem could be in the communication of the strategy to managers on the lower positions. One of the tools which can be used for the effective and clear communication of the strategy is the Balanced Scorecard. That is the reason why the strengthening the management identification with the established strategy for primary and secondary level of the management is one of the most important reasons for the method implementation.

The less important reason for the method implementation was the positive references from the cooperating companies.

Interesting reason was the one which was formulated in the open answer. One of the implementing companies decided to implement the Balanced Scorecard method because of its implementation in the parent company.

Following graph (Graph 2) contains the percentage composition of the companies using the Balanced Scorecard method according to ownership.

**Graph 2** Companies using the Balanced Scorecard method according to ownership



Source: based on the results of the questionnaire.

We assumed that the companies which have implemented the Balanced Scorecard method in the Slovak Republic are mostly the companies with some foreign investors involved. This assumption was based on the information gained from the previous surveys made in the Slovak republic. Previous surveys and publications from the Slovak republic

mainly concluded that the Balanced Scorecard method is not well known between the Slovak companies. This fact leads us to the opinion that this method is not well known between the Slovak businessmen. Nevertheless, according to our survey, we found out, that the Balanced Scorecard method is implemented mostly in the companies which have entirely Slovak owners.

## Conclusion

The paper was focused on the subject of the Balanced Scorecard implementation in the companies in the Slovak Republic. The presented survey results were defined according to the realized questionnaire survey. We found out the main reasons of the Balanced Scorecard implementation in the companies in the Slovak republic. Respondents mark as the main reason of the Balanced Scorecard implementation the complexity of measuring business performance now and in the future. Following significant reasons which lead companies to the Balanced Scorecard implementation are: linking the strategy to operational decision-making process in everyday practice and improving the efficiency of the internal business processes. That means that the companies implementing the Balanced Scorecard method are the ones that are oriented to measuring their performance from the different points of view. These companies also consider linking all parts from the top strategic management to the everyday decisions as important. Linking the whole company is as important as the improvement of the efficiency for these companies. This statement is based on the percentage of the answers gained in the questionnaire survey.

The second important finding in our survey was the structure of the participated companies according to ownership. The Balanced Scorecard method is not well known between the companies in the Slovak republic, so we predicted that this method is implemented mainly in the companies with the foreign investors. Nevertheless, the result of our survey shows that this method is mostly implemented in the companies with only domestic investors.

The results of our survey point out several positives which are connected with the using of the Balanced Scorecard method in the companies. We found out that the positives mentioned in the literature are in line with the reasons of its implementation in the companies in the Slovak republic. For the improvement of the Balanced Scorecard implementation in the Slovak companies it should be more known between the Slovak managers and owners of the companies. This method has a lot of positives which can help the Slovak companies to improve and rise. This is the reason why this method should be more discussed and distributed to the wide range of these companies.

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# Product Development and Innovations: a Twisty Road for Marketers<sup>1</sup>

Ladislav Faith<sup>2</sup>

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## **Abstract**

*End user product and innovation development represents a crucial part for every company which produces products or services under own brand. To develop successful products sold internationally under reasonable cost and within fair time frame becomes survival condition. Under huge competitive pressure no brand can survive with tradition, big brand or low price only. New products are required and needed, exactly as new generations of customers change their expectations and wants. To know what customers definitely want and what to offer to them is not always straightforward. Many innovation investments and efforts fail. Questions why and what are the reasons belonging among the topics of this conference contribution.*

## **Key words**

*product development, product innovations, marketing, market research, marketing*

**JEL Classification:** M31

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## **Introduction**

In the theory background for innovation and product management we can find various numbers of innovations which can be identified and used in the world of product development.

Of course, since there are many types of industries and branches, the variety of specific innovation approaches and procedures is logically required. During my marketing carrier experienced just some of them, but with such gaps and tumbles that they clearly cannot be taken as "learning" examples. Worthy of mentioning are not only some irritating procedure stages or steps of product development processes, but of course some ambiguous research inputs and data sources which should be helpful and supportive in their original and expected role.

## **1 Methodology**

As for formal method used for this article preparation, a desk research, comparative analysis and results of a multinational quantitative research (CATI methods) have been used. The above mentioned methods have been selected in order to deliver following goals of this contribution:

- innovation split theory examples

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<sup>1</sup> The paper is an output of research project KEGA No. 017EU-4/2013 "Education of youth in secondary vocational schools focused on innovation and creating new business opportunities"

<sup>2</sup> Ing. Ladislav Faith, University of Economics in Bratislava, Faculty of Commerce, Department of Commodity Science and Product Quality, Dolnozemska 1B, 852 35 Bratislava, Slovakia, faith.ladislav@gmail.com

- real market research outputs done in CEE countries focused on building a knowledge base for later innovations process,
- product development related experiences and success ratio learnt in the past,

## 2 Results and Discussion

### 2.1 From 4 up to 15: a wide range of innovation types used in product development theory

Besides “classical” definitions of product development and innovation types and stages cited in university textbooks, there are additional sources, where authors define interesting and rather inspirational approaches:

Nielson (2013) describes basically just with 4 types of innovation or new product “ideas” on an example in the field of consumer electronics with focus on the Apple brand:

1. *Breakthrough (the first iPhone launch): It is a large, discrete step change in performance, technology and value provided to users.* A breakthrough innovation is what most people think of when they think of innovation – something new, bold and way ahead of the next best thing. Additionally, a breakthrough product often combines the functionality of several different products all into one.
2. *Sustaining (up to iPhone 6): incremental value gain over existing solutions available to users.* Sustaining ideas have to do with improving the current product by developing generations 2, 3, 4, 5 and so on until the product reaches the end of it’s life cycle. Normally large companies are very good at creating sustaining innovations because their resources, business processes and cultures are setup in a way to enable sustaining efforts.
3. *New Market: existing product applied in a new way for previously unrelated customers (iPod to iPhone switch):* A lot of managers think of new markets in terms of geography such as entering an emerging market like India or China. While that can be highly valuable, new market innovations in terms of new use cases can bring huge added value and success in a new customer segment.
4. *Disruptive: simply, easy to use product intended for masses at much lower cost (iPod Shuffle).* Startups are able to gain significant market acceptance for their products through simplifying the user experience, lowering the cost and reducing the number of features in a product to a degree that allows a large group of consumers to adopt the product. Many companies who have followed this model have been successful disrupting larger, more established organizations and in turn setting themselves apart as leaders in their respective market.

To complete this discussion it’s appropriate to point out that though a particular product can generally be classified along these lines, in some cases products may actually be a unique combination of the four types. For example, in the case of the first iPhone there are several component level pieces (HW, SW) that were either breakthrough, disruptive or new market (high quality touchscreen, simple interface and powerful OS, on button simplicity), closes the analysis Nielson (2013).

In contrast to the above mentioned reasonable 4 innovation types, Heleven (2013) achieved remarkable 15 innovation types. Of course it is not my intention to go through all of them, but I would like to point out, that Heleven based on his research defined the same or very similar innovation types as “incremental”, “breakthrough” or “disruptive”. As

very interesting and representing original approach I consider following innovation types suggestions, especially because of going beyond product itself and including market saturation and logistics into the game:

- *"Red ocean vs. Blue ocean innovation"*

*Red Oceans* refer to the known market space, i.e. all the industries in existence today. In red oceans, industry boundaries are defined and accepted, and the competitive rules of the game are known. Companies try to outperform their rivals to grab a greater share of existing demand usually through marginal changes in offering level and price. As the market space gets crowded, prospects for profits and growth are reduced. Products become commodities, and cutthroat competition turns the red ocean bloody. *Blue Oceans* represent the unknown market space, i.e. all the industries not in existence today. Blue oceans are defined by untapped market space, demand creation, and the opportunity for highly profitable growth. In blue oceans, competition is irrelevant because the rules of the game are not set. Blue oceans can be created by expanding existing industry boundaries or by reconstructing industry boundaries.

- *"User led innovations"*

The user is king. It's a phrase that's repeated over and over again as a mantra: Companies must become user-centric. But there's a problem: It doesn't work. Here's the truth: Great brands lead users, not the other way around.

- *"Supply chain innovation"*

Supply chain innovation is about applying best practices and technological innovations to your own supply chain in order to reduce such cycle and wait times and other waste (to use a Lean term) in your in-house processes.

## **2.2 New product development: simple product, few countries and consumer expectation contradictions**

### *International Research on Consumer Preferences in Tissue Industry*

Let us turn from innovation theory into real innovation process. On Behalf of SHP Group an international research has been conducted by GFK focused simple tissue products on a sample of 1800 CATI interviews in CEE countries in 2013. The research was aimed as very basic usage and attitude study to analyze basic consumer purchase behavior in the tissue product category as the part of the knowledge base for further product innovations development.

We set up a goal of development a new generation product for the coming 2-3 years, which would target upper mainstream up to lower premium consumer segments. With some product and package modifications respecting local or national preferences, it should be launched in few CEE countries in parallel.

The research should give us answers typical for a usage and attitude study type: purchase reasons as for product features, price promotion sensitivity, package preference, some brand and loyalty reflections, where, why, what, how much a how often, cross-sell and up-sell question types... Except individual opinions of our sales colleagues and Country area managers from particular countries we had no relevant data sources, since the last research done was rather obsolete and not very comprehensive.

In the following (very simplified and anonymous) table 1 you can see some of the general results. Logically, we did expect some deviations and preference differences but based on the results it is clear, that development of a “global product” for international markets is rather challenging job.

**Tab. 1** General Consumer Preferences Comparison

feature preference						
material A	+/-	+	++	+++	+++	+++
material B	+/-	-	--	--	---	---
colored	+/-	+/-	+++	++	++	++
SKU size	+/-	+/-	+	+++	+++	+++
handle pack	++	+	-	--	--	--
known brand	+/-	+/-	-	--	--	---
domestic brand	+/-	+/-	-	-	--	---
lowest price	+	++	+++	++	+++	+++
enviromental	+	+/-	-	--	---	---

Source: GfK, multinational quantitative research (CATI, N=1800), 2013

Speaking just about the CEE region, we can see significant differences related not only to product itself but also in relation to packaging of SKU:

- different raw material is expected
- number of items in a SKU varies significantly
- willingness to pay more for a better product is conditioned to different product features
- sensitivity to price promotions is changing
- the product quality expectations are do not correlate with the purchasing power
- environmental issues and nature protection attitude differ
- brand awareness, profile and positioning differ, etc.

Besides the mentioned quantitative research project we discussed the product preferences and expectations also in qualitative interviews and discussions. Besides confirmation of width range of product parameters for various countries, consumers declared very high price sensitivity and significant loyalty patterns towards private label brands. Consumers state adequate or event premium quality of many private labels products representing very good “value for money” ratio. All this together makes the job of product and brand managers developing innovation for own branded products still more and more challenging and tense. More and more private label products are turning into “brands” in consumer minds, because of rising share, quality, distribution and “purchase and negotiations power towards suppliers” of retail chains. Consumer mostly “do not care” when the product quality and price create a fair balance. Consumers are not experts in

brand considerations, they simply buy products they like (esp. in FMCG) with some product names. In these cases the products have names, some logo, perhaps unique packaging and some unique design features – all aspects that we intuitively think of as the brand – the brand does not yet truly exist here, the brand markers (ideas linked with the product) have not been filled yet with the meaning (Holt, 2004).

## 2.3 Clear and Loud: Troubles and costs with creating innovation winners

To underline the conclusions of the previous chapter, I would like to share with you some facts from extremely interesting study published by Hood D. and Sjostrand J. (2013) from AC Nielsen Research Company. The study analysis common success features of “game-changing innovations”.

The report was published in September 2014 and is the culmination of an in-depth review of around 12,000 new product initiatives that launched in Western Europe between 2011 and 2013. Among this huge number of cases, only a few met requirements for distinctiveness, relevance and endurance to earn the title of being a “Breakthrough Innovation”.

What are the innovation criteria in the study?

- *Distinctiveness*: new value proposition, ingredient reformulations, repackaging, size changes, repositioning and other minor refinements to existing brands have been excluded.
- *Relevance*: generate a minimum of €10 MILLION IN YEAR-ONE SALES
- *Endurance*: achieve at least 85% of year one sales in year two. Level which confirms a sustained level of consumer demand while allowing some drop in revenue during the transition from trial to adoption?

Based on the facts authors state: “Breakthrough success is never just a remarkable coincidence.” Innovation winners are at their cores outstandingly relevant, exceptionally different and meaningfully better than their alternatives. Why still bother with innovations? There is often, if not always, a consumer appetite for innovations. Consumers are increasingly demanding:

- 63% consumers like when new product options are offered
- 56% are willing to switch to a new brand
- 49% tell others about new products they have purchased

Complications that can hinder innovation success:

1. If everyone looks at innovation as the pathway to growth, it will be *increasingly difficult for brands to achieve outstanding outcomes on these fundamental criteria*,
2. *Heightened competitive intensity* is observed from all angles, not just manufacturer brands. Nielsen is observing a different approach to innovation from retailers, who wish to improve the number of exclusive products in store,
3. Intense competition and difficult economic circumstances across Europe, *the tolerance for risk among manufacturers is far lower* today than ever before, which calls for leaner ways to research.

Success is never certain, but marketers can predictably and consistently flip historical performance from 85% failure to 85% success by changing their approach to innovation and building a passionate culture around innovation.

Of the around 12000 new introductions to Western European markets between 2011-2013, only a handful sold more than £/€10 million in the first year, and an even smaller amount maintained similar performance through year two:

- 24% of all innovations achieved 52 weeks of sales
- 45% achieved 26 weeks of sales

In other words, *the vast majority of new introductions get taken out of distribution before the end of their launch year*. Of 61644 new SKUs introductions in the years 2011 – 2013 only 24% achieved at least 52 weeks of sales.

## Conclusion

Regardless the innovation type defined in the beginning of this short conference speech, it is obvious that the road of product innovation development is not straightforward, especially in our global world, when and where the customer target groups are spread around internationally with demanding and rather heterogeneous expectations. To develop a innovative product with success potential among others requires:

- end customer “needs and wants” knowledge base gained through market research methods, approaches combinations
- technology capacity for new product/service research and development
- dedication of internal human enthusiasm, positive thinking, drive and open mind of all involved members in sales, marketing, production
- skills and power of negotiation with business customers (retail chains) for reaching fair co-operation conditions and product parameters for privet label products
- generosity, trust and real support of top management and owners, since despite the best effort, the product innovation journey is rather twisty and risky, as seen and documented by AC Nielsen study on Game Changing Innovations

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# Main reasons for non-using of prediction methods by Slovak businesses

Petra Gundová<sup>1</sup>

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## **Abstract**

*The goal of ex-ante financial analysis is to point out in advance the factors which could in future endanger the existence of businesses or could even end in its bankruptcy. This article focus on the main reason why Slovak companies do not use prediction methods of ex-ante financial analysis. We want to point to absence of knowledge of ex-ante financial analysis in Slovak companies. Object of the research is consisted of Slovak small, medium-sized and large business entities. For the purpose of meeting the aim of the article, a mix of research methods were used from which the most important was analysis, synthesis, induction, deduction and comparison. Thanks to 820 questionnaires received from Slovak business entities we were able to evaluate the main reasons for non-using of prediction methods by Slovak businesses.*

## **Key words**

*financial analysis, financial analysis ex-ante, prediction methods*

**JEL Classification:** M21

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## **Introduction**

Financial analysis has an important role in financial management. In the literature and in practice we can find many classifications of financial analysis. The best known classification is the classification according time – financial analysis ex-post and financial analysis ex-ante. Financial analysis ex-post focuses on the current results and explains them by looking into the past. The role of financial analysis ex-ante is prediction of the development of company finance. In the case of prediction methods of ex-ante financial analysis are made on the basis of current economic, information and legislative conditions, they can be an important instrument in company decision making and management for the needs of financial management.

Article is consisted of two main parts. In the first part we present methodology of the article and we define ex-ante financial analysis as instrument for the prediction the financial situation of a business entity as well as its theoretical and methodical basis. In the second part of the paper we present results of questionnaire research in Slovak business entities.

## **1 Methodology**

This paper focuses on the ex-ante financial analysis and its prediction methods. The aim of the paper is identification main reasons why Slovak business entities don not use

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<sup>1</sup> Ing. Petra Gundová, PhD., Matej Bel University, The Faculty of Economics, Department of Corporate Economics and Management, Tajovského 10, 975 90 Banská Bystrica, 048/4462314, petra.gundova@umb.sk

prediction methods. We decided to formulate one hypothesis – we assume that main reason for non-using of methods of ex-ante financial analysis by Slovak businesses is their missing knowledge. The validity of this hypothesis was verified by statistical software program SPSS on basis of primary data gained in questionnaires.

For the purpose of meeting the aim, a mix of research methods were used from which the most important was analysis, synthesis, induction, deduction, comparison and generalization as being the most important.

Aim of the financial analysis is to evaluate the financial situation (financial health) and to determine which factors are involved in shaping of the financial situation of the company and how intense this involvement is (Lesáková and collective, 2007). In the literature and in practice we can find many classifications of financial analysis. In this paper focuses on the classification of financial analysis according time – ex-post financial analysis and ex-ante financial analysis. Ex-post financial analysis focuses on the current results, explains them by looking into the past. The aim of ex-post financial analysis is to identify the strengths and weaknesses of the company.

The role of ex-ante financial analysis is prediction of the development of company finance. Methods of ex-ante financial analysis are called “early warning systems”, too. Vlkolinský (2012) says that Fitz Patrick (1931) was first, who in his studies pointed to differential development of selected financial ratios in prosperous companies and bankrupt companies. Beaver (1966), Tamari (1966), Netera (1967) and Altman (1968) are founders of scientific prediction of financial development.

Prediction methods of ex-ante financial analysis must classify company into one of two categories - prosperous or bankrupt companies. Methods of financial analysis ex-ante we can divide into four categories:

1. methods of scoring assessment,
2. mathematical and statistical methods (multivariate discriminating analysis),
3. methods of multi-criteria evaluation,
4. neural networks.

Multivariate discriminating analysis has been the dominant method in failure prediction. It is a statistical method commonly used in classification. It estimates the linear function which can most effectively classify the objects as follows:

$$D = a_0 + a_1X_1 + a_2X_2 + \dots + a_nX_n, \quad (1)$$

D – discriminant score,

$a_0$  - an estimated constant,

$x_i$  – selected financial ratios,

$a_i$  – the estimated coefficients.

The most popular method of multivariate discriminating analysis is Altman Z Score. The formula was originally based on data from 66 publicly held manufacturing companies. Half of these were going concerns. Altman has since developed two additional models: one for privately held manufacturing companies and another for non-manufacturing companies (sometimes called “general use companies”) (Altman, 1968).

## 2 Results and discussion

The questionnaire research was performed in the period from 4 June 2013 to 4 September 2013, i.e. 3 months. Research was focused on the identification the main reasons why Slovak business entities do not use prediction methods of ex-ante financial analysis. Questionnaires were distributed electronically (via e-mail) to small, medium-size and large companies. Questionnaire was created through Google Docs. 820 fully completed questionnaires returned from 7 052 companies (percentage of return is 11.63).

Tab. 1 presents splitting of sample by number of employees. Small companies with maxim number of 49 employees represent the largest number of companies (558 companies). Large companies (with 250 employees and more) have the smallest representation in a file (7.32 %).

**Tab. 1** Number of analyzed companies

<i>Type of company</i>	<i>Number of company</i>	<i>Percentage</i>
Small company	558	68.05 %
Medium-size company	202	24.63 %
Large company	60	7.32 %
<i>Total</i>	<i>820</i>	<i>100.00 %</i>

Source: questionnaire research

According to the regional classification companies from Bratislava region have the largest representation (33.66 %) and according to the statistical office of Slovakia in the year 2011 there were 35.40 % companies from all Slovak companies. Next table shows more details of regional characteristic.

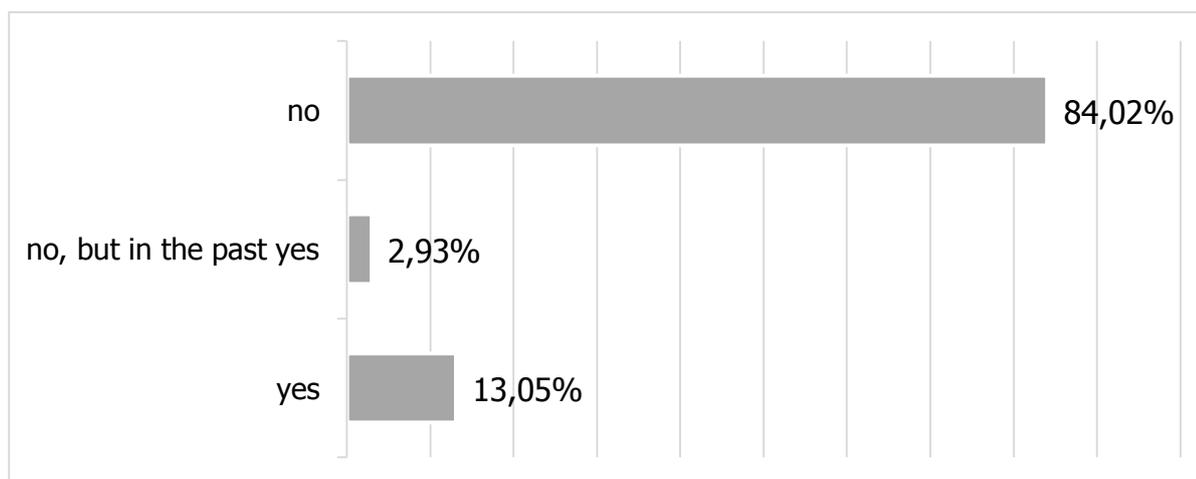
**Tab. 2** Regional characteristic of analyzed companies

<i>Region of Slovakia</i>	<i>Total Slovak companies</i>		<i>Analyzed companies</i>	
Bratislava region	58 401	35.44 %	276	33.66 %
Trnava region	14 963	9.08 %	74	9.02 %
Trenčín region	13 123	7.96 %	81	9.88 %
Nitra region	17 040	10.34 %	78	9.51 %
Žilina region	15 232	9.24 %	80	9.76 %
Banská Bystrica region	14 115	8.57 %	73	8.90 %
Prešov region	15 068	9.14 %	78	9.51 %
Košice region	16 829	10.21 %	80	9.76 %
<i>Total</i>	<i>164 771</i>	<i>100.00 %</i>	<i>820</i>	<i>100.00 %</i>

Source: questionnaire research

The results of questionnaire research confirmed our assumption that Slovak business entities do not prefer the methods of ex-ante financial analysis for future development prediction. For diagnostics of financial situations nowadays Slovak business entities use economic results, financial ratios (liquidity ratios, asset management, debt management, and profitability ratios) and Economic Value Added (EVA). The non-use of methods of ex-ante financial analysis in business practice is conditioned by low awareness about prediction methods. On basis of the results gained via questionnaires we can say that more than 50 % of Slovak business entities, regardless their size, do not use methods of ex-ante financial analysis for prediction of future financial development. Graph 1 presents results of questionnaire research.

**Graph 1** Using of methods of ex-ante financial analysis



Source: questionnaire research

In the questionnaire research we also focused on categorization of companies based on their size. We can see that big companies established their own economic or finance departments with competence of preparing of financial analysis. On the other side, in small companies the owners of the business often solve financial issues themselves. The result of the questionnaire research confirmed our assumption that the level of implementation of ex-ante financial analysis methods corresponds to the size of company, e.g. big companies use the methods of financial prediction more than small businesses. Next table presents these results.

**Tab. 2** Using methods of ex-ante financial analysis

<i>Do you use methods of ex-ante financial analysis?</i>	<i>Type of company</i>			<i>Total</i>
	<i>Small</i>	<i>Medium-size</i>	<i>Large</i>	
Yes	33	50	24	107
No, but in the past yes	18	4	2	24
No	507	148	34	689
<i>Total</i>	<i>558</i>	<i>202</i>	<i>60</i>	<i>820</i>

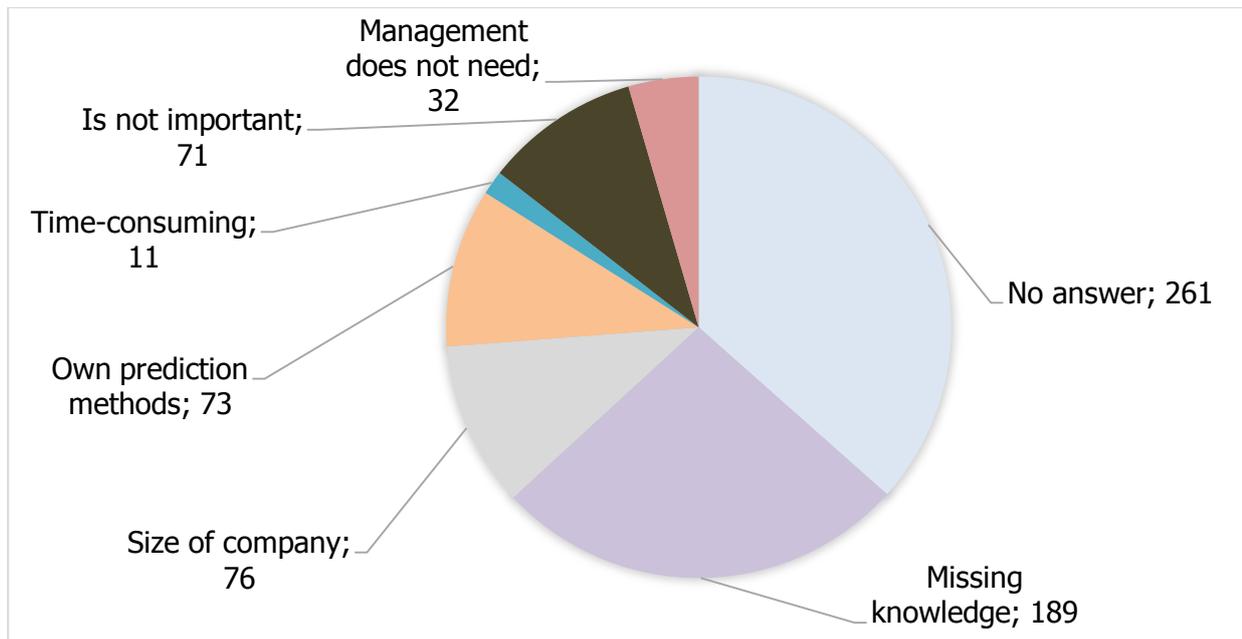
Source: questionnaire research

In hypothesis we assume that main reason for non-using of methods of ex-ante financial analysis by Slovak businesses is their missing knowledge. In this hypothesis we wanted to point to absence of knowledge of ex-ante financial analysis in Slovak companies. This hypothesis was verified on basis of results gained from an open question in the questionnaire (graph 2). We show selected answers for non-using of methods of ex-ante financial analysis and opinions of financial managers and analysts.

- "We do not use, because do know the phrase ex-ante financial analysis."
- "We do not know what ex-ante financial analysis means."
- "We are too small company."
- "There is only one employee in economic department."
- "For prediction financial development we use manager's reporting."
- "We use only economic result for financial analysis."
- "We do not need prediction methods of ex-ante financial analysis."
- "Maybe we use ex-ante financial analysis, but do not know this term."
- "Prediction methods are not important for our business entity."

We decided to divide the answers of this question into 6 categories (missing knowledge, size of company, own prediction methods, time-consuming, is not important, management does not need). The weakness of open question is unwillingness of respondents to answer what we can see in graph 2.

**Graph 2** Main reason for non-using prediction methods



Source: questionnaire research

261 companies did not answer the question: "Why do you not use prediction methods?". We decided to make an adjustment in the statistical program SPSS. In this adjustment we divided respondents into categories analogically as respondents who answered the question. Next table shows results after this adjustment.

**Tab. 3** Main reason non-using of prediction methods

<i>Reason</i>	<i>Number of company</i>	<i>Percentage</i>
Missing knowledge	298	41.80 %
Size of company (too small company)	120	16.83 %
Own prediction methods	115	16.13 %
Time-consuming	17	2.38 %
Is not important	112	15.71 %
Management does not need	51	7.15 %
<i>Total</i>	<i>713</i>	<i>100.00 %</i>

Source: questionnaire research

After this adjustment by verifying this hypothesis we set the rankings and among the three most common reason for non-using of prediction methods were missing knowledge, size of company (too small company) and use of own prediction methods of company. The results confirmed our assumption formulated in the hypothesis, and therefore the hypothesis was not rejected.

## Conclusion

From the presented results we can deduce current view of Slovak business entities on prediction methods of ex-ante financial analysis. Of course, the first assumption for application of prediction methods in companies is skills and knowledge. Nowadays in Slovak companies there are polemics about importance of prediction financial development. Result of questionnaire research confirmed this fact, because main reason why Slovak businesses do not use methods of ex-ante financial analysis is missing knowledge.

The importance of the prediction methods is conditioned by correct results of their prediction efficiency, which are, especially in current conditions, are more than polemic and controversial. In the case of prediction methods they are made on the basis of current economic, information and legislative conditions and they can be an important instrument in company decision-making and management for the needs of financial management.

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# Category management as part of assortment policy in retail<sup>1</sup>

Lukáš Hanzlíček<sup>2</sup>

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## **Abstract**

*This work deals with the importance of category management as part of assortment policy in retail. Category management is a relatively new discipline, which has developed during the last fifteen years. This article defines efficient consumer response and assortment policy as a basis for category management. Definitions of category management, development of this modern method of trading and steps of category management process are stated in the next parts of the work. The last part presents the main benefits and barriers of category management. Category management is more than just a way to manage categories as business units; it is the basis for the successful implementation of retail activities. In addition, category management process gives retailers a strong competitive advantage.*

## **Key words**

*category management, retail, ECR, assortment policy*

**JEL Classification:** M31

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## **Introduction**

The last decade has fundamentally changed the face of retailing. The genesis has been increased customer fragmentation, enabling technologies such as the internet and increased competition. In this era of „hypercompetition“ retailers need to have a better understanding of the performance of individual stores so they can more accurately plan their assortment and set more realistic goals for assortment policy.

The retailers are oriented to develop deeper relationships with their business partners in order to achieve competitive advantage. Such an approach is the basis for the introduction of the concept of Efficient Consumer Response - ECR. One of the most important strategic decisions the retailers must make, within the concept of ECR, involves determining the product assortment to offer. Retailers attempt to offer a balance among variety, depth and service level. Trends applied in assortment policy, such as category management, merchandising, private labels etc., gaining in retail companies increasing importance as a result of retailers' knowledge of benefits that brings their implementation.

Category management is a young discipline, which develops during the last fifteen years. Principles used by category management are based on the basic management and marketing axioms. From management field functions as planning, organizing, leading and controlling are known. Category management uses also 4P of marketing mix, product, price, promotion and place. Nowadays, category management is more than just a way to

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<sup>1</sup> VEGA no. 1/0134/14 "Encouraging innovation in distribution processes through the introduction of modern technologies and optimization of logistics activities aimed at reducing the impact on the environment and increasing the quality of life"

<sup>2</sup> Ing. Lukáš Hanzlíček, University of Economics in Bratislava, Faculty of Commerce, Department of Marketing, Dolnozemska cesta 1, 852 35 Bratislava 5, E-mail: lukashanzlicek@gmail.com

manage categories as business units. It is the basis for successful implementation of retail activities.

The article contains characteristics of category management as part of assortment policy in retail. The paper is divided into few parts, such as characteristic of ECR and assortment policy as a basis for category management; definition, development and process of category management. It presents the main benefits and barriers of category management.

## **1 Methodology**

The main objective of the article is to characterize category management as a part of the assortment policy in retail. In order to achieve this goal, it is necessary to apply more methods of scientific investigation. Hence there is only limited source of Slovak literature which deals with the problem of category management, it was necessary to work also with foreign literature for more detailed problem examination. In our work, we used the analysis method of dividing field of category management into smaller parts in order to gain better understanding. Processing the information obtained from various authors, we used methods of description and comparison. In the next step, method of synthesis was applied on gained theoretical knowledge.

## **2 Results and Discussion**

Companies are in constant search for competitive advantages not only oriented to its own internal operations, but gradually more and more applied towards an external approach by building new forms of cooperation with their business partners. Integration of distribution in the marketing strategies led to the creation of commercial marketing of the manufacturer, which consequently led to the emergence of the concept of Efficient Consumer Response ECR (Daňo & Kita, 2008). The concept of ECR has the potential to integrate the logistics processes, from production to trade. In Europe, the ECR system began to expand in 1994 under the auspices of the European Association of ECR. The main motive for introducing the ECR was to ensure the meeting of the demand from customers requiring a high standard of service.

According to Eschenbach, the ECR represents a concept of close cooperation between traders and producers, in order to increase customer satisfaction at lower costs. Viestová defines ECR as a management approach, the purpose of which is to seek competitive advantage through effective cooperation between suppliers and buyers respectively, the optimization of the logistics chain from the manufacturer to the retailer and the final consumer (Hesková, 2006). ECR can be defined as technology for effective response to customer requirements (Pernica, 2005). The essence of this concept is the cooperation between manufacturers, suppliers, distribution organizations and retailers. It is important to ensure the highest level of customer service while reducing costs and inventory. The aim of this cooperation is to overcome barriers that arise between trading partners.

The successful implementation of the concept of efficient response to consumer demand is directly dependent on the willingness of trading partners to work together and share information. Two key elements of a successful implementation of ECR is the transfer of information and the automation of processes. The aim of the transmission of

information is to faster transfer current, complete and standard data. Process automation includes processes such as bar code scanning in warehouses, cash desks and utilization of information for updating data information systems of business partners (Kubasáková & Šulgan, 2012).

ECR concept, according to Michon, is based on four pillars: category management, supply management, technological support of supply management (based on the use of EDI and electronic purchase of products) and planning of buying without stocks (Daňo & Kita, 2008).

Hesková (2006) also states four basic pillars of ECR, namely: effective supply, effective promotion, effective presentation of the product and effective assortment. Effective supply aims to optimizing time and cost through the use of instruments such as logistics "Just In Time", automatic order, EDI. Effective promotion ensures the effectiveness of the whole system leading to better planning by minimizing the overhead costs (storage, transport, etc.) and creating know-how for faster response to changes in customers demand. Effective presentation of the product covers the marketing of a new product using effective testing and immediate response to the acceptance or refusal of the product by the customers.

Assortment creating is therefore one of the basic strategies of the ECR. Its aim is to optimize the assortment while achieving company's goals. Application of the principles of category management is part of this strategy.

It can be said that despite the different classification of tools into individual pillars of ECR, the authors agree on the common content of these basic elements, since all the pillars of the first division are contained either directly in the title or in the characteristics of the basic pillars stated by Hesková (2006).

## **2.1 Assortment policy in retail**

Assortment can be defined as a systematically organized group of products offered by a company. In case of a retail company, retail assortment contains a set of products and services sold to consumers on-demand (Zamazalová, 2009). For the retailer's assortment success, it is important to create a competitive advantage and to match it with the target markets' expectations. This statement leads to the main aim of assortment policy, which is the creation of an assortment as a plan of expected sales in order to supply suitable goods in proper time and place to reach economic effects. In general, a retail assortment is wider than a manufacturing company assortment.

Assortment could be characterized by its breadth, depth, length and consistency. Breadth shows the number of product lines a retailer supplies. Assortment depth determines the number of products in a product line. Length marks the amount of all products offered by a company. Relations and connections between product lines determine the level of consistency (Zamazalová, 2009).

During the process of assortment, policy creation it is very important to identify factors of influence, which are categorized as following (Daňo & Kita, 2009):

- external factors (political – city plans; environmental – environmental policy, environmental activities of competitors; social – GDP and buyers' strength; technical – new products development)

- internal factors (company`s resources – capital, labor power, information technologies, company`s structure and form, sales and stock`s concept)
- market factors (market situation, customer orientation, demand structure, suppliers, market conditions, etc.)

The most important principles used in assortment policy decisions are: recognizing the gaps and opportunities in the market, analysis and differentiation from competitors, usage of assortment which is not in conflict with direct competitors` relations, aim on specific needs and customers segments, finding optimal assortment, etc. Assortment policy has to be able to react to the dynamical evolution of environmental factors and to changes in corporate targets and conditions. During assortment policy creation, the strategic assortment management is applied. This process is presented in the following steps: assortment segmentation; situation analysis of market, competitors and assortment; setting the aim, assortment characteristics as breadth, depth, length and also image; making the assortment strategies in order to reach the targets and their implementation using all tools of marketing mix (Daňo & Kita, 2009).

Trends that have been applied in assortment policy in retail companies – such as category management, merchandising, private labels, etc. – have been gaining importance as a result of the retailers` knowledge of the benefits that the implementation brings. Benefits of selected trends involved in business include: better customers` reach, obtaining, and ultimately increasing sales and profit of retail units.

## **2.2 Definition and development of category management**

We can find many definitions of category management in literature. This is mainly because of the fact that it is a young and dynamically evolving discipline. Category management can be seen from three points of view (Hesková, 2007): category management as a process, as a philosophy and as an organizational concept. The most important in process view of category management are cooperative relationships between those subjects, whose aim is to develop strategic plans for defining categories and determination of its performance. The philosophy of category management lies in the rejection of management of separate departments and supports the decisions taken at the level of categories. From this perspective, the categories are considered as strategic business units focused on increasing sales and profits. Organizational concept represents a particularly efficient allocation of assets, which are bound in the stocks of the company and also efficient logistics. This concept is part of ECR (Zamazalová, 2009).

One of the first definitions of category management came from AC Nielsen in 1992. This definition defined category management as a process that affects the management of product categories as individual business units and products are made to order based on "shop next to shop" for maximum satisfaction of customer needs (Dussart, 1998). In this definition, category management is expressed as a process and also mentions the customer, who is the subject of category management. The definition also assumes advantage for both partners involved in the process of category management.

According to another definition, category management is based on the division of products into categories created by monitoring the purchasing and consumption habits of the customer. Products are grouped into categories according to their relatedness in terms of use. This is an area where specific products are merged to form categories and subcategories. Category management is the starting point for deciding where the

categories and their products will be placed. This is a task which should reflect the needs and desires of the customer (Zamazalová, 2009). Extension in comparison with the previous definition is the consideration of merchandising as an important part of category management for increasing its efficiency.

Category management is forcing retailers to think about where they want to find themselves in a year, who are their competitors and what they want to gain from a particular category (Dhar et al., 2001). This definition does not include any aspect of the customer, who is the subject category management, but rather focuses on quantifiable parameters.

The authors Randhawa and Gupta define category management as a strategic management of product groups through trade partnerships, which aim to maximize sales and profit by satisfying the customers' needs (Stašiniaková, 2011). The business partnership plays an important role here. The business partnerships of manufacturers and retailers and its deepening, significantly shaped the development of category management in recent decades.

Category management is a method of selected portfolio of assortment as business units in the customer-oriented company. The aim of category management is, based on monitoring the buying behavior of customers and their needs, increase the share of satisfied customers and thus increase profit, reduce costs and optimize logistics processes. The success of category management significantly affects the level of cooperation between the retailer and its suppliers. Implementation of category management into enterprise management systems requires introduction of other control methods supporting its activities, such as application of process management, system of Electronic Data Interchange (EDI), bar codes, etc. Category management is a new effective way in which the retailer and the supplier can cooperate, by mutually sharing data through a system of EDI. A key aspect is the consistent focus on customer needs and subsequent achievement of higher consumer value (Hesková, 2006). Hesková in her characteristics of category management also mentioned the impact of new technologies that allow the growth of retailer and supplier collaboration and enable a better understanding of customer needs.

The category management is shifting its attention from individual product brands to the product categories, while the performance of an entire category has priority over performance of the brand. Fundamental objectives of category management are increasing customer loyalty, providing convenient shopping, permanent availability of consumer preferred products, increasing sales volume of product category, growing market share, decision process supported by data interchange, increasing care of product categories and the development of the relationship of the retailer and its suppliers (Dudinská & Špavelko, 2005).

In applying category management, the nature of buyer activity is changing. The buyer is in the classic understanding only responsible for the purchase, therefore mostly negotiates favorable conditions for the retailer. A category manager works as an independent manager of the selected product category, which is managed as a separate business unit. Category manager implements all operations from procurement, promotion, sales, and logistics and manages and controls financial flows.

Development which leads to the creation of category management can be divided into several stages. The first period, which may be mentioned in the context of category management, is 1960s. The first stage is characterized by the development of brand marketing and product management in manufacturer's strategies of branded products.

Retailers played the role of passive sellers to final customers. Dominant power in negotiating the terms of trade was on the side of the manufacturer.

The second phase, 1970s, is characterized by retail marketing and strengthening the position of retailers. This position was improved mainly through vertical cooperation. Retail marketing was increasingly focused on exploring the consumer buying behavior and attitudes. In this period the sales area was magnified, which evoked the emergence of disciplines such as space management and merchandising. The end of this phase is associated with the development of private labels.

In the third stage, there is the stronger concentration of retail. Retailers use vertical cooperation in organizing central purchasing and building distribution centers. Manufacturers began to perceive retailers as strategic partners; although this was still only a limited cooperation, which was largely one-sided and focused solely on promotion. Reciprocity of the process began to develop in the second half of the 1980s with the onset of the fourth stage. Customers and suppliers recognized that such cooperation was necessary and could be mutually beneficial, with the parties not competing against each other. This phase is characterized the onset of supply chain management and deepening partnerships.

Category management arose in the 1990s with the development of ECR and the main objective of manufacturers and retailers began to be customer satisfaction (Hesková, 2006). In the last fifteen years, the category management has grown significantly and it is still evolving. The category management orientation is increasingly shifting from the product to the customer, which is also known as consumer centric category management. Some signs of this approach are the increase in consumer behavior research and development of marketing plans for different customer groups (Karolefski & Heller, 2006).

## **2.3 Category management process**

Category management started as a process that allowed retailers to manage product categories as separate business units. The original version of the category management process has eight steps, starting with the definition of the category and ending with control. This process has evolved over the years in various versions, with smaller number of steps. However, the traditional eight-step process remains as the starting point for many companies.

The process of category management can be characterized as a process consisting of three steps that are: definition of the category, implementation, and periodical review. However, the steps can be elaborated into eight phases (Karolefski & Heller, 2006):

### *1. Category definition*

Category represents a group of products, which is characterized by independence, controllability and definability. From the consumer's point of view, the category includes products that satisfy the same need. To properly define the category, it is necessary to identify the customers' needs. It is important to know whether the customer perceives products as complementary products or substitutional. Category is completely defined if we know its name, exact identification of category products and category structure. Customer decision tree method is often used for defining the category. This method identifies the criteria for deciding that the consumer uses at the point of sale (Hinková-Dibarborová et al., 2003).

## *2. Specification of the category role*

The role of category determines the importance of category compared to other categories. Determining factors include the category share of turnover, financial volume of the category, the percentage of buyers of the category, the frequency of repeated purchases within category, the importance of the category in total purchases, target segment of the categories, etc. (Hesková, 2006). Each role has to have its specific objective. Roles can be divided into profile (profiling merchant to customers), average (spontaneous purchased products with a higher frequency of sales), additional (to promote the image of the merchant) and seasonal roles (Bokorová, 2001).

## *3. Category review*

The aim of this phase is to measure the current performance and to determine the planned performance. This process is made up of the evaluation process of customer, market of the retailer and supplier, as well as analysis of opportunities. Analysis of opportunities focuses on the area of assortment, pricing, communication and distribution.

## *4. Measuring the efficiency of the category*

The objectives for category management cooperation between manufacturer and retailer are defined in the fourth stage. Aim of category shall be consistent with the objective of category role. Objectives are usually established for a period of one year. The most commonly used method is the Balanced Scorecard model, which is suitable for strategic business units, which in the case of category management represent different categories.

## *5. Category strategy choice*

Determination of the strategy focuses on marketing strategy of category and supply strategies. It represents a plan to increase sales in the category, how to distinguish from the competition, effectively buy goods, organize distribution, promotion and by which services support the offer. Among the most famous retail marketing strategy are the following (Hesková, 2006):

- Traffic building: The strategy oriented to attract customers to the store. The placement of products based on customer's movement within the shop is important.
- Transaction building: The aim of this category is to increase the average purchase value of a category. It focuses on products with higher profit.
- Turf defending: The most important aim is the aggressive placement and exposure of a category. It is a defense against the retailer's main competitors in the category.
- Profit generating: This strategy is focused on a selected part of the category, which is a generator of profit (items with high margins and high turnover).
- Cash generating: The strategy oriented towards products that are cash flow generators for the retailer. The basis is the height of sales generated due to high turnover and high frequency of purchase.
- Excitement creating: The aim is to provoke impulsive purchases, to emphasize the connection of offer with a certain lifestyle and to use seasonal discounts.
- Image enhancing: The strategy is used for building the retailer's image. Areas on which the retailer can focus are price, service, quality and diversity of category offer.

## *6. Category tactics choice*

Activities, which are necessary for the implementation of the category strategy, are referred to as tactics. For the comprehensive coverage of the plan, tactics for assortment

should be established, including pricing, promotion, merchandising, logistics and supply chain (Cimler & Zadražilová, 2007).

### *7. Implementation of the plan*

In this phase there is a realization of tactics. Implementation can occur only when the category plans are approved by managers of the retailer and the supplier. Part of the plan should be to determine responsibility for the category. Category managers have to create a schedule for the implementation process with clearly defined time periods.

### *8. Controlling*

The control of the results of each category is determining whether the applied strategies and tactics were chosen correctly or whether they should be revised. All of the parties should be involved in this process.

The mentioned eight-phase process is a maximized version of category management, and in reality it isn't always possible to implement this variant. Therefore it is the task of the category manager to find a compromise between complexities, possibilities of management and needed supporting factors. The three-step minimalistic model contains several phases from the original eight-step version of category management process. Defining of category contents its definition as well as determines the role of the category. The implementation consists of the strategies and tactics, which are the basis for drawing up an implementation plan. The importance of controlling underlines its status as a separate step in both models, whereas it is possible to compare it with periodic evaluation. The minimalistic model appears to lack an initial category evaluation prior to its implementation. Since finding a compromise solution is a task for the category manager, as a compromise alternative, a four-step model could be used, which includes: defining categories, evaluating categories, implementation and controlling. Such a model would cover in four steps all stages of the eight-step model.

## **2.4 Benefits and barriers of category management**

The main benefits of category management for retailers include a better focus on customers, which results in an optimized assortment, limited occurrence of gaps in the shelves by an effective replenishment, better communication and more effective introduction of new products. Specific benefits of category management for retail, in addition to the ones mentioned above, are the possibility of application in small companies, maximizing turnover of the assortment, reducing surplus inventory, joint assortment management of suppliers and retailers, long-term cooperation based on the exchange of information and contacts, correct allocation of funds to different assortment of categories, etc. (Sprievodca marketingovou komunikáciou, 2004).

The above-mentioned partial goals are related, and therefore it is necessary to achieve one, as well as the others. For example, it is possible to establish the correct category of products without knowing the needs of customers. The easiest way to survey consumer purchases at retail is through loyalty programs by which the retailer is able to track purchases of individual customers. Retailers can better understand its customers and can satisfy them better than competitors, thus gaining a competitive advantage. Customers then like to return to the retailer's stores and show higher loyalty than before. For all these partial benefits, there is the main objective, common to all retailers, and it is to maximize profits, sales and market share (Stašiniaková, 2011).

In deciding to use the principles of category management, retailers face several pitfalls, which are assumptions, such as: category management is the only strategy to reduce costs, the resulting changes are not necessarily beneficial to the consumer, the prevailing arrogance between retailers and producers, misunderstanding of category role, poor processability of customization of shops etc. These assumptions refute the theory of category management and only in its proper and full implementation into the business, are these risks eliminated (Dussart, 1998).

Hesková (2006) considered as critical areas for the implementation of category management: insufficient development of the relationship between partners, inability to apply knowledge of theory to real situations, preference of reducing costs over satisfying the customers' needs, separated planning of categories from planning other activities, long introduction and the wrong choice of partner.

Despite the risks that come with the implementation of category management, the rate of its use in retail is increasing. The main reasons for the use of management of product groups as separate business units in business practice are primarily costs optimization, profit increasing and better response to customer expectations, resulting in building customer loyalty. Attractiveness of category management also increases the possibility of its use in small enterprises and adaptation of category management to retailers, which provides space for local use of category management if the customer preferences for certain categories, show large variation across the different geographical areas.

## **Conclusion**

This paper showed that if we approach category management as a philosophy, process or organizational concept, it is a very young and constantly evolving discipline. This fact is proved by the amount of the definitions of category management, some of which are mentioned in the article. All of these definitions agree that it is a concept of separate management of product groups. Individual authors put different importance on other elements, which are customer orientation, profit of retailer, competition, partnerships of retailers and suppliers, merchandising, impact of new technologies, etc. The proof that the discipline is not yet formed is still the variability of the category management process, which is characterized as a process consisting of three or eight steps. The task of a category manager is to choose correctly a compromise solution which will take into account conditions of a particular retailer the best.

The article includes characterization of category management as a comprehensive discipline based on clear and simple concepts. The application in practice is more complicated as the business environment is characterized by its diversity. Market winners will be those companies which meet consumers' needs by knowing their inner perception. The understanding of consumers needs is the most important part for the correct creation of product categories of the retailer. The usage of category management in practice brings many benefits, but it brings risks for the retailer as well. It is a task for the retailer to correctly implement this concept and therefore to achieve a competitive advantage and eliminate possible risks.

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# H&M - A Leading Fashion & Clothing retailer in European market<sup>1</sup>

Veronika Hrdličková<sup>2</sup>

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## **Abstract**

*In the European fashion clothing industry operates a number of multinational companies that have successfully established themselves in foreign markets. Within the paper we deal with H&M the leading company in the European retail market with fashion clothing. The output of this paper is a characteristic of the company, its range of products, management model and attributes encouraging the competitive advantage.*

## **Key words**

*fashion, retailing, H&M, range of products, management model, competitive advantage*

**JEL Classification:** M31

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## **Introduction**

The style and quality offered always at the best price. It is thus possible to characterize the most successful fashion brand H&M in a European market. History of H&M with the original name Hennes dates back to 1947, when was opened the first store with womenswear in the Swedish city Västerås.

The company proceeded the expansion into foreign markets, by opening stores in Norway in 1964, the company continued to expand over the next decade and expanded its sales to the markets of Great Britain, Germany, the Netherlands, the United States, France, Spain, Japan, Korea, Russia, Turkey and other countries of South America, Africa, Asia and Europe.

Company founder Erling Persson bought in 1968 by Mauritz Widforss the seller of tools for fishing and hunting. A company name change to Hennes & Mauritz was implemented in the same year as well as extension of the existing collection for men's and children's clothing. In 1974, began trading with company shares on the Stockholm Stock Exchange.

Currently, the company manages H&M Hennes & Mauritz AB six independent brand H&M, COS, Monki, Weekday, Cheap Monday and & Other Stories. The brands operate 3,000 stores in total in 53 countries. A wide range of H&M fashion clothing for ladies, men, young people aged 13-19 years and children includes shoes, accessories, cosmetics, lingerie and H&M Home - fashion accessories for interior household.

H&M is currently on the top of fashion retailers in European market with turnover 13,5 billion EUR achieved in 2013. The following table shows the TOP 10 Fashion and Clothing retailers in Europe.

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<sup>1</sup> KEGA č.018 EU – 4/2014 European Marketing – Factors and Determinants of the Single European Market

<sup>2</sup> Ing. Veronika Hrdličková, University of Economics in Bratislava, Faculty of Commerce, Department of Marketing, Dolnozemska cesta 1, 852 35 Bratislava, Slovakia, veronika.hrdlickova@gmail.com

**Tab. 1** Turnover in Europe for 2013 in Billion EUR

Rank	Retailer	Turnover Europe	Turnover Internl	Hq
1	H&M	13.5e	14.2	Sweden
2	Inditex	10.9e	16.7	Spain
3	Marks&Spencer	9.4*	10*	UK
4	C&A	6.8**	7e**	BE/DE
5	Primark	5.3	5.3	UK
6	Next	4.3	4.4	UK
7	Debenhams	2.9e	3.4	UK
8	Esprit	2	2.5	Germany
9	Benetton	1.6e**	2e**	Italy
10	Arcadia	1e	3.4	UK

\* The fashion division of the company represents around 45% of these values.

\*\* = 2012 Figure.

e = estimate

Source: Veraart Research Group, 2014

The following sections work aims to characterize the range of products, quality management system in H&M and attributes encouraging competitive advantage of H&M.

## 1 Methodology

The primary objective of this paper is characteristic of management model, range of products and attributes encouraging competitive advantages of the leading fashion company in a European retail market.

With the intention to reach the goal we applied the following methods:

- method of analysis documents that could be used in analyzing current and historical data relating to the considerations discussed (springs available in electronic form),
- description method was used for characteristics of company profile, range of products, management model and identifying attributes encouraging competitive advantages,
- induction method was used as a general scientific method in deriving overall conclusions of several partial courts,
- synthesis method as a means of unifying ideas and create a whole article from individual parts that were allocated through the analysis.

## 2 Results and discussion

### 2.1 Range of Products

The company H&M offers a wide range of women's, men's and children's clothing at the best prices. The largest part of the range consists of women's collection, which includes the latest trends, classic fashion, everyday fashion, sports, relaxation and maternity clothes. Within the men's clothing the company offers latest trends, classic,

elegance, sportswear, casual wear, shoes and accessories. Clothing for the target group of children under 14 years is proposed to be fashionable and comfortable at the same time. Children's clothing is carefully tested to meet strict requirements regarding to quality, performance, safety and sustainability. Children's fashion is pleasant to the touch, while adapted to the child's game live and aggressive conditions during clothes washing. The wide range of fashion collection includes also functional sportswear, accessories, lingerie, cosmetics and within H&M Home accessories for the home. Cosmetics is not tested on animals and meets the legislative requirements of specific markets in which is the range of products offered.

Fashion brand H&M is not a producer of its own fashion collection. The design team consisting of 160 fashion designers, pattern makers and 100 assistants based in Stockholm. The design team is responsible for trendiness and quality of the proposed collection. The design team engages individuals of different ages and nationalities, who draw inspiration from all over the world and from different sources: arts, theater, music, exhibitions, fashion shows and seminars focusing on trends.

The output of design team is the first step for planning and purchasing a range of products. H&M works on long-term based relationships with about 800 independent suppliers coming mainly from Europe and Asia. These suppliers account for about 1,800 factories and produce fabrics and other components necessary for further processing, as well as final products. The list of suppliers is available at the company website.

H&M contacts its suppliers through offices that are set up in supplier's places. The primary role of the offices is to ensure continuity and timeliness of deliveries. Within the office operates by inspectors, who regularly conduct audits of working conditions in supplier factories, further testing the safety and quality of products and ensure compliance requirements on chemical materials and products.

The quality of used material is an important aspect during the production. The H&M suppliers use in producing process the most cotton. Cotton can be classified as a renewable natural resource. Growing a kilogram of cotton requires the consumption of large amounts of water (up to 8500 liters), pesticides and other chemicals. One kilogram of cotton is sufficient for production of one piece of denim pants.

For this reason is H&M one of the world's leading users of organic cotton. Organic cotton is grown without the use of pesticides, fertilizers, genetically modified organisms and to a lesser extent intensive water consumption. This fact contributes to the elimination of the use of chemicals and waste reduction. The result is the reduction of negative environmental impact, rivers and other freshwater sources close to the farm. Organic cotton, which is used to manufacture the products of H&M is independently certified by an accredited certification body in accordance with the standards of Organic Content Standard or Global Organic Textile Standard.

The aim is to determine the appropriate globally recognized standard requirements that ensure organic origin of textiles from the collection of raw materials, through the environmental process manufacturing to labeling, in order to ensure a reliable guarantee of final customers. (Global Organic Textile Standard International Working Group, 2013).

H&M is an active member of the Better Cotton Initiative, which aims to reduce the negative impact especially cotton production on the environment, improve living conditions and developing economies for the growers of cotton. Better Cotton Initiative develops and promotes good agricultural practice. This means that farmers use in the cultivation of cotton less water, minimize the use of chemicals, make efforts to care for the soil and the

environment, promote good working conditions. Under this initiative passed 150 000 farmers in 2012 a special training focused on cotton production and improvement of processes. (H&M, date unknown).

H&M continues in initiative to use in manufacturing recycled materials, which can be obtained by treatment of old clothing and textile remains in production. The production of recycled cotton consumes less water, chemicals, virgin cotton and there is a reduction of waste going to landfill.

H&M was also involved in the continuous improvement of the working conditions and environmental practices in supply and subcontracting companies. Code of Ethics developed by the company in 1997 is the leading tool to continuously improve work conditions in factories. The Code of Ethics is based on the Declaration on Fundamental Principles and Rights at Work and the UN Convention on the Rights of the Child issued by the International Labour Organization. Adherence to the Code of Ethics is monitored through regular audits of each entity that enters into a business relationship with H&M. The recent revision of the Code of Ethics was implemented in 2009 and covers the following areas:

- legal requirements,
- prohibition of child labor,
- health and safety,
- rights of employees,
- housing conditions,
- environment,
- system approach,
- monitoring and enforcing the rules.

In order to understand the Code of Ethics and society's expectations in relation to the supplier provides H&M guide in several languages: English, Chinese, Turkish and Romanian. Suppliers of H&M are required to comply with regulations and legislation of the country in which they carry on business.

Currently H&M offers the range of products through stores in 53 countries. Since 2006 the company implemented on-line sale in 9 European countries.

In terms of pricing the H&M specializes in selling premium products at affordable prices. The H&M fashion products are associated with the names of renowned fashion designers. In 2004, the company proceeded to the implementation of marketing strategy in which offers models leading designers at prices accessible to different target customer groups. The company began to apply this strategy in collaboration with fashion designer Karl Lagerfeld, whose personality is already longer considered as the symbol of luxury. A year later approached by fashion designer Stella McCartney, whose models were sold out within one hour from the time of launch. Followed by cooperation with other resonant designers names: duo Viktor Horsting and Rolf Snoeren, Madonna, Robert Cavalli, Comme des Japanese brand Garçons, Matthew Williams, Jimmy Choo, Sonia Rykiel, Lanvin designer labels, Donatella Versace, the Italian fashion house Marni, Maison Martin Margiela, Isabel Marant. (PHD, 2012).

H&M combines in marketing communications the presentation of the brand with celebrity faces: Madonna, Kylie Minogue, David Beckham, Anna Dello Russo, Beyoncé, Amber Valletta. (H&M, date unknown).

## **2.2 Management model of H&M**

H&M offers to customers the right mix of premium products at affordable prices. Encompassing a wide range of fashion apparel, lingerie, accessories, cosmetics for children, youth, women and men specializing in various target segments from geographically distant markets.

The Starting point of H&M design team are customers with their needs and expectations. The design team is trying to design stylish clothes that meet the latest trends in fashion. Members of the design team keep abreast of fashion trends, customers and their wishes. Flexibility in planning new fashion collections and variety of design team guarantee that H&M launches trendy clothes for every day of the year. Proposals of design team are influenced by several factors: historical data, analysis of trends and colors, demographic and geographic characteristics of the target market. H&M focuses on the distribution and sale of fashion clothes in limited quantities, especially in big cities, while basic garments are distributed in large quantities to different geographical areas.

The outputs of the design team are concrete proposals, which produce independent contractors operating in Europe and Asia. H&M focuses on the selection of supply and subcontracting organizations to ensure minimum quality of used materials and finished products. Since the company's marketing strategy is based on the offer premium products at affordable prices, H&M employees regularly monitor the quality parameters of products directly in the partner's factories. As mentioned above, H&M is one of the world's leading companies, which uses for production organic cotton and recycled materials. It is a part of a sustainable development strategy applied by the company.

After the products manufacturing follows the efficient logistics system. H&M implemented in the course of business two primary functions: distribution and retailing of products. H&M uses predominantly maritime and rail transport in the distribution of finished products, which burden the environment at a lower rate while enabling the company to realize the range of products for a good price for the final consumer. H&M carries out up to 90% of the distribution using maritime and rail transport, and works with environmentally conscious transportation company. The company uses the air and road transportation at minimum. H&M does not own any means of transport and for the product distribution uses the services of external transport companies. Also in this area, H&M puts emphasis on the environment and the introduction of environmental requirements for partners with which it cooperates in the distribution chain. Currently, H&M applies SmartWay programs and WayAhead. SmartWay program called American organization Environmental Protection Agency offers evaluation and certification of the environmental performance of road transport. WayAhead program developed by H&M in cooperation with the European Retail Round Table communicates European road hauliers minimum requirements for services and assess their impact on the environment. Minimum requirements set by H&M on the road hauliers in Europe are as follows:

- 70 % of drivers of trucks must pass the training focused on energy-efficient driving,
- transport vehicles of the goods must not be older than 10 years,
- current and potential shippers must aim to reduce emissions and to monitor compliance with established indicators.

In maritime transport are tracked through the environmental characteristics of the project Clean Shipping Project.

For H&M is extremely important the efficient flow of goods, so the right goods to the right place, at the right quantity and time and at the best price for the customer. The supply companies transport the goods directly to the logistics centers, which are located in

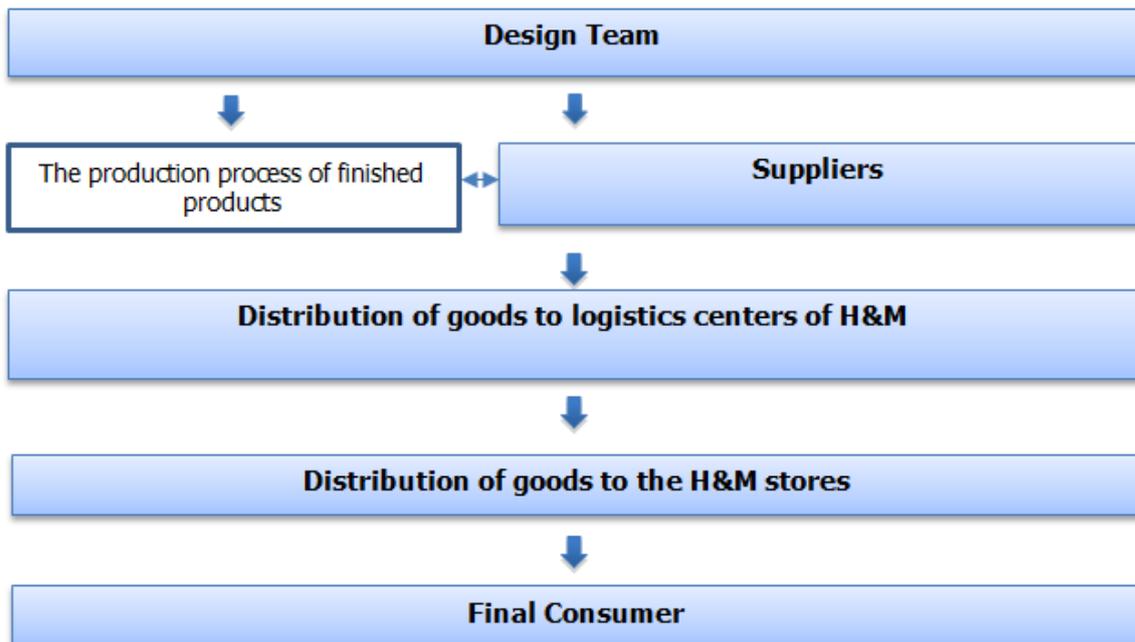
target markets. Relevant logistics centers distribute goods according to the specific requirements of individual stores.

Currently, the company H&M offers goods in 53 countries on four continents (Europe, Asia, America, Africa), through 3000 Retail store and on-line sales in 9 European countries. Each store is unique and easily recognizable at the same time. The interior of each store is functional and flexible while providing customers an exciting shopping experience. Interpretations offer customers a variety of tips and inspiration in accordance with the latest fashion trends.

The introduction of on-line sale of products empowers businesses in terms of the level of service provided to customers. It also brings a fashion brand H&M closer to the potential customers.

The following diagram shows the processes that are carried out by H&M to implement the production of fashionable clothing using the services of external, independent suppliers in target markets.

**Fig. 1** Management process of distribution and sale at H&M



Source: own processing

### 2.3 Attributes encouraging competitive advantage of H&M

We do specify the attributes encouraging competitive advantage of H&M as following:

- *Sportswear collection.* In early 2014 H&M introduced to market a collection of sportswear for women, men and children. A wide range of sportswear and accessories are manufactured from specially developed functional materials. Introducing the sports collection was influenced by the fact that H&M dresses Swedish teams for Olympic and Paralympic Winter Games in Sochi in 2014 and the Summer Olympic and Paralympic Games in Rio de Janeiro in 2016. The H&M Customers have the opportunity to buy clothes of best world athletes at affordable prices. As reported by Stock (2013) extension of an existing range of sportswear brings H&M several advantages. The first is a high margin. Polyester, spandex and nylon - materials used in the manufacture of sportswear products are factory, not growing or breeding on farms. Due to industrial production of materials, these fluffy characterized in terms of cost burdens for companies. Indisputable advantage is the fact that, in connection with the sale of sportswear companies should not arise unsaleable stocks of goods. Clothes for every day or special occasion require a cut, style, trendiness and especially the demand of the final consumer. In contrast, sportswear largely subject to fashion trends. If H&M fails to realize sales of sportswear in the current season, it is likely that this product will find its customers a few months later. As a final advantage stock indicates that while H&M will face competitors such as GAP, Adidas and UNDER ARMOUR, its largest competitor ZARA still does not offer a collection of sportswear. Despite the fact that ZARA offers a variety of garments H&M currently has on offer and operated double the number of stores, specializes in fashionable clothes, not fitness.
- *Communication campaign based on the presentation of special visuals and video spots.* H&M presents its products through various advertising campaigns worldwide. The aim of these campaigns is not specific communication ideals, but rather styles and attitudes to the presentation of news. Advertising campaigns are a product of the company headquarters in Sweden. When creating campaigns collaborates with creative professionals working in the major fashion centers of the world. Advertising campaigns presented in different countries of the world are largely identical. Media strategies are adapted to the requirements of the local market. When selecting models presenting the company products is important to promote positive image of H&M. The company is distancing itself from alcohol and drugs. In accordance with these rules are selected as models, presenting fashion brand. The company offers a range of products for men, women, youth and children. Advertising campaigns with a focus on the sale of children's fashions have certain specifics. The target group of the respective campaigns are parents, not children. Therefore the products are placed in the media, which are not addressed directly to children. If the child is involved in the production of advertising, it must express their free will. Each child participates together with its representatives on the production of advertising campaign, to oversee the safety of the child. H&M is also involved in the Fashion Against AIDS campaign which aims to raise awareness among young people about HIV and AIDS.
- *Marketing strategy based on product sales masstige.* Masstige is a marketing term that originated compound word "mass" and "prestige". Masstige products are perceived as premium (prestige) products designed for a wide market segments (masses, mass market). Masstige products are premium and affordable. The masstige product category has to fulfill two conditions: the product must be seen as a luxury, premium and prestige, price must be set at a level which is between the middle class and premium products. (PHD, 2014). H&M offers its customers inspiring fashion at unbeatable prices. H&M uses a number of tools that allow a company to implement the offer premium products at affordable prices: product design proposed by a team of H&M, buying and selling products without the use of intermediaries, buying

products in large quantities, buying the right products for the right markets from independent suppliers, efficient logistics processes conscious approach to unit costs across the organization. (H&M, date unknown). All this allow the company to introduce stylish fashion at unbeatable prices and quality that surpasses customer expectations.

- *The quality of products.* H&M bases its marketing strategy in selling premium products at affordable prices. It implies the use of quality materials. Caring for compliance with quality and safety parameters starting torque designer design and accompanies the entire production process of the product. The company complies with regulations and standards in each country in which it operates. In the production process, oversees continuous quality improvement, reduce the use of chemicals and providing security products. Cosmetic products meet strict set of requirements and are not tested on animals. Quality control of products is carried out through internal and external laboratories. Every year, the company makes 500,000 quality tests, in which has different quality parameters: resistance to washing clothes, flammability, color stability garments in terms of salt and chlorine water testing buttons and other details in order to eliminate safety risks for children, zippers resistance with repeated use, color stability of household textiles, which are often exposed to sunlight, absorbing water in case of towels, chemicals testing (presence of various kinds of chemicals harmful to health and the environment, metal particles, ph value). In the case of identifying dangerous product that is immediately withdrawn from the market. Customers of the company are actually informed through advertising, Internet and sales outlets. Quality Department continues to explore analyzes the causes of failure in order to prevent the present situation.
- *Sustainable Growth.* Vision of H&M is to complete all the activities in a manner that is economically, socially and environmentally sustainable. With the intention to carry out business activities in line with the vision for the future were determined following ambitious commitments: to offer fashionable clothing for conscious consumers, to select responsible suppliers and partners, to eliminate the negative impacts on the environment, ethics, reduction, reuse and recycling, responsible use of natural resources, to support local communities. H&M is confident that the collaboration with stakeholders, business partners and customers can contribute to the achievement of long-term changes especially in areas where implementing H&M business activities (Bangladesh, India, Pakistan) - improving the living conditions of cotton farmers, ensuring access to drinking water and sanitation for poor sections of the population, empowerment of women, education of young people by setting up a training centers in the field of tailoring, working with UNICEF to support and protect the rights of poor children.
- *Expansion to foreign markets.* H&M identifies potential opportunities in the direction of expansion of business activities in existing markets and expanding into other countries. The aim of H&M's annual increase in the number of sales outlets at 10-15 % while achieving sales growth in comparable units. In 2012, the company planned to open 275 new stores. H&M in a given year managed to open 304 operating units. In terms of assessing the potential target markets the company is assuming the highest rate of expansion and growth in China and the United States of America. Other opportunities determinate the company in the following countries: Russia, Germany, France, Great Britain, Italy, Poland. Expansion into foreign markets financed by their own resources, as it opts for any business opportunity. Before entering the foreign market potential assessment carried out by the market in which it is analyzed demographic structure, the purchasing power of the population, economic growth, infrastructure, political risk, human rights and the environment. When choosing a

specific localization of the operating company focuses attention on the attractive streets and shopping centers. The company retains flexibility in the management of individual stores that favors renting business premises rather than the acquisition of property. Therefore it is quite easy to move the company into an operating unit and attractive places. The bulk of stores in foreign markets operated by H&M in-house with the exception of a few franchise stores. (H&M, date unknown).

- *On-line sale of products.* For the purpose of the continuous expansion of online sales is making H&M funds for the development of information technology so that the customer makes the purchase conveniently via mobile phone or tablet from anywhere. It is now possible to implement an online products purchase in 9 European countries and the United States.

## Conclusion

Based on the brief characteristics of marketing strategy and business activities of company H&M can be stated that the company has a sophisticated management system and try to differentiate the source of its competitive advantage comparing to competing businesses.

The output of the paper is characteristics of management model and identification of attributes inciting building competitive advantage of H&M – the leading company in the European retail sector of fashionable clothes. In general, the company in its business focuses primarily on the quality and composition of the materials used in the manufacture, sustainable development, environmental aspects of production, protection of human rights, further stylishness, trendiness and quality of services provided to customers.

The Company applies a differentiated marketing strategy and its long-term success is based on various factors, with emphasis on satisfying customer needs. The company builds its competitive advantage and focus on different target segments, which draws attention. The company uses different combinations of marketing tools to achieve the goals in sales.

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# Theoretical aspects of integrating multiple value for the customer into the business model in context of sustainable development

Peter Kita<sup>1</sup>

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## **Abstract**

*Multiple customer value in the context of sustainable development includes not only the materialistic aspects of products, but also spiritual ones, that is, environmental and social aspects which have an impact on the image of the company and its sustainability. The article consists of five parts. The first section states the article's topic and structure. The subject of the second section are the theoretical aspects. The second section provides an opinion on sustainable multiple value creation. The third section describes the elements of a business model. Reconfiguration of the company in terms of sustainable development is the subject of the fourth section. The fifth section closes the article.*

## **Key words**

*multiple value, sustainable development, customer value, business model, sustainable development, the key success factors*

**JEL Classification:** M21

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## **Introduction**

Sustainable multiple customer value creation is a topic which is lately raising attention in various disciplines of management: strategic management, marketing, accounting, controlling, etc. This increase of attention is caused by many realized researches from a theoretical standpoint. From a practical standpoint, the topic of sustainable multiple customer value creation is becoming a creed for company managers. The objective of the paper is to describe multiple value for the customer from a theoretical perspective. Supposing its integration into a business model in the context of sustainable development.

The main hypothesis of the article is that sustainable multiple customer value creation is an integrated part of a company's business model. The article defines multiple customer value as a foundation to create a business model. The contribution of the issue is in the analysis of the elements of a business model and within the business model's situation in the context of sustainable development. The solution of the issue requires scrutiny of the notions of sustainable development and multiple customer value within the theoretical corner stones. Subsequently an opinion overview on sustainable multiple value creation is listed.

A description of the elements of a business model is given in the third section. The fourth section describes the reconfiguration of the company from the standpoint of a new business model. The necessity of a company's dealing with business model regarding sustainable multiple customer value creation is explained in the conclusion of the article.

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<sup>1</sup> Ing. Peter Kita, Brno Univeristy of Technology , Faculty of Business and Management, Department of management, Kolejní 2906/4, 612 00 Brno, Czech republic, peter.kita@gmail.com

## 1 Methodology

The treatment procedure and structure of the paper comprises two parts. The first part being the theoretical background of the study aimed at retrievals of scientific papers which deal with the meaning of the sustainable development strategy and the notion of multiple value. This section is a collection of secondary data which were analysed via comparison method to find out and evaluate approaches and treatment of the issue by different authors.

The synergic effect of ecologic and socio-economic crises as well as environmental threats cause interest of stakeholders to reconsider company activities and roles in society in a larger context. Their strategy should be targeted at multidimensional performance, that is, economic, ecological and social performance. For this reason companies integrate the question of their responsibility in the global strategy and adopt sustainable development strategies. The contributions of this process are of three kinds: strategies of social responsibility, which secure market advantages (market share profit, corporate image amelioration, creativity intensification, product innovation, technologies, etc.) and the rightfulness to engage in stakeholder's demands.

This way every company engages in the elaboration of a sustainable strategy embedded in the business model and its elements. Traditional approaches have a tendency to regard the company's engagement in social issues as something which is separated from entrepreneurial activities. However, engagement in social issues has to be perceived as a long term investment crucial for commercial success (Bockstette, Stamp, 2012).

Conceptual framing of achieving the goals of sustainable development creates the notion of multiple value which consists of financial, social, and environmental value (Jonker, Ratuter, Baumgartner, 2013).

The foundation of business model innovation which applies the principals of sustainable development is sustainable multiple customer value creation and sustainable innovation development that assure that the reach of a new product will exceed the borders of only one market. This not only means to manufacture products which save the environment but also an eco-friendly production process and technology are important (Nidumolu, Prahalad. Rangaswami, 2009; Červený, Hanzelková, Keřkovský, Němček, 2013).

Value is a polysemic notion. Its definition sometimes depends on objective, and sometimes on subjective comprehension which causes problems to understand it. Given the diverse meanings of the notion of value the article is aimed at the value for the customer, which is the company's concern. However, even from this aspect the notion gains a multidimensional character (Lošťáková, 2009). Therefore, authors in the context of sustainable development identify the notion with the triple tier structure "triple P" (people, planet, profit) to overcome the faults and contradictions of the existing system "triple C" (carboniferous, consumer, capitalism), and use the term "multiple value".

The evolution of the notion of multiple value is closely connected with the notions of sustainability and sustainable development which are differently comprehended by different authors depending on the context in which they are used (Gibson, 2007). M. Wackernagel, and W. Rees (1996) worked with a single tier comprehension which underlined only the ecologic aspect. According to R.B. Gibson (2007) a double tier comprehension of value appears, including the environmental and social sphere, and

multitier comprehension of sustainability. Most authors presumably work with three tiers (environmental, social, and economic).

In 1994 J. Elkington, the founder of the first British nongovernmental consultancy cabinet named "Sustainability" established the term "triple bottom line" or "triple P" (people, planet, profit) in the scope of sustainable development (Zdražilová et al., 2010) which is regarded as a three tier structure. According to the three tier structure managers should take into account not only financial aspects but also social and environmental aspects. The call for quitting the profit orientation (profit-only standpoint) is typical for scientific literature which deals with social responsibility, explained by 3P, "triple bottom line" or "not only for profit" standpoint. J. Elkington's concept is a transposition of sustainable development of the company's performance. Later the concept was utilized by the company Shell in its report about socially responsible activities (Elkington, 2004).

J. Hawkes (2001) adds a fourth tier and defends it (culture), and even five tiers are recognized (environmental, social, economic, cultural, and political).

In 2003, J. Emerson used a different term "blended value", that is, "mixed value" or hybrid value, the meaning of which is the same as that of multiple value. Mixed value is defined as a value which is "made of economic, social and environmental elements" (Chauffaut, Lensing-Hebben, Noay, 2013). J. Emerson defines social enterprise, social investing, effective philanthropy, corporate social responsibility, and sustainable development as the five elements connected with the creation of mixed value in "The blended value map" (Emerson, 2003).

S. L. Hart, M.B, Milstein (2003) launched a discussion about the business model concept and "triple bottom line" values in 2003. Although sustainable value research is complicated and multidimensional according to the authors, the development of an existing business model towards a sustainable business model or creation of a sustainable business model enables adaptability to market development, and customer demand in the context of sustainable development.

The theoretical fundamentals of multiple value creation were further developed by J. F. McVea, and R. E. Freeman (2005) in their work about the stakeholder theory. The authors claim: "...value is created when managers realize transactions satisfying stakeholders which partake in the company's success: customers, suppliers, employees, shareholders... the company needs to create value for stakeholders".

R. E. Freeman, S.R. Velamuri B. Moriarty (2006) later developed the notion of multiple value creation by underlining the "stakeholder's responsibility", and simultaneously connect the previous authors' ideas.

V. Carbone, M. de Brito, and C. Meunier-Blanquart (2008) outline legislation measures, competitive advantages, and demand for social responsibility as the main motives for sustainable program implication. Based on the study of dozens of works S. Seuring and M. Miller (2008) state that the most essential impulse except for legislation measures, and competitive advantages belong the customer's demands, stakeholder attitude, ecologic and social lobby groups, and the chance of loss of reputation or corporate identity damage (Pícha, 2014).

For H. Aït-Ouyahia multiple value consists of three elements: customer value, shareholder value, and social value (2008). Customer value, according to the author, is part of the notion of multiple value and environmental aspects are part of social value.

Among some theoretical and practical solutions aimed at harmonizing the socio-economic development and challenges in protecting the environment, the concept of shared value has to be mentioned, as proposed by M. Porter and M. Kramer in the Harvard Business review, published in 2006. The concept is based on the assumption that economic and social progress is shown in value creation. The shared value lies in redefining the competitive strategy and business model to improve environmental conditions, therefore to lead to added value creation.

We can say that multiple customer value in the context of sustainable development as a result of the interaction between the customer and the product includes not only materialistic aspects but also spiritual ones, that is, environmental and social aspects which have an impact on corporate image and its sustainability. On the other hand the company creates wealth via its products, employees, and innovations. It creates financial value via profit distribution, provided service quality, employee talent, investment character, strategic decision, and so can initiate significant changes. Therefore the company needs to be able to understand the materialistic and spiritual values which are created or consumed by it. Multiple value creation, with which the ethical dimension goes hand-in-hand, is increasingly getting into the center of companies and their strategic decisions, and also into the attention of customers. This implies a twofold sharing of value: materialistic and spiritual on one hand, ethical and moral on the other. Current action of existence of contemporary companies is judged from the standpoint of these two levels in the internal and external environment (Pastore-Reiss, 2013).

Value creation for the company means creation of real, practical values of the product for the customer. Every company has to think about what means are used to provide advantages embodying multiple customer value. Its offer has to be connected with an advantage, in the sense of doing good not only from a materialistic standpoint. It is possible to say that sustainable multiple value creation of the customer, in the current setting, is still a blank page among the company's activities. Its integration into the business model makes way to new opportunities for present and future business activities.

## **2 Results and Discussion**

The main issues were proposed based on the evaluated data of the theoretical part and comparison of approaches of different authors dealing with multiple value. The issues are related to business model application and company reconfiguration based on the new business model.

### **2.1 Business model and its elements**

The company's logic used while producing, transmitting and acquiring value can be observed via its business model. Therefore, multiple customer value has to become a strategic part of the business model. It is a detailed strategic plan achieved via organizational structures, processes and systems (Osterwalder, Pigneur, 2012). The following paragraphs explain particular elements of the business model (Dion, Wolff, 2008).

### *Value offer*

The company's values create the values of the customer. However, customers have to understand how these values are reflected in the offer. Value proposition included in the solution, addressed to the customer (as a group of products and services) explains why the customer buys products and services from the given company and not from anybody else. The customer's evaluation of the company's offer leads to optimization. Value offer describes the attractiveness of the products and services offered (Dion, Wolff, 2008). We analyze it with the help of the business model canvas which is a schematic representation of the current market conditions. Key success factors are part of the business model canvas. M. E. Porter and M. R. Kramer consider three key success factors of value creation for the company (2011): products and market adjustment; product and value chain redefinition, and concentration on product quality and value for the customer; creating of new entrepreneurial niches.

### *Network value*

Value creation is evaluated globally, that is, from the competition's perspective but also from the perspective of companies offering complementary products which add higher value than the sold one from the customer's view (Johnson, Scholes, Fréry, 2002). A competitor is every participant on the market which diminishes, from the customer's perspective, the value of the company in comparison to the value he could have obtained without this product. Competitors are in general companies which are in the same or similar field of activity or sell similar products.

### *Value structure*

Value structure provides a description how the company creates a value offer for the customer based on its portfolio of resources and competence. This lies in the internal and external value chain.

*a) internal value chain analysis* - the value chain (Dumoulin, Guieu, Meschi, Tannery, 2010) enables understanding why companies create greater value than that of its competitors. Value creation which exceeds the competition is a result of a competitive advantage which can be explained in two ways. Either the competitive advantage results from better cost control than that of the competition (cost leadership strategy), or it results from the ability to differentiate the company's offer from that of its competitors (differentiation strategy).

*b) external value chain analysis* - the external value chain includes partners (suppliers, adjacent suppliers, distributors, etc.) participating everywhere from the production process to the product and service delivery to the final consumer. It contains inter-company relations between the participating companies of the chain. Therefore, there is an interest of the chain's partners to be involved and create value (Šimberová, 2008).

### *Profit equation*

The profit equation is analyzed from three aspects: sources of revenue (that come from the value offer), costs (that come from the value structure), and invested capital profitability.

The profit equation of a company that engages in a sustainable development strategy is affected by the following fact. On one hand the sustainable development causes additional costs, on the other hand it can be a source of additional revenue from better products or enables the foundation of new companies. Sustainable innovations transform

the competitive space which forces companies to change their perspectives to new products, technologies, processes and business models.

## **2.2 New business model company reconfiguration**

The development of new communication and information technologies, biotechnologies, biomedicine, modern environment friendly chemistry technologies, increase in demand for sustainable energies, quality of life, employment, etc. raise the question: is it possible to use the same strategy with the current activities? The business model is used to answer this question. Current business models are described by their sustainability. They are labeled as new business models. A sustainable business model underlines synchronizing a number of values (economic, social, and environmental). Classical business models deal with two participants (the buyer and the seller), whereas the two participants in sustainable and ethical business models recognize three dimensions on every level (local, regional, global):

- the right of existence and respect for our planet (care about the environment in which the company is able to control the consequences of its activities),
- care about people's needs (quality meeting of people's biological, material, spiritual, social needs and interests),
- economic aspect (sustainable activity development, growth, and improvement).

### Value innovation

The business model leads the manager to asking himself a few questions and overcoming the standard strategies of the given field of entrepreneurship with the aim to take into account new possibilities of multiple customer value creation.

According to W. C. Kim and R. Mauborgn (Dion, Wolff, 2008), innovation of value consists of four activities connected with the key success factors: current key success factor elimination, weakening of overrated key success factors, and creating new key success factors.

### Business model canvas criteria

Value innovation assumes defining a new business model canvas which has to show certain homogeneity. This requires taking into account the following criteria: targeting the offer at a certain number of key success factors, the ability of the offer to be excellent at complementary criteria, setting a new mission different from the competition.

## **Conclusion**

Socially responsible entrepreneurship merges materialistic and spiritual customer and company values. It is necessary for the success of sustainable co-existence and helps companies fulfill the important task of responsible factors of development.

The need to address new business models results from this knowledge. For a better comprehension of business models based on multiple value creation for the customer visualization, using the business model canvas can be employed. This enables

entrepreneurs to create, transform and realize these business models and, therefore, create multiple value.

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# Selected Statistical Methods of Regional Analysis

Slávka Klasová – Viliam Kováč – Jozef Heteš<sup>1</sup>

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## **Abstract**

*This paper deals with the industry specialisation and the spatial concentration in the context of the economic policy competitiveness of the countries and the regions. It stresses out the important point to differentiate between these two terms. A brief overview of the industry location theories is provided in the paper beginning with the neoclassical theory, going through the new trade theory and ending by the new economic geography. After the theoretical explanation of these theories the basic statistical methods of the examination of the spatial concentration of industries and the industry specialisation of the countries or the regions are described. The quantification mathematical relations for these indicators follow. In the conclusion the summary of this topic is provided.*

## **Key words**

*industry specialisation, spatial concentration, region, localisation, competitiveness, indicator*

**JEL Classification:** P25, P48, R58

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## **Introduction**

The question of the industry specialisation and the spatial concentration is very important in the context of the economic policy and the competitiveness of the countries and the regions. Both these concepts have been considered impractical for a relatively long time, because the dynamics in the specialisation have been connected to the dynamics of the concentration always. In spite of this fact, it is important to differentiate between the industry specialisation and the spatial concentration (Ceapraz, 2008).

## **1 Methodology**

The specialisation indicator and the concentration indicator are deliberated to be the two sides of the same issue. To calculate these two indicators we apply the same concept as it was done by Aiginger and Davies (2004). It means we use the matrix, where its columns represent the countries or the regions and its rows embody the industrial branches. Aiginger and Davies (2004) explained that the difference is in the way we read the data from the matrix. While reading the data in columns we observe the specialisation, the concentration is observed in the rows of the matrix.

Furthermore, except of the previously mentioned concepts we can come across with the concept of agglomeration in the scientific literature. The agglomeration and the

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<sup>1</sup> Ing. Slávka Klasová, Technical University of Košice, Faculty of Economics, Department of Regional Science and Management, Némcovej 32, Košice, Slovakia, slavka.klasova@tuke.sk

Ing. Viliam Kováč, Technical University of Košice, Faculty of Economics, Department of Finance, Némcovej 32, Košice, Slovakia, viliam.kovac@tuke.sk

Ing. Jozef Heteš, Technical University of Košice, Faculty of Economics, Department of Banking and Investment, Némcovej 32, Košice, Slovakia, jozef.hetes@tuke.sk

concentration deal with the question whether a certain part of the economic activity is located in the particular town, the exact region or the specific country. Even though, both these theories are concerned with the localization of the economic activities. They are based on the different assumption. Brülhart (1998, 3) explains that the concentration analyses the spatial localization of a certain narrowly defined industry with the homogeneous input structure, while the agglomeration analyses the spatial localization of the broadly defined economic activity with the different demands on the input factors. He states as an instance of the particular industrial branch the automobile industry and as an example of the certain economic activity the industry as a whole economy (Wagner & Deller, 1993).

Palan (2010) summarized five elementary characteristics that each index should fulfil so that it could be considered as a suitable tool for measuring the specialisation. Although he constructed these characteristics only for the specialisation indices, they should be also applicable for the concentration ones as well. Firstly, the anonymity axiom represents the level of specialisation, which is independent of the analysed industries rank. Secondly, the transfer performs as the relocation factor of the employment from the small industry to the bigger one, what causes the increase of the specialisation of the country and vice versa. Thirdly, in the field of classification of industries connecting the small industrial branches into the one branch raises the absolute specialisation and vice versa, dividing the industry into the smaller branches lowers the specialisation. Fourthly, the specialisation does not change itself when adding an industry with the little share on the employment, what implies the number of the involved industries is not absolutely relevant. Finally, the decomposition axiom means that the index should be able to be decomposed to its values for the cross-industry level and the inter-industry level, as well as for the cross-regional level and the inter-regional level.

## **2 Results and discussion**

In the next lines we offer a brief economic overview of the theories comprising the issues of the industry localisation. We have also focused on the methods of the industrial spatial concentration examination and the industry specialisation of the countries or the regions with the emphasis on the substantial quantitative techniques to reveal the levels of the mentioned dimensions.

### **2.1 Brief Economic Overview of Industry Localisation Theories**

One of the first theories trying to explain the conception of the specialisation was the trade theory explaining that countries specialise in production of those products, which they can reach comparative advantages by. On the one hand, it means they have lower costs than the other countries while producing these products. On the other side, the location theory stresses out the importance of the industry concentration in a certain locality because of the economies of scale existence (Aiginger & Davies, 2004). The basic theoretical schools that were gradually founded dealt with the localization of the economic activities.

The most often referenced to are these three following theories:

- the neoclassical theory;

- the new trade theory;
- the new economic geography.

**Tab. 1** Summary of Industry Localisation Theories

<i>aspect</i>	<i>field of aspect</i>	<i>neoclassical theory</i>	<i>new trade theory</i>	<i>new economic geography</i>
<i>market structure</i>	competition	perfect	monopolistic	monopolistic
<i>localisation determinants</i>	field of differences	technologies	products	transportation costs
	market feature	wealth of natural sources	home market size	localisation economies
	market advantage		internal returns to scale level	urbanization economies
<i>industry localisation</i>	determinant of economic activity distribution	natural sources	exogenous factors	endogenous factors
	specialisation	inter-industrial	inter-industrial, intra-industrial	inter-industrial, intra-industrial
	number of equilibriums	one	one	several

Source: compiled by the authors according to Brülhart (1998, 3)

### *Neoclassical theory*

The perfect competition, the homogenous products, the perfect knowledge and the constant returns to scale are typical for the neoclassical theory. Neoclassical economists recognized there are the specialization forces, which are dependent from the country endowments. The localisation of the economic activities is determined by the spatial distribution of the exogenous factors, which the sources of raw materials and the applied technologies in the industry belong to. Therefore, the economic actions are concentrated in the area depending on the spatial concentration or these activities are dispersed according to the diffusion of the exogenous factors (Brülhart, 1998, 3). Hence, the specialisation among the separate industrial branches is typical for the countries or the regions. For instance, each country is specialized in the particular industrial branches, which are subject to influence by the exogenous factors (Bahl et al., 1971; Brakman et al., 2001).

Let assume the situation that two very similar regions have a high level of specialisation in the same industry. The question arises, what other factors these regions have, that the industries are localised in both these regions and not only in one of them. The neoclassical theory does not describe all the determinants of the industry localisation obviously (Brülhart, 1998, 3).

### *New Trade Theory*

The new trade theory is based on the assumption of the growing returns to scale, the imperfect competition, the differentiated production and the immobile factors. The localisation of the economic activities is determined by the exogenous factors like the market size, which is indomitable by the capacity of the working force in the particular country. These labour forces are considered to be the immobile factors.

The new trade theory describes the origin of the inter-industry specialisation in the terms of the industrial branches' tendency to be localised at such places, where the largest part of their output is consumed that is at the places where the big sales market exists. The industry concentration is higher at these locations. It results in lowering of the transportation costs and in raising the returns to scale (Brühlhart, 1998, 2). The inter-industry specialisation across the participating firms is present in this concept. For instance, the firms specialise in the production of the unique horizontally different types of products, which implies the inter-industry trade runs among the firms.

### *New Economic Geography*

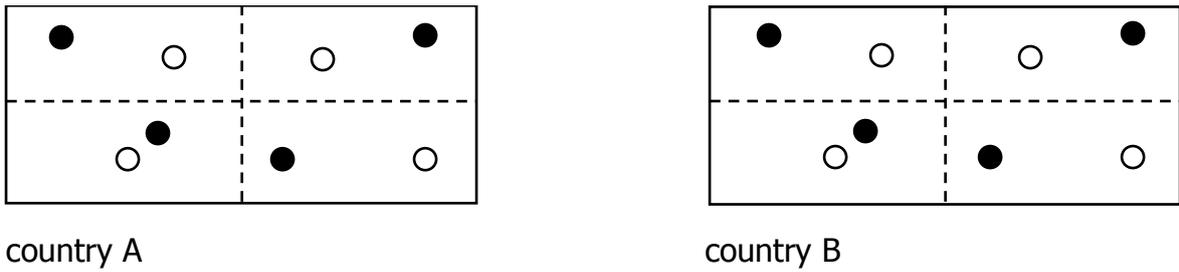
The new economic geography models assume the localisation of the economic activities is determined by the endogenous factors. These factors are the market localisation economies – the presence of the specialised labour forces and suppliers, the urbanization economies and the internal economies of scale, which produce the agglomeration processes characterised by the fall of the fixed costs. In contrast to the original neoclassical theory, the new economic geography do not expect only one equilibrium structure, but rather the existence of several equilibrium states (Krugman, 2010).

The models concentrating on this theory do not take into account the hypothesis of the immobile factors. They assume that at the very high transportation costs both two regions have a tendency to be self-sufficient in goods production. If the transportation costs start to decrease, there is an export of goods present and the differentiation process among the countries appears. The production will be concentrated in the certain region, which leads to a regional polarization. The so-called core-periphery model is created. In the case of very high decrease of the transportation costs, the situation results in a reverse phenomenon. The peripheral region benefits from the existing advantage of the low wages and after reaching a critical level of the transportation costs the production will relocate from the core to the peripheral locality, which is possible because of the existence of the mobile factors. The regions are characterised by centripetal agglomeration forces themselves (Brühlhart, 1998, 2).

## **2.2 Methodology**

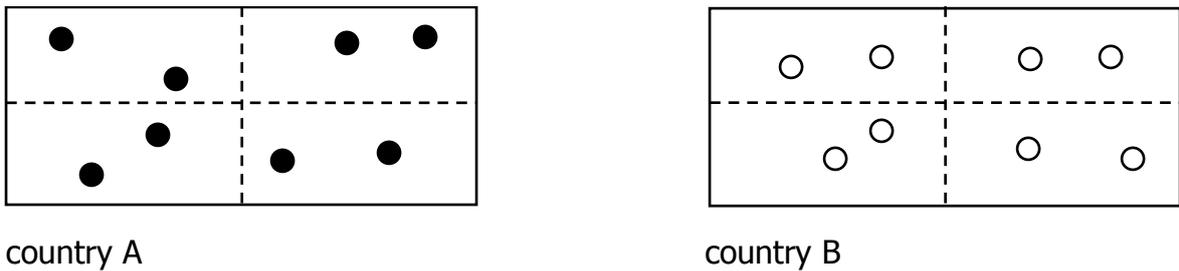
In the next figures the various situations of specialisation, concentration and agglomeration are displayed.

**Fig. 1** Situation with no specialisation and no concentration



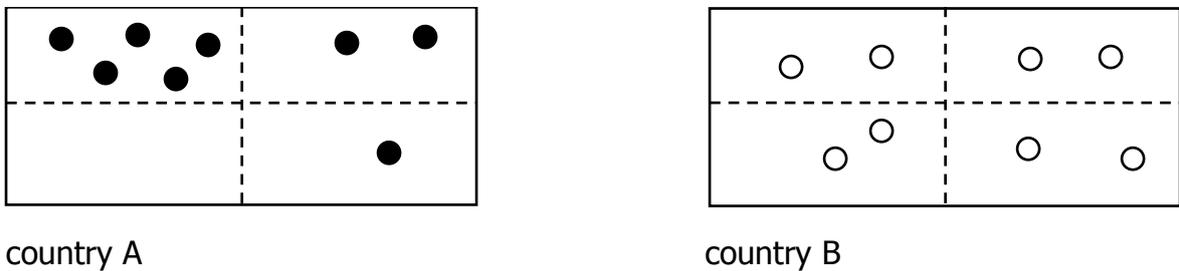
Source: compiled by the authors according to Brakman and Garretsen (2001)

**Fig. 2** Situation with specialisation and concentration on country level



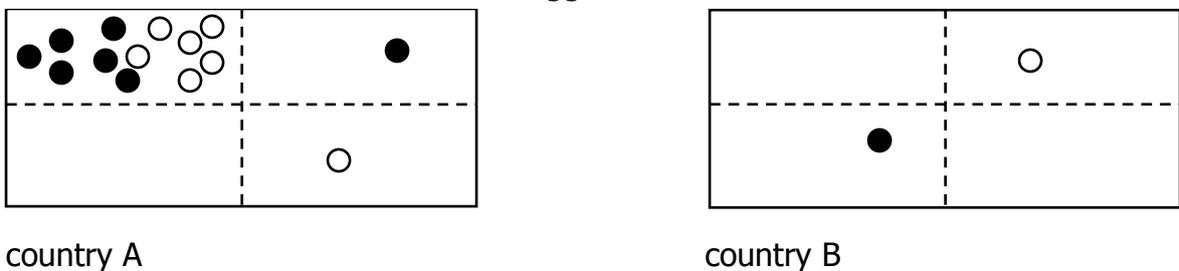
Source: compiled by the authors according to Brakman and Garretsen (2001)

**Fig. 3** Situation with specialisation and concentration of one industrial branch on regional level



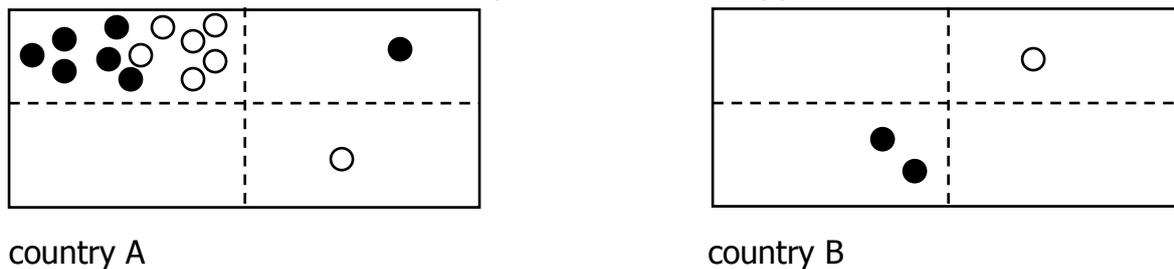
Source: compiled by the authors according to Brakman and Garretsen (2001)

**Fig. 4** Situation with concentration and agglomeration



Source: compiled by the authors according to Brakman and Garretsen (2001)

**Fig. 5** Situation with concentration, specialisation and agglomeration



Source: compiled by the authors according to Brakman and Garretsen (2001)

Legend for all the figures visualised above is:

- – the industrial branch A;
- – the industrial branch B.

If we compare the situation with the specialisation and the concentration on the country level to the case with the concentration and the agglomeration, we observe the concentration in the industry – particularly the industrial branch A in the country A and the industrial branch B in the country B, while in the occasion with the concentration and the agglomeration, we detect the agglomeration of the industrial activity with almost all of the industrial locations are positioned in the country A. In other words, if the empirical research confirms the existence of the agglomeration, on one hand it is spontaneously connected with the existence of the concentration. On the other hand, the spatial concentration may exist even without the agglomeration (Ceapraz, 2008). Let assume both the country A and B have four regions. In the situation with the specialisation and the concentration of one industrial branch on the regional level we see the geographic concentration on the regional level – the industrial branch A is mostly localised in the region of the country A – and the concentration on the national level – the industrial branch B is located in the country B.

### **2.3 Methods of industrial spatial concentration examination and industry specialisation of countries or regions**

As it has already been mentioned above, the regional specialisation and the spatial concentration come from the same production structure and reflect the same reality. The most of the empirical research originates from the statistical data related to the number of the employed people in the certain industry according to the regions or the amount of the gross value added that is generated in the certain industry in the region. To catch the main points of the specialisation and the concentration we use the several statistical indicators.

All the indicators can be classified into two groups:

- absolute indicators;
- relative indicators.

The absolute indicators measure the total distribution of the economic activities in the region, while the relative indicators gauge the distribution of the economic activities of the region in the comparison to the distribution of the economic activities of the reference

region. In general, probably the most often applied absolute indicators are the two forms of Hirschman-Herfindahl Index and among the relative indicators the most applied is possibly the Location Quotient, which is also called Hoover-Balassa Quotient.

### *Elementary Share Indicators*

Before the calculation of the above mentioned statistical indicators there is to note other two share indicators:

- the concentration ratio;
- the specialisation ratio.

The concentration ratio describes the share of the employment rate in one industry in the particular region to the employment rate in the same industry all over the country:

$$CR = \frac{E_{i,j}}{E_j} \quad (1)$$

The concentration ratio describes the share of the employment rate in one industry in the particular region to the employment rate in all the industries in the same region:

$$SR = \frac{E_{i,j}}{E_i} \quad (2)$$

The mentioned variables mean:

- $E_{i,j}$  – the employment rate in the industry  $j$  in the region  $i$ ;
- $E_j$  – the employment rate in the industry  $j$  in the country;
- $E_i$  – the employment rate in the region  $i$ .

These variables also appear in the successive indices. Because they have the same meanings as stated above, we do not repeat their explanations.

### *Hirschman-Herfindahl Index*

The Hirschman-Herfindahl Index is the absolute indicator for quantification of the industry specialisation of the corresponding region and the spatial concentration of the corresponding industry. The index is used for the market concentration measurement and to analyse the existence of the oligopoly or the cartel in the economy (Tirole, 1988).

There are two forms of the Hirschman-Herfindahl Index:

- the Concentration Hirschman-Herfindahl Index;
- the Specialisation Hirschman-Herfindahl Index.

The Concentration Hirschman-Herfindahl Index is computed as follows:

$$CHHI = \sum_i^n \frac{E_{i,j}^a}{E_j} \quad (3)$$

The Specialisation Hirschman-Herfindahl Index is calculated in this way:

$$SHHI = \sum_j^n \frac{E_{i,j}^a}{E_i} \quad (4)$$

The  $a$  can take an arbitrary value. The higher is the value of  $a$ , the higher is the weight given to the stronger industry or the region and the lower impact is put on the small industries or the small regions. From that reason the value of  $a$  has to be chosen very carefully. If the value of  $a$  is negative, the index represents the inverse rate of the specialisation. For instance, with the specialisation grow the value of the index decreases.

If  $\alpha = 0$ , the value of the Hirschman-Herfindahl Index will be always equal to 1 disregarding the rate of the specialisation of the region or the rate of the concentration of the industry. If  $\alpha = 1$ , the value of the Hirschman-Herfindahl Index is also equal to 1. In the scientific literature we can usually come across the value  $\alpha = 2$  (Ceapraz, 2008; Goschin et al., 2009). In such case the Hirschman-Herfindahl Index is able to take the values from interval  $\langle b; 1 \rangle$ , where  $b = \frac{1}{n}$ .

The values of the Hirschman-Herfindahl Index, which are closer to the lower level, indicates every one industry or region has the same share on the employment rate. The region gets the highest value of the index, if it specialises only on one industry or if the employment is concentrated only in one region. (Tress, 1938; Sharma, 2008)

In order to avoid assigning the higher weight to the stronger industry, it is possible to use an adjusted Hirschman-Herfindahl Index (Keeble & Hauser, 1971; Chisholm & Oepen, 1973) in the following forms.

The Adjusted Concentration Hirschman-Herfindahl Index is figured like this:

$$CHHI = \sqrt{\sum_i^n \frac{E_{i,j}^\alpha}{E_j}} \quad (5)$$

The Adjusted Specialisation Hirschman-Herfindahl Index is reckoned like so:

$$SHHI = \sqrt{\sum_j^n \frac{E_{i,j}^\alpha}{E_i}} \quad (6)$$

These adjusted forms of the Hirschman-Herfindahl Index lead to more suitable value of weight allocated to the individual industrial branches.

### *The Location Quotient*

The Location Quotient, which is called the Hoover-Balassa Quotient too, is applied to express the location of the employees in the individual industries in the region compared to the nationwide level (Michálek, 2012).

To calculate this index the following formula is computed:

$$LQ = \frac{\frac{E_{i,j}}{E_i}}{\frac{E_j}{E}} \quad (7)$$

The threshold value of this coefficient is the value 1. If the value is equal to 1, it means the ratio of the industry employment at the regional level responds to the ratio of the industry employment at the national level. The values of the Location Quotient lower than 1 indicate the below average level of the concentration in the particular region. The regions with the Location Quotient higher than 1 in the certain industry have the larger national share for this industry, what means that representation of this industry is above average in the region. The high value of the Location Quotient indicates the industry concentration, while there may exist the regional competitive advantage for this industry. (Potomová & Letková, 2011).

Setting the threshold value of the Location Quotient differs among the various authors. Many of them consider the value of the Location Quotient exceeding the value of 1.2 as adequate to prove the regional specialisation in the specific industry.

There is to note that all the above mentioned indicators are aimed not only at individual usage, but also to supplement each other in the field of expressing gained results. Even, it is recommended to confirm the outcome of one indicator by the result of another one.

## Conclusion

The aim of this article is to provide a brief overview of the problem of the specialisation and the concentration. Even though, both these concepts come from the same set, they analyse the different situations and their results are not identical. While the industry specialisation of the region investigates the production structure of the region and tries to find out, which industry the region is specialised in, the spatial concentration explores dimensional localisation of the particular industry and finds out, which area is the given industry concentrated in. For the analyses of both theories it is possible to use several statistical indices. Their results differ a little depending on their construction.

There are five basic characteristics to be fulfilled by index so it can represent a suitable tool for measuring the specialisation – the anonymity axiom, the possibility of the transfer of the employees, merging and dividing the industrial branches, the specialisation, the decomposition axiom. From the point of view of the several studies, the Hirschman-Herfindahl Index fulfils all the requirements except from the one related to the decomposition. On the other side, the Location Quotient does not meet the requirements for the decomposition and for the number of the involved industries too.

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# Seniors as Clients in Tourism<sup>1</sup>

Michaela Krescanková<sup>2</sup>

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## **Abstract**

*The ageing of population nowadays represents opportunities in every sector of the economy, tourism not being an exception. Seniors are a very interesting and promising segment of tourism clients. However, their demand for tourism services is strongly determined by their social status and the resulting financial capabilities. This is also reflected in the type of marketing communication that is targeting this customer segment. In this paper, based on the study of the available literature, we compare the options and the usage of tourism by seniors coming from Western Europe and Slovakia and the connected creation of marketing oriented on this older clientele. The aim of this paper is to point out the possibilities of creating a marketing strategy targeted at an elderly clientele.*

## **Key words**

*seniors, tourism, range of services for seniors, marketing for an elderly clientele*

**JEL Classification:** J14, L83, M31

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## **Introduction**

The present contribution deals with the issues of the senior citizens as users of the tourism services. Seniors have their own specific characteristics that distinguish them from other clients of travel agencies, hotels. However, we must not forget that seniors are very heterogeneous among themselves. They differ on the one hand with the education and the derived interests, preferences, hobbies, but also in the social status, financial capabilities, which have a direct impact on their opportunities. This paper therefore presents different views of seniors in terms of their travel preferences and capabilities in selected countries and also presents ways of creating an adequate marketing strategy that will be appealing to seniors by the providers of tourism services.

## **1 Methodology**

The aim of this paper is to point out the possibilities of creating a marketing strategy targeted at an elderly clientele. In this paper, based on the study of the available literature, we compare the options and the usage of tourism by seniors coming from Western Europe and Slovakia and the connected creation of marketing strategies oriented on this elderly clientele. By using available secondary data sources which deal with the issue of this topic, we analyze, synthesize and compare the trends in the use of tourism by seniors in selected countries. In this paper we also try to point out the specifics of the

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<sup>1</sup>This paper is a part of the research project VEGA 1/0612/12 „Determinants of the level, structure and trends in personal consumption and consumer behaviour of seniors in the context of pricing and incomes policy in Slovak Republic“.

<sup>2</sup>Ing. Michaela Krescanková, University of Economics in Bratislava, Faculty of Commerce, Department of Marketing, Dolnozemská cesta 1, 852 35 Bratislava 5, Slovakia, krescankovam@gmail.com

formation of marketing oriented of this elderly segment. Apart from the above mentioned methods we also used abstraction, induction and deduction.

## **2 Results and Discussion**

Tourism is a rapidly developing field of the economy. German author Andreas Reidl (2012) refuses the myth of seniors in conjunction with travel - they sit at home and do not travel. He claims that seniors are travel tuned and are ready to pay for this pleasure. The 50+ generation live and have a vital, creative and positive approach towards life. In this connection, the health tourism can be identified as the mega-market for the future. Holidays such as wellness and relaxing stays are ranked among the top most favorite in popularity among clients - seniors. Tourism in the nature, educational, cultural and sightseeing tours are also favorite types of holidays.

The demographic structure of the population is significantly changing. The elderly segment of customers is an important player in the market. If the firms and service providers want to succeed in this silver economy, they must know how to properly handle this segment of customers (Krescanková, 2014).

Seniors are an important part of tourism in each country. Thanks to the influence of various factors, such as the ever-improving health care, the proportion of senior citizens will grow faster than expected proportion based on demographic trends. At the same time, people who currently belong to a younger age group and travel actively are likely to want to travel later in life and therefore we can expect an increase in the number of tourists from the older generation (Matušovičová, 2012).

However, we must add that there are significant differences among seniors within individual European countries, not in terms of their personalities and interests, but especially in financial terms. Travel is closely linked to the age and financial capabilities of seniors. "Younger" retirees, with higher incomes, travel more and attend cultural events. Tourism, especially the spa, can therefore thrive. With increasing age, retirees move away from higher consumption, but expenditures on health and social care are growing (Lehuta, 2012). Seniors who live in Western Europe, such as Germany have different attitudes, expectations and demands than elderly people in Slovakia. The amount of retirement pensions in Western Europe is much higher than in post-communist countries. For comparison, in Slovakia at the end of August this year the average pension was at 399 euro. In Germany at that time it was at about 1,000 euro (depending on the geographical area) (Sociálna Poist'ovňa, 2014; Deutsche Rentenversicherung, 2014).

### **2.1 Seniors as clients in tourism**

A number of researches have concluded that senior tourists represent a major and growing market presenting abundant opportunities for the travel and tourism industry. Seniors desire to learn more about themselves and the physical and cultural environments of many parts of their own country and indeed other parts of the world. Travel can enable them to reach higher levels of live satisfaction and fulfillment through their encounters with other people and other environments. (Prideaux & Timothy & Chon, 2013).

The silver economy spreads in the area of tourism too, with special offers for seniors. However, this economy is not just one-sided - senior may be in the role of a consumer

(the participant), and he also may become an active partner in the form of a service provider (tourist guide, instructor, expert of local attractions, etc.) (Hykisch, 2012).

The tourism market of seniors, like all other markets, is very diverse. Clients of tourism can be segmented according to several categories. For example, we can distinguish between different age categories: the generation of 50 years and above, the 60+ generation and older, respectively groups of people who, due to their health, make decisions based on entirely different criteria. The position of these customers to information and orders is influenced by their age, physical condition, income, marital status, tourist experiences, interest in travel as well and loyalty to certain specific locations. If we want to segment seniors on the basis of age, they can be divided into two groups: the "young-old" and "old-old". The first group consists of seniors aged less than 70 years who are active, mobile and enterprising. The second group consists of people older than 70 years. In this group we can find difficulties that occur with age – they live in seclusion, are less mobile and tend to be at home (Reidl, 2012).

The demographic segmentation, based on subdividing the population on the basis of demographic factors, has proved particularly popular in tourism. One demographic factor that has always been heavily used in tourism is the idea of family status. The assumption is that a consumers' behaviour is determined by where they are in the family life-cycle. Table 1 illustrates the way this model might be used in relation to the market for visitor attraction. This family life-cycle model is based on the approach used by the tourism industry (Swarbrooke & Horner, 1999).

**Tab. 1** The family life-cycle and visitor attractions

<i>Stage in family life-cycle</i>	<i>Likely preference and needs of consumers</i>
Child	Stimulation. Other children to play with. Parental guidance and support.
Teenagers	New experiences. Excitement. Status. More independence from parents. Opportunities for active participation. Social interaction with other teenagers.
Young adult	New experiences. Freedom of action. Opportunities for active participation. Social interaction with other young adults.
Young couple	New experiences. Romance.
Young couple with baby	Facilities for babies. Economy. Ease of access for pushchairs and prams.
Growing families	Economy, e.g. a family ticket. Something for the whole family to do.
Empty nesters	Chance to learn something new. Passive rather than active participant most of the time.
Elderly	Watching rather than doing. Economy. Company of other older people. Easy accessibility for people with mobility problems.

Source: J. Swarbrooke, S. Horner, 1999, p. 96

We can see, that seniors differ from other age groups/people who are in other life-cycle phases. Young adults prefer trying something new – new experiences, action, active participating. Older people like to watch rather than do something dangerous or not

demanding, they seek for economically better deals and they look for the company of other seniors.

For comparison we also bring the opinion of the author John Tribe (2008). He says that population trends are an important factor in the demand for recreation leisure and tourism. Demand will be influenced by the size of population as well as the composition of the population in terms of age, sex and geographical distribution. For example, the leisure requirements of a country are likely to change considerably as the average age of the population increases. Tourism marketing needs to be informed by relevant population data. The leisure industry needs to understand not only the changing demographics but also the special demand characteristics of the group of seniors. An ageing population is likely to have a less progressive culture and adapt to change less easily.

Table 2 illustrates his view of the family life-cycle and the consequent effects on the leisure in the form of tourism in different age characteristics. We can see various changes in the comparison of the leisure income and leisure time in each life stage. Partnered people have high income, but a "medium" amount of time and on the contrary, seniors have a lot of time, but low incomes. At old age, we may lack a companion and suffer from infirmity. We prefer safer leisure and travel pursuits and package holidays are very popular.

**Tab. 2** Life stages and their characteristics

<i>Life stage</i>	<i>Characteristics</i>	<i>Leisure income</i>	<i>Leisure time</i>
Child	Leisure decisions generally taken by parent.	Low	High
Single	High propensity for leisure pursuits and travel. Independence asserted, budget travel popular, social aspects sought.	Medium	Medium
Partnered	High leisure and tourism propensities underpinned by high income and free time.	High	Medium
Full nest	Children become key preoccupation. Leisure and tourism must meet children's requirements. Cost per person important.	Medium	Low
Empty nest	Children have left home. Opportunities for leisure and tourism increase. Exotic destinations and meaning of life sought.	High	Medium
Old Age	May lack partner, may suffer from infirmity. Safer leisure and travel pursuits sought, package holidays popular.	Low	High

Source: J. Tribe, 2008, p. 182

The German tour operator TUI can be included among the pioneers in creating special offers for seniors. It was able to recognize early trends in tourism. It gradually discovered the elderly generation with its special needs, as the target audience of its business and since 2003 increasingly offers tours for seniors. This business success, in terms of marketing, depends on the understanding of the older target groups. The company has identified three megatrends in the development of society (Reidl, 2012):

- *Health*: The responsibility of people is constantly increasing and their investment in their own health as well. Health is for people aged over the 50 years very important because it is the basic assumption for having an active life. Already in 2004, TUI predicted the major growth of potential of holidays focused on human health. A great role here is played by types of vacation hiding under the name "medical-wellness", i.e. health, respectively medical wellness programs.
- *The importance of the very essence of a human being*: People want to achieve inner balance more and more, slow-down in the daily rush and find the right philosophy of their life.
- *Demographics*: The proportion of people "in their prime years" is growing. These people like wellness activities and achieve a high level of their own competence.

## 2.2 Situation in Slovakia and abroad

In every European country we can find a travel agency or hotels which focus its services to the elderly clients. But it is quite a big difference to focus on customers who have a higher standard of living, shaped by the past of the country and different social situation. Reidl (2012) in his publication lists a number of examples, which destroy the stereotypes of the elderly as a travel group. Current seniors like to spend money on vacations, spend time in exotic places and explore the world. He points out that also seniors who do not come from rich conditions can allow to purchase an expensive vacation - to get a grant or save up for it. Yes, it can be a reality, but not in our country. There are always exceptions, but seniors in Slovakia cannot be categorized as well-heeled clients of tourism, who can afford to spend their income on expensive holidays.

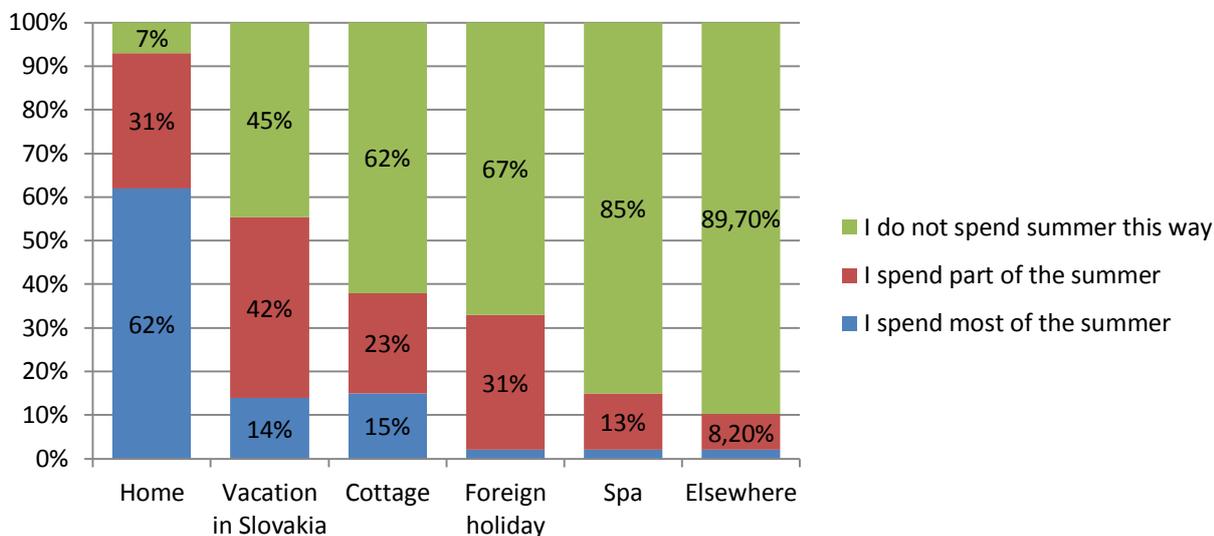
As mentioned earlier, seniors are a prospective segment targeted by health tourism. Therefore we bring the comparison between a foreign and a Slovak elderly. Tour operator TUI launched a special service in 2007 in which they were offering their stays in collaboration with health insurance through pharmacies. From that moment their medically oriented stays were advertised in a total of 1,500 pharmacies in Germany. They provide a catalog, which includes health stays designed for specific types of diseases. TUI's offer is composed of stays such as spa stays in Germany, European countries, as well as the Mediterranean islands and also offers stays in Asia with a medical escort (Reidl, 2012).

Almost all travel agencies in Slovakia provide senior discounts on various tours they offer. Most of them consider as the elderly people aged 60 years and over (Lukačovičová, 2012). Slovak seniors who choose to spend their holidays in Slovakia may use State-purpose subsidies in the amount of 50 euro. It is organized by the Union of Pensioners in Slovakia, hotels network Sorea and Food Trade Union of Workers of the Slovak Republic. To take part in the recreation, the retirement or retirement pension need to be assessed. On this subsidized stays may non-working senior participate only once in calendar year. Seniors can use stays in the mountains, but also in spas (Hudecová, 2014). We can see both common features in form of subsidized holidays and also differences in the offer and options of clients.

Based on the results of a survey conducted in July 2014 by the Slovak National Panel on a sample of 500 respondents from the web population of people aged over 60, we can say, that Slovak seniors like to travel. Although much of the Slovak seniors spend most of their summer at home, we can find some who travelled at least a little on a vacation - into

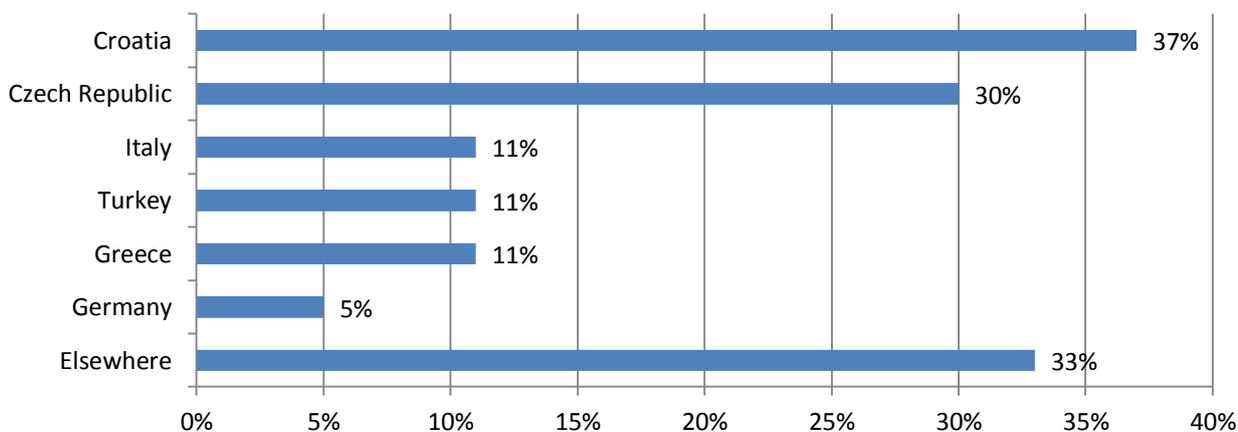
domestic or foreign locations (Mediaresearch, 2014). The results of this survey are presented in graphs 1 and 2.

**Graph 1** Where do Slovak seniors spend the summer?



Source: Mediaresearch, 2014

**Graph 2** In which foreign destination spend Slovak seniors the summer?



Source: Mediaresearch, 2014

According to the showed results, 42 % of respondents spent their holidays in Slovakia and less than a third of the rest travelled abroad. The most visited foreign destinations are Croatia (37 %), followed by the Czech Republic (30 %) and Italy, Turkey and Greece (11 %). In terms of handling their leave, Slovak seniors mostly rely on their own search (online or over the phone) or on the use of the assistance of family members (in both cases it is 42 %). Compared to the Czech Republic it is a big difference, because there seniors rely on travel agents (in 41 % of cases).

The largest Slovak travel agency - Satur, registers more and more pensioner couples on holidays and approximately one fifth of them travel with their grandchildren. Seniors, according to the travel agency, are different types of clients, than for example families

with children. In terms of time, they prefer stays in the month of June, respectively September than during the hot summer. This clientele does not use last minute offers, but buys their trip at least two months in advance. It helps the economy of the company, the smooth flow of money and the subsequent possibility of obtaining discounts. In general it can be stated, that seniors prefer stays in the inter-season, near the airport, with disabled access, with more choice of appropriate diets and reconditioning program. For comparison, the Spanish government subsidizes off-season holidays of seniors from the European Union, because it extends the holiday season, provides jobs and reduces the amount of support. In Slovakia the government subsidies to seniors to extends season in union hotels for decades (Blažej, 2013).

Seniors in the Czech Republic show a similar trend in behavior as seniors from Western Europe. When selecting a particular trip they do not make decisions based on the last minute offers or other action. They prefer higher quality of service rather than lower price - the quality of the hotel, a particular travel agency or even a specific guide or delegate. The important factor in determining the choice of destinations and travel agents are references from their relatives and friends. They do not see importance in the size of the travel agency. The smaller ones can offer and create tailored services, are more dedicated to their clients and to select partners abroad (Raška, 2012).

Among the specifics of travelling of seniors at present we can include traveling outside the tourist season; thorough organization of travel without stressful situations; willingness to pay more for better service; frequent traveling with family members (grandchildren or other accompaniment); seniors are higher-risk groups in terms of potential health problems; they rarely have ordered trip and services via the Internet (Matušovičová, 2012).

### **2.3 Marketing for an older clientele**

Klaus Reppel, founder of the Reppel & Partners company, providing guidance in the field of tourism, compiled a chart called "Seniors". It includes related areas to the scope and displays the answers of seniors to five points summarized under the name KINGS. This is a shortcut, which is formed by the initial letters of words Komfort (Comfort), Information, Nature, Gesundheit (Health) and Sicherheit (Security) (Reidl, 2012):

- *Comfort:* Convenience associated with travelling begins with luggage transport and ends with the equipment of the rooms. At the forefront in terms of type of accommodation are hotels and inns and a lower level of interest is seen in the accommodation on a farm, recreational apartments and campsites. The reason for travelling is to try something new, better to know the country and its people, to do something for your health.
- *Information:* Seniors have a strong need to get enough information and have enough time to be thoroughly informed. Before they choose a certain place to spend their vacation, they must be informed about the place of stay, about the transport, provided services and the surrounding area. This need for information can be met in various ways: by studying the brochure and video materials related to the accommodation, by visiting information seminars and making personal or telephone contact with the seller. It is important to consider the information about the whereabouts, transport, medical care in the accommodation, hotel and cultural

events. Seminars about the history of the place of residence, or an organized program and tours are good incentives as well.

- *Nature*: Seniors choose a place for their vacation consciously. They prefer quiet and natural environment.
- *Health*: Health is the most important element of the perspective of the elderly. The most important are fitness programs, gymnastics, healthy food, diet and health information and prevention.
- *Security*: Elderly people always want to feel good. Before their travels they try to capture the maximum risks related to the route - in the form of travel insurance, foreign health insurance and so on.

Reidl (2012) summarizes a number of important recommendations to create a menu suitable for the elderly and for reaching these potential clients - a way of reaching and acquiring customers - seniors (A); characteristics of the place of residence (B) and property (C) that appeal to seniors; information which seniors require during their stay (D) and types of supporting programs that they seek (E).

A) If the provider of the tourism services wants to reach and get the seniors as new customers, he must:

- Publish his special offer in print, advertise in magazines about health, television magazines and magazines with the holidays content and topics.
- Place ads in magazines published by the health insurance companies and pharmacies that focus on specific attributes of the human health.
- Contact existing clients via e-mails. The main assumption in this case is a proper management of the client's database.
- Publish in magazines and newspapers the pre-planned and the follow-up report about the planned and the realized trip, including calls to personal contact with the company.
- Issue brochures containing offer of trips that can be taken within the stay. It is important that these leaflets meet certain quality requirements (font size, share the word and figurative part, languages, etc.).
- Give the clients an attention in the form of a gift - older people are happy gift-giving.
- Operate the telephone "hotline". However, it is important to ensure that staff is trained to provide information about the details of the offer and the telephone dealing with elderly people.

B) In the selection of a particular place of residence the most appealing to seniors are: the position; quality orientation and marking; availability of the property (including by own car); enough (roofed) parking spaces; vehicles that can be used in place of residence; park or other place, where they can spend their free time; selection of restaurants (gastronomic specialties, smaller portions); cultural offer.

C) In choosing the best property the important factors are: a quiet location; enough parking places or a shuttle from the hubs to the property; transport of luggage inside the building; spacious rooms, plenty of storage space, preferably a balcony; bright and comfortably furnished rooms with good lighting; bathroom (anti-slip floor, handles, or room with bath or shower barrier, plenty of storage space, good lighting); a particularly receptive approach to people who travel individually; leaflets about events taking place located in each room; roomy, easy to use elevator; services that can be used even in bad weather.

D) The important information for the elderly are as follows: detailed information about the accommodation (including photographs); information on the possibilities of a medical treatment; information on cultural events (notice boards, leaflets in rooms); on the menu seniors appreciate information on the food composition, origin and type of ingredients; detailed factsheets on individual trips including precise data; older people like to refresh their memories of the place, they will read stories about the history of the building and its surroundings; seniors like to devote hiking, appreciate the special tourist guides who provide them with information on the performance of the field.

E) The favorite accompanying programs can include seminars about the human health; additional cultural and social programs, programs for activity and rest; tours, city tours, lectures; religious themes; courses about the health, fitness, food and fashion.

## Conclusion

Seniors are an important part of the population of each country. Not only for their experiences, which they transmit to younger generations, but also for their still ongoing consumer potential. Seniors are very specific clientele of the tourism - whether in the period when they travel, choice of a particular destination, mode of journey, accommodation, requests for services offered, etc. However, for the correct way to handle with this segment of clients it is important to have a regard on their social conditions and opportunities - seniors coming from Western Europe have different requirements on tourism as seniors from the former Eastern Bloc. In all countries there are travel agencies and hotel facilities that reflect the possibilities and requirements of older clients and try in the best possible extent to provide an adequate offer. From the perspective of the service provider it is very important to monitor the preferences of the elderly on the basis of creating optimal marketing strategies and approaches that they can adequately use to reach them.

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# Negative externalities in demerit goods as a cause of market failure – case study of British American Tobacco

Magdalena Nawrot – Anna Para<sup>1</sup>

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## **Abstract**

*A situation when free market is not able to allocate resources efficiently, causing non-Pareto optimal allocation, is known in the theory of economics as a market failure. There are five generic causes of market failures: imperfection in competition, asymmetry of information, public goods, externalities and inequality (Borooah, 2003). In this paper, authors aim to analyze the aspect of externalities in demerit goods, using the example of cigarettes and its producer - British American Tobacco. Social cost of smoking constitutes not only the health care cost due to smoking-generated illnesses, but also cost of productivity loss and households' wealth loss, causing financial stress in smoking households. Issue of tobacco-related negative externalities is a very wide problem, which deserves a detailed analysis. In the article authors try to identify negative externalities generated as a side effect of cigarettes production, and present possible methods to solve this problem.*

## **Key words**

*negative externalities, demerit goods, tobacco, market failures, British American Tobacco*

**JEL Classification:** I15, Q5, D6

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## **Introduction**

Smoking cigarettes is becoming less popular in the developed world. It is mainly due to increased social awareness of tobacco-related health problems. Governments in the world are trying to reduce tobacco consumption in order to minimize the social cost. Despite various legal restrictions, smoking is still among the most frequent causes of death in the world.

Cigarettes are considered to be demerit goods, sometimes also called "merit bad". It means that the use of those products affects the consumer and not only him, but also the third party. This paper focuses on negative externalities generated by smoking, and the activity of British American Tobacco, one of the world biggest tobacco producers. BAT has taken some interesting steps in CSR to reduce negative effects of tobacco use, which are worth mentioning. In the same time, governments as well as supranational organizations (World Health Organization and European Union) are working on new regulations hampering tobacco use. For example European Union (EU) is planning to impose new law banning sales of slim and menthol cigarettes.

The following article aims to analyze cigarettes as an example of demerit goods causing negative externalities. In the first part, authors present a theoretical approach of

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<sup>1</sup> Magdalena Nawrot, PhD student, Warsaw School of Economics, Collegium of Socio-Economics, Institute of International Studies, al. Niepodległości 162, 02-554 Warsaw, Poland, magdalena.teresa.nawrot@gmail.com

Anna Para, PhD student, Warsaw School of Economics, Collegium of World Economy, Poland al. Niepodległości 162, 02-554 Warsaw, ap40054@sgh.waw.pl

market failures, especially negative externalities. Secondly, we present an analysis of negative externalities and other negative effects emerging from tobacco consumption, production and disposal. In the following part there is the case study of British American Tobacco and its' CSR solutions to negative externalities. At the end some national and supranational level responses to cigarette use are described.

## **1 Methodology**

The paper is an attempt to show the specific product, mainly cigarettes, as an example of demerit goods. The aim of the work is to demonstrate and evaluate the negative externalities that are caused by cigarettes and its consumption.

The paper presents theoretical aspects concerning the issue of demerit goods and the phenomena of negative externalities. The basic method of the research was review Polish and foreign literature, regarding the economical explanation of demerit goods and negative externalities. The conducted research was supported by the use of statistical databases of international organizations (eg. OECD, Eurostat). Moreover, a case study strategy is adopted to investigate and illustrate the transnational corporation, leading in tobacco production and distribution - British American Tobacco.

## **2 Results and discussion**

### **2.1 Theoretical approach - market failures: externalities and demerit goods**

Market failures, causing non-efficient resource allocation, are very important in the theory of economics. It is believed that free market economy is the best possible model providing economic efficiency. Nevertheless, in some cases free market may not ensure the best possible allocation of scarce resources, so the market fails. According to Munday (2000), market failure exists when free markets fail to deliver economic efficiency.

Economists identify the following cases of market failure:

- Productive and allocative inefficiency– occurs when markets fail to produce and allocate scarce resources in the most efficient way.
- Monopoly power – occurs when markets fail to control the abuses of monopoly power.
- Missing markets – means that demand for a good or service exists, but there is no available supply of this sought-after product.
- Incomplete markets – occurs when markets fail to produce enough merit goods, such as education and healthcare.
- Demerit goods – occurs when markets fail to control the production and sale of goods like cigarettes and alcohol, which have less merit than consumers perceive.
- Negative externalities – when consumers and producers fail to take into account the effects of their actions on third-parties, such as car drivers, who may fail to take into account the traffic congestion they create for others.
- Property rights – markets work most effectively when consumers and producers are granted the right to own property, but in many cases property rights cannot easily be allocated to certain resources. Failure to assign property rights may limit the ability of markets to form.

- Information failure - when markets do not provide enough information because, during a market transaction, it may not be in the interests of one party to provide full information to the other party.
- Unstable markets – Sometimes markets become highly unstable, and a stable equilibrium may not be established.
- Inequality – when markets fail to limit the size of the gap between income earners, the so-called income gap. Market transactions reward consumers and producers with incomes and profits, but these rewards may be concentrated in the hands of a few (Cowen, 1999).

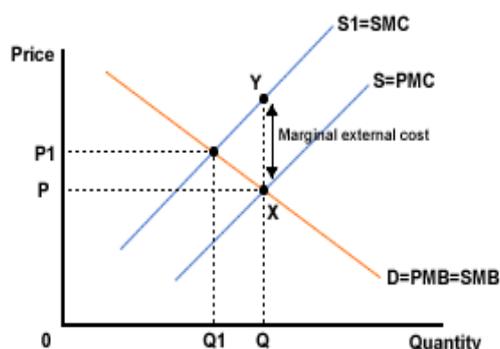
As Buchanan (1962) indicates, externalities are costs or benefits resulting from an activity or transaction, which affect an uninvolved party who did not choose to incur that costs or benefits. There are two types of externalities: positive externalities and negative externalities. A negative externality is a cost suffered by a third party as a result of an economic transaction. In a transaction, the producer and consumer are the first and second parties, and third parties include any individual, organization, property owner, or resource that is indirectly affected. Some externalities, like waste, arise from consumption, while other externalities, like carbon emissions from factories, arise from production.

Some goods have positive effect on society, and usually governments encourage people to consume them. These are merit goods, which are frequently underprovided by the market mechanism (Anderton, 2006). The reasons for this under-provision of merit goods are: lack of perfect information, the fact that individuals find it difficult to make rational decisions when costs occur today but benefits are visible in the future, inequality of income distribution and sometimes monopoly power. Examples of merit goods are health, education, insurance or car seatbelts.

There are also goods, which have negative impact on the society – demerit goods. Governments usually impede consumption of demerit goods via legal restrictions, mainly because individuals are said to be unaware of the true harm they would suffer by consuming them (see: Lipsey & Harbury, 1993). Examples are drugs, alcohol, cigarettes or gambling.

The figure 1 illustrates how the market fails in the case of demerit goods. At a market price of  $OP$ ,  $OQ$  quantity of the demerit good is consumed, where demand (private marginal benefit) equals supply (private marginal cost). However, at  $OQ$  the social marginal cost exceeds the price by the vertical distance  $XY$ , the value of the marginal external cost. Social optimality would require a smaller level of consumption at  $OQ_1$ , where price = social marginal cost = social marginal benefit.

**Fig. 1** Demerit goods and its costs



Source: own evaluation

It is important to distinguish negative externalities and demerit goods. Demerit goods are goods that cause negative externalities while being consumed. Consumption of demerit goods affects the consumer (usually causing health problems and/or addiction), but also influences the third party, which is whole society. Social cost of consuming demerit good i.e. cigarettes, results in increased health care expenses, but also in second hand smoking-related illnesses of non-consumers.

## **2.2 Cigarettes as demerit goods causing negative externalities**

According to World Health Organization, cigarettes are smoked by over 1.1 billion people. More than 5 million people die every year as a result of tobacco-related illnesses. Another 0,6 million die per annum due to second-hand smoking (WHO, 2012). Smoking increases risk of cancer (mainly lung cancer), cardiovascular death, as well as other respiratory system diseases. Active smoking may also affect reproductive health, eyes, skin, cause for example dental problems, gastro-intestinal diseases and increase susceptibility to infections (Scollo & Winstanley, 2012). Second-hand smoking can cause similar health problems affecting third party, frequently smokers' children. Smoking during pregnancy may cause congenital malformations, stillbirth, and health problems in young age, including increased risk of sudden infant death syndrome. According to Fritz L. Laux (2000), youth smoking can be regarded as market failure, due to its negative effects on whole society in the future.

According to WHO (2012), 12% of all death around the globe among adults (aged 30 years and over) were caused by smoking-related health problems. In Europe, 25% of male death can be attributed to tobacco, and in Americas 16% of both gender death.

Tobacco use can also affect household income – addiction contributes to poverty cycles. Addicted consumers spend substantial share of total income on tobacco products as well as medical costs of smoking-related illnesses, thus under providing other important goods and services, i.e. education and causing financial stress. Smoking rates have leveled off or declined in developed countries, but in developing countries tobacco consumption continues to rise at a rate of around 3.4% per annum, resulting in nearly 80% of the world's smokers living in low- and middle-income countries.

Smoking-related diseases result in higher health care expenditure as well as decreased national productivity due to premature disability and/or death. Healthcare cost of tobacco-related illnesses accounts for 6-15% of national health care expenditures in high-income countries per annum (WHO, 2011). Total economic cost of smoking varies between 1 and 3% of GDP annually in different countries (reaching 3,4% GDP in Australia).

Besides negative externalities generated by cigarettes consumption, its' production can also cause various negative externalities. Cellulose acetate filters from cigarette butts are important environmental problem, because they are not biodegradable. Cigarette butts' source material will never disappear from water and soil; they also contain poisonous benzene, nicotine and cadmium. According to Novotny & Zhao (1999), around 4.5 trillion filter-tipped cigarettes are deposited annually in the world, resulting in pollution of most exposed aquatic environments. Cigarette ash from ashtrays can cause severe poisoning of children.

Cigarettes production process generates large amounts of toxic waste. Tobacco requires multiple pesticides, fungicides and herbicides in order to develop properly.

According to US Health Department data, 27 million pounds of pesticides are sprayed onto tobacco fields in the United States every year (US Health Department, 2013). Employees working on tobacco plantations, can suffer from Green Tobacco Sickness, which is caused by nicotine absorbed from wet leaves.

Tobacco cultivation is also one of the reasons of continuous deforestation - 20,000 hectares of forests are being replaced every year by tobacco plantations (US Health Department, 2013). Tobacco is cultivated on 5.3 million hectares of arable land around the world. In various low-income countries farmers prefer to grow tobacco instead of food, even on scarce land, therefore contributing to malnutrition. Cigarettes manufacturing have negative impact on environment also via carbon dioxide and other chemical waste pollution.

### **2.3 British American Tobacco – key figures**

British American Tobacco (BAT) is a British multinational tobacco company. BAT was established in 1902, as a joint venture between the UK's Imperial Tobacco Company and the American Tobacco Company founded by James 'Buck' Duke. Despite its name, derived from the home bases of its two founding companies, BAT was established to trade outside both the UK and the USA, and grew from its roots in dozens of countries across Africa, Asia, Latin America and continental Europe. BAT is believed to be the second-largest tobacco company in the world. BAT is active in more than 180 countries and they are leaders in more than 60 markets. According to the statistic, BAT has 13% global market share. BAT is listed on the London Stock Exchange (LSE), in 2012 it had market capitalisation of £65.6 billion, in 2012 the company was the sixth largest listed on the London Stock Exchange. In 2012 the gross turnover amounted to £45,872 million whereas revenue reached £15,190 million.

BAT has more than 200 global, regional and local brands in portfolio. They are designed to meet consumer preferences in every region of the world. The global brands such as Dunhill, Kent, Lucky Strike and Pall Mall are very successful and account for one in three of the cigarettes BAT sell, growing their volume by 3% in 2012. This growth and development is driven by implemented innovations – from filters to flavours and packaging to cigarette formats. In 2012 BAT sold 694 billion cigarettes. BAT owns 44 cigarette factories in 39 countries. Besides cigarettes, BAT produces cigarillos, roll your own and pipe tobacco. BAT employs more than 55,000 people worldwide. The workforce is multi-cultural and diversified.

British American Tobacco is a manufacturer of de-merit goods. Because of this fact, the company is criticized to build its success on persuading people to start smoking, or to smoke more. BAT is aware that smoking is bad for health and the company is working on development of less harmful nicotine products. In 2012 BAT invested £171 million in research and development. BAT's business evolves around the idea of understanding and meeting the preferences of adults who deliberately choose to smoke, knowing the risk. BAT is socially responsible, it introduced Corporate Social Responsibility (CSR) in its strategy. The company was the first tobacco company which published a social report, in 2012 (for 11th year) the company was selected for Dow Jones Sustainability Index (this index is evaluating the sustainability performance of the largest 2,500 companies listed on the Dow Jones Global Total Stock Market Index). The Dow Jones Sustainability Index is

the longest-running global sustainability benchmark worldwide and has become the key reference point in sustainability investing for investors and companies alike.

## **2.4 CSR response to negative externalities generated by BAT**

British American Tobacco has taken a wide Corporate Social Responsibility Strategy, and is trying to reduce its' negative impact on society. In Zimbabwe, BAT has strongly acted to minimize deforestation level and increase tobacco cultivation efficiency (Kamuti, 2013). In order to protect the environment, especially biodiversity and ecosystems (landscapes, forest, water and soil), BAT has started the BAT Biodiversity Partnership. Currently, BAT Biodiversity is working on operational projects in Indonesia, Brazil and Uganda, it has also worked on a tool called Biodiversity Risk and Opportunity Assessment (BROA). BAT is also trying to share good practice with other companies – since 2011 BROA is available to all interested companies, and the tool can be simply downloaded from BAT website. BAT Biodiversity Partnership has completed numerous projects of global and local range.

BAT is trying to reduce carbon dioxide emission, currently they estimate the emission at 0,8 tones of CO<sub>2</sub> per million cigarettes equivalent produced (2011, excluding businesses in Indonesia and Colombia), which is a 0,3 percentage points less than 2010 emission. Company is also reducing water use and waste to landfill as well as increasing recycling rate (more data available on company website).

There are five main goals in British American Tobacco sustainability agenda:

- Harm reduction - strive to bring commercially viable, consumer acceptable reduced-risk products to market;
- Marketplace – upholding high standards of corporate conduct within marketplace;
- Environment - actively address the impact of our business on the natural environment;
- Supply chain -work for positive social, environmental and economic impacts in supply chain;
- People and culture - right people and culture to meet this goals.

Company is providing access to its Annual Reports and Sustainability Reports via website, where it analyzes progress in the area of sustainability.

British American Tobacco is taking steps not only to decrease environmental impact of tobacco manufacturing, but also aims to improve social perception of company. In order to complete this goal, BAT declares fighting against youth smoking and child labour. BAT group strives to provide transparency of lobbying, engages in community investment initiatives (Corporate Social Investment, CSI and charitable contributions) and cooperates with various NGOs. Nonetheless, associations against smoking accuse BAT of exploiting communities and fighting against tobacco regulations under the cover of CSR activities as well as intense, non-transparent lobbying .

## **2.5 National and supranational level solutions**

Various steps are being taken by governments as well as multinational organizations, mainly World Health Organization, to hamper cigarettes consumption worldwide. In 2003, 56th World Health Assembly adopted The World Health Organization Framework

Convention on Tobacco Control (WHO FCTC), which entered into force on 27 February 2005. There are 168 signatories to the WHO FCTC, as well as 177 parties. FCTC regulations are focused on tobacco-related demand as well as supply reduction. Restrictions include increased tax rates on tobacco and higher prices of tobacco-related products, increased protection from passive smoking, health warnings on cigarette packages, hampering tobacco advertisement and sponsorship by tobacco producers, impeding intense lobbying of tobacco manufacturers, increasing social awareness and education in the area of health, reduction of tobacco dependence as well as eliminating illicit trade of tobacco products, restricted sales to minors and leading tobacco-related research.

In 2008, WHO introduced MPOWER, which is designed to scale up implementation of provisions of the WHO FCTC in the treaty parties states. MPOWER consists of six measures:

- **M**onitor tobacco use and prevention policies,
- **P**rotect people from tobacco use,
- **O**ffer help to quit tobacco use,
- **W**arn about the dangers of tobacco,
- **E**nforce bans on tobacco advertising, promotion and sponsorship,
- **R**aise taxes on tobacco.

WHO FCTC was widely accepted by United Nations member states, but it never entered into force in United States of America. In the US smoking regulations vary between different states, since there is no ban on federal level.

In European Union tobacco-related health issues are widely recognized. Smoking is becoming less socially acceptable in the EU, just like in other high-income countries. Two most important European legislations concerning tobacco control are Directive on Tobacco Products and the Directive on Tobacco Advertising. The Directive on Tobacco Products (2001/37/EC) requires "health warnings on tobacco products, bans the use of terms such as 'light', 'mild' or 'low tar', forces producers to provide full information on all ingredients utilised in their products and sets maximum limits for tar, nicotine and carbon monoxide in cigarettes. The Directive on Tobacco Advertising (2003) bans cross-border advertising of tobacco products in printed media, radio and on-line services. It equally bans sponsorship of cross border events if it has the effect of promoting tobacco products. According to PPACTE - Pricing Policies and control of Tobacco in Europe findings, the most effective way of reducing tobacco consumption is to radically increase tax levels.

European Commission proposes some changes in tobacco directive, which are:

- to ban cigarettes and roll-your-owns with flavours (chocolate, fruit, menthol) in order to "make tobacco products smell and taste like tobacco products",
- combining picture and health warning on packages, covering 65% of front and back of the package,
- banning labeling as "organic" or "natural",
- extending the scope of directive to other smoking-related products such as electronic cigarettes,
- introducing tracking and tracing systems to prevent smuggling,
- allowing member states to ban cross-border distance sales of tobacco products as well as introducing plain packages.

Various member states, with Poland among them, objects to this changes, especially considering the flavoured cigarettes ban. Excise (tax on sale) on cigarettes contributes in

large quantities to polish budgetary income. In 2011, whole budgetary revenue amounted to 243,2 bln PLN, and 58 bln PLN were revenues from excise taxes, one-third of which was cigarette excise tax (Ernst & Young, 2012).

Impeding use of tobacco-related products affects also employees from the tobacco sector. Numerous farmers, especially in low-income countries as well as multinational tobacco companies (such as BAT) workers are relying on tobacco sales. While introducing legal restrictions concerning tobacco use, it is important to consider all parts of the coin (see: Gale at al., 2000; Zhang, 2013).

## **Conclusions**

According to some economists, the idea of market failure is a failure itself. Richard O. Zerbe Jr. and Howard E. McCurdy in the famous article *The failure of market failure* (1999) argue, that the concept of market failures is purely theoretical and can't be used as an valid argument in real life economics. In their opinion, market failures are just excuses for governments to introduce laws bidding the free market.

While the concept of market failure is rather widely approved, the approach to demerit goods might be different, since the distinction between merit and demerit goods can be based on subjective values. The acceptable scope of government intervention varies between more liberal and more "Keynesian" approach.

Using of tobacco-related products is known for its detrimental influence on both individual and social health. Despite that, more than billion people smokes cigarettes worldwide. One of the main reasons is lack of perfect information and inability to deeply consider future health problems.

Legal restrictions ban cigarettes marketing and aim to discourage new potential smokers as well as help quitting already addicted individuals. Main reason for the world wide anti-tobacco regulations is the social cost of smoking, resulting not only in increased health care expenses, but also productivity loss and financial problems of addicted households. Governments, supranational organizations and tobacco companies are trying to reduce negative externalities emerging from tobacco use.

British American Tobacco is one of the biggest tobacco manufacturers in the world. The company has taken various steps to ensure sustainable development and diminish negative influence on environment and human health. Both companies like BAT and governments are fighting against youth smoking and second-hand smoking.

According to BAT website, British American Tobacco is working on reducing toxicity of cigarettes, making them less harmful. Nevertheless, as the webpage itself states, the only possible way to avoid any health risks related to smoking, is not to smoke at all. One of the main problems seems to be the fact, that smoking, considering social awareness of health consequences, is not rational, and that's why it is so hard to reduce it using rational methods.

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# Impact of consumer values on effective advertising message development<sup>1</sup>

Barbora Paholková – Sherzod Karimov<sup>2</sup>

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## **Abstract**

*The objective of this study was to get the understanding of how consumer values relates to buying behaviour and building effective marketing communications through developing advertising messages based on MECCAS model. Specifically, as result, were elicited values for message development formulated in MECCAS mode from survey, using a standardized questionnaire (n=67). The main finding of study was that the implementation of MECCAS model led to better understanding of consumer behaviour and creates more precise messages for the target audience.*

## **Key words**

*list of values, MECCAS model, consumer behaviour*

**JEL Classification:** M 31

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## **Introduction**

The importance of the marketing communications component of the marketing mix has increased dramatically in recent years; field of marketing communication is over-changing. Rising costs of placing ads in traditional advertising media, like television or print media, forcing advertising and promotion budgets shift away from traditional media to internet. Due to this situation, significance of development and testing effective and creative advertising messages is beginning to change.

Traditionally, the development of promotional messages has been based only on "creativity" and sometimes was generated from empirical data. In 60-ies of the 20th century, marketing managers came to the conclusion, that the surveys, which had consumers in the center of attention, did not provide them with enough information to understand consumer's decision-making process. Therefore, marketing management practices began to focus on developing and application consumer psychographic characteristics, lifestyle and attitude measures. The main objective was to better understand the consumer via surveys of psychological characteristics, as their lifeway, attitudes, interests and value orientation.

Every individual and culture has a set of core values, which plays a very important role in consumer behavior, because the products and services they purchase, helping them to achieve value-oriented objective. Furthermore, two people may believe that they have the same behavior, but their basic value systems may be quite different.

A number of companies track changes in values. This process can take many forms, ranging from qualitative research techniques to quantitative techniques such as laboratory

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<sup>1</sup> This contribution is the result of the project VEGA number 1/0635/14 "Status and prospects of development of the organic food market, traditional and regional foods in Slovakia"

<sup>2</sup> Ing. Barbora Paholková, University of Economics in Bratislava, Faculty of Commerce, Department of Marketing, Dolnozemska cesta 1, Bratislava, 851 20 Slovakia, paholkovab@gmail.com  
Ing. Sherzod Karimov, University of Economics in Bratislava, Faculty of Commerce, Department of Marketing, Dolnozemska cesta 1, Bratislava, 851 20 Slovakia, karimov.sherzod@gmail.com

experiments and large-scale surveys (Solomon, 2006). Between specific attempts to measure cultural values and apply this experience to marketing strategy was Rockeach's Value Survey. The psychologist Milton Rockeach's approach provides a major theoretical foundation for psychological research on social values. During the late 1970s, Gutman introduced his mean-end chain theory to consumer and marketing research based on measuring social values. The mean-end chains studies consistently find that consumers select product with attributes that deliver consequences, which in turn contribute to value fulfillment (Gutman, 1982).

As mentioned previously, many marketing practitioners do not give enough attention to theoretical models that can improve the message development process. There are many viewpoints on this issue. Practitioners are broadly split on the matter and often see creativity beyond analysis (Shimp, 2007). Nowadays, academic research on effectiveness of promotion messages has been based on a number of models. The creation of effective advertisements demands on a marketing successfully associate customer personal value with product attributes. A model fulfills this criteria and that is be used in this study, is MECCAS model (Reynolds, 1988). MECCAS – an acronym for means-end conceptualization of components for advertising strategy provides a procedure for applying the concept of means-end chains to the creation of advertising messages.

MECCAS is based on means-end chain (MEC) theory, which provides a theoretically elaborate concretization of abstraction of consumer product knowledge based on three key concepts: product attributes (A), consequences (C) and values (V). People often make decisions based on social values. Only one of the key concepts with highest level of abstraction, values influence consumer cognition and motivation structure and further influence consumer information-processing process. In marketing field, values are measured by such value classification systems, as Rokeach value system, LOV and VALS (Wann-Yih Wu, 2011).

This information is then used to develop advertising strategy by identifying elements such as the following (Reynolds, 1988):

- Message elements: the specific attributes or product features to be depicted.
- Consumer benefit: the positive consequences of using the product or service.
- Executional framework: the overall style and tone of the advertisement.
- Leverage point: the way the message will activate the terminal value by linking it with specific product features.
- Driving force: the end value on which the advertising will focus.

The ability to develop an effective set of advertising strategy requires a framework that permits generating alternatives that could be suitable both for products and intangible services. MECCAS framework is seen to provide an observable basis regardless of object of study. Financial services, building construction, and insurance are typical examples of intangible services. Of course, the end result of these services is quite tangible. For instance, at a restaurant, you actually experience polite or rude service, or accurate or inaccurate service. However, the point is that when you first make the decision to purchase one of these services, the benefits are not yet forthcoming and thus are intangible. An innovative hypothesis proposed by Shostack, G. L. (Shostack, 1977) is that the more intangible the product or service, the more it requires tangible attributes in its promotion. This is because the tangible attributes serve as surrogate indicators of the yet-to-be-experienced benefits. This hypothesis has not, to our knowledge, been put to a formal experimental test, but real-world observations suggest that it is valid (Reynolds, 2008).

The objective of this study was to get the understanding of how consumer values relates to buying behaviour and building effective marketing communications through developing advertising messages based on MECCAS model. Further, the indicated values could have a direct influence on effectiveness of advertising process.

The current study report is organized as follows. First, we provide importance of current study and theoretical background data for research. Next, we present approach of the method. Further we examine relationships between values and consumer behaviour to create effective advertising message. Finally, we make a conclusion with general discussions of findings and implications.

## 1 Methodology

Significant part of survey data was collected using a standardized questionnaire. In total, hard copies of questionnaire were completed by 67 respondents in Bratislava in winter and 2014. The majority of the respondents were female between the ages of 18 and 24 years.

The questionnaire contained 18 questions; social values were measured using the list of values (LOV). The values were analyzed across age groups, gender and respondent's buying behaviour. Survey respondents were asked to rate six main values on a 5-point scale (1-not important; 5-very important).

List of values includes "warm relationships with others", "enjoyment, excitement", "self-fulfillment", "self-respect", "sense of belonging" and "security". The weights were utilized in the subsequent analysis using SPSS 22 (Statistical Package for Social Sciences) to generate adjusted frequency tables.

**Tab. 1** List of Values

<i>Value</i>	<i>Description</i>
Self-respect	To be proud of yourself and confident with who you are.
Security	To be safe and protected from misfortune and attack.
Warm relationship with others	To have close companionships and intimate friendships.
Sense of accomplishment	To succeed at what you want to do.
Self-fulfillment	To find peace of mind and to make the best use of your talents.
Being well-respected	To be admired by others and to receive recognition.
Sense of belonging	To be accepted and needed by our family, friends, and community
Fun–enjoyment–excitement	To lead a pleasurable, happy life; to experience stimulation and thrills.

Source: (Kahle, 2010)

It should be noted that the selected product in our survey was a popular soft drink "Kofola". From an academic viewpoint, that choice has several interesting features. First at

all, Kofola is one of the most well-known, and currently is, one of the most beloved non-alcoholic beverages in Slovakia. As a result, this product associated with own meanings in the form of cultural values and symbols, became the part of the lifestyle of consumers.

## 2 Results and Discussion

At first glance, in an examination of the percentage of the respondents shows that 76% were female. To deal with this problem, we created weighting table by calculating relation among elements, because one gender was overrepresented. The weights were utilized in the subsequent analysis using SPSS 22 to generate adjusted frequency tables. A possible null hypothesis is that the mean male value score is not the same as the mean female value score. Results of Independent-Samples Mann-Whitney U test (Table 2), except value Self-respect, rejects the null hypothesis. Whether rejection of the null hypothesis truly justifies that the two samples (genders) are drawn from the survey had equal the variance and shape of the value distributions.

As mentioned, the purpose of the study is building effective marketing communications through developing advertising messages based on MECCAS model. The most important aspect of our research was in examining the values priorities across respondents buying behavior. Table 3 presents Pearson correlations between respondents buying behavior and ranks of the values. The correlation coefficients were partly negative, relatively small, and significance was at the 0.05 level, and acceptable only in cases of "warm relationships with others" and "self-fulfillment" values.

**Tab. 2** Hypothesis Test Summary

	Null Hypothesis	Test	Sig.	Decision
1	The distribution of Fun enjoyment excitement is the same across categories of Gender.	Independent-Samples Mann-Whitney U Test	.021	Reject the null hypothesis.
2	The distribution of Self-fulfillment is the same across categories of Gender.	Independent-Samples Mann-Whitney U Test	.003	Reject the null hypothesis.
3	The distribution of Security is the same across categories of Gender.	Independent-Samples Mann-Whitney U Test	.004	Reject the null hypothesis.
4	The distribution of Warm relationships with others is the same across categories of Gender.	Independent-Samples Mann-Whitney U Test	.027	Reject the null hypothesis.
5	The distribution of Sense of belonging is the same across categories of Gender.	Independent-Samples Mann-Whitney U Test	.023	Reject the null hypothesis.
6	The distribution of Self-respect is the same across categories of Gender.	Independent-Samples Mann-Whitney U Test	.490	Retain the null hypothesis.

Source: authors' calculations based on SPSS software

Notes: Asymptotic significances are displayed. The significance level is 0.05

The results demonstrate that between the all values, "warm relationships with others" and "self-fulfillment" is remained as the closest values to respondents buying behavior. In addition, "self-fulfillment" has negative correlation coefficient ( $r=-.24$ ;  $p<0.05$ ) with buying behavior, and it makes perfect sense in some contexts, when consumers understand and consider negative effects of carbonated beverages consumption. Finally, positive correlations ( $r=.27$ ;  $p<0.05$ ) between "warm relationships with others" and respondents buying behavior, show that people choosing warm relationships with other are buying "Kofola" more. Bringing a higher "warm relationships with others" value brings positive response from consumers.

**Tab. 3** Relationship between respondents buying behavior and perceived values

How often do you buy product?	Warm relationships with others	Fun enjoyment excitement	Self-fulfillment	Self-respect	Sense of belonging	Security
Pearson Correlation	.270*	-.029	-.244*	.071	.179	-.038
Sig. (2-tailed)	.027	.436	.047	.345	.148	.759
N	67	67	67	67	67	67

Notes: \*. Correlation is significant at the 0.05 level (2-tailed)  
 Source: authors' calculations based on SPSS software

This survey results can be spent insight about design advertising campaign proposals for "Kofola" company marketers. As regards the relations between "warm relationships with others" value and respondents buying behavior, they would attempt to create messages that can include and concentrate on the current value. Another negative linked value "self-fulfillment" would be excluded from message development procedure, for the reason that consumers with high "self-fulfillment" afraid that a carbonated beverages consumption may harm their health, wellbeing.

## Conclusion

Today, things are different. The marketers can measure the direct impact of all communication channels on the customer purchase, but tend to reject notion that theoretical models of data processing can improve the message development process.

Jonathan Gutman in the "Journal of Marketing" in 1982 (Gutman, 1982) was first who combine the consumer behavior with the value chain of consumer. Approach to understanding consumer behavior through consumer values, provides a different view on this issue and opens up new opportunities. As mentioned, creation of effective advertisements demands on how marketing successfully associate customer personal value with product attributes. The results of this study have given an insight into the motivational structure of "Kofola" drink consumers.

As also recommended in Chapter 2, an important application of survey data on consumer values helps to better understanding of consumer behavior and creates more precise messages for the target audience. The outcome of this review should be the basis for "Kofola" advertising practitioners. A systematic evaluation of patterns of values can

therefore be used not only to develop effective messages for consumer, but as well, can help to design new products and build communication and penetration strategies.

It should also be recognized that elicited values for message development had relatively weak correlation with buying behaviour and only two of them were considered statistically significant. We therefore recommended that the study be replicated on a broader scale, because findings have a tentative character.

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# Market of consulting services<sup>1</sup>

Romana Paráková<sup>2</sup>

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## **Abstract**

*Market of consulting services consists of two basic entities that operate in interaction and act as participants in the counseling process. To reach the final result is extremely important active cooperation between the provider of consulting services and its customers, respectively client of consulting firm. Advisor is a person who performs all or some of the typical advisory functions for full or part time in an objective and independent manner helps businesses identify and analyze problems, formulate recommendations to eliminate or deal with these problems, or proposed solution is implemented. Key role in this process play providers of advisory services, who should have the necessary skills and competencies to achieve effective consultation process.*

## **Key words**

*consulting services, entities of consulting, legal framework*

**JEL Classification:** M31, M42

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## **Introduction**

History of advice on the territory of the Slovak Republic is relatively short. It began to develop after 1989. Initially was represented by foreign companies, but later began to emerge a new consulting company purely Slovak origin. There was a boom of private enterprise, which is confirmed by the fact that over the years 1993-2000, the number of enterprises doubled, from 30 000 to 60 thousandth new concept to the market competition. With it, companies had to find new strategies to maintain or improve its market position. For this reason consulting companies that had businesses in these conditions help to promote the market.

## **1 Methodology**

The aim of our work is to gather relevant theoretical knowledge of the consulting services market of domestic and foreign literature. For this purpose, we will use the study of domestic and foreign literature and will apply in particular to the following methods of scientific work - abstraction, analogy, comparison, analysis, synthesis and methods of induction and deduction.

- Method of abstraction - is the separation of non-essential characteristics of the phenomenon significant. This means that, through abstraction selects relevant and consistent information published in various literary sources so that we can define the basic concepts and categories necessary for the practical part of the work.

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<sup>2</sup> Ing. Romana Paráková, University of Economics in Bratislava, Faculty of Commerce, Department of Marketing, Dolnozemska cesta 1, 852 35 Bratislava, r.parakova@gmail.com

- A comparison (comparison) - to check different or the same features of two or more different phenomena. We use this method in comparing the evolution in the time series.
- Method analogy - based on the comparison methods. Represents the thought process by which a match based on certain characteristics of two or more different phenomena deduce their approximate match.
- Method of analysis and synthesis - When analyzing the continuous collection of information, its organization, assessment and subsequent interpretation. It follows the method of synthesis, which is thought unification, joining of parts into a whole.
- Method of induction and deduction - Based on individual knowledge induction derive general conclusions. This means the individual facts shall be revised to general). Deduction is the exact opposite. This is a procedure where the general knowledge we conclude specific knowledge.

## 2 Results and Discussion

### 2.1 Definition and summary of advice

There are several definitions of counseling. Generally, we can consider two basic views of counseling. On the basis of functional aspect, where Fritz Steele defines counseling as "any method of providing assistance focused on content, process or structure of tasks where the advisor has not a real responsibility for the implementation of the tasks itself, but helps those who have this responsibility." The second view of counseling, it is understood as a special professional service. L. Greiner and R. Metzger defined counseling as "captured contracted services provided to organizations by specially trained and qualified persons in an objective and independent manner desired by the organization to help identify and analyze problems, propose solutions to these problems and, if so requested, participate in the implementation of the proposed solutions."

Counseling can be applied in different areas such as tax advice, financial advice, economic consulting, auditing, management consulting, financial advice, personal counseling, etc.. Whose classification according to Decree Laws 306/2007 Statistical Office of the Slovak Republic, issuing the statistical classification of economic activities SK NACE Rev. 2, which repealed the Decree of the Statistical Office of the Slovak Republic no. 552/2002 Coll., Which published the statistical classification of economic activities, known as NACE, shown in the following table.

**Tab. 1** Statistical Classification of Economic Activities NACE rev. 2 - Advisory Services

<i>Group</i>	<i>Services</i>
62.0	Computer programming, consultancy and related activities
69.2	Accounting and auditing activities, bookkeeping; tax advice
70.2	Management Consulting
71.1	Architectural and engineering activities and related technical consultancy

Source: own processing according to the statistical classification of economic activities SK NACE Rev. 2. 2008

In the field of statistics, this classification is used by all Member States of the European Union. The reason for the revision of the classification of economic activities was sought to ensure comparability of economic statistics not only at European but also at international level and also in its account of technological and structural changes in the economy. That's the reason of development a new classification coordinated by the Statistical Commission of the United Nations and the European level, the European Statistical Office - Eurostat.

## 2.2 Advisory entities

Entities active in the field of consultancy operating in mutual cooperation as participants in the counseling process, while effective cooperation between them and mutual communication is necessary to achieve the result desired objective and inevitable.

### *Subscriber's advisory services*

Customer advisory services, respectively clients may be a group of people representing the organization or the individual. The most commonly a service consulting company client orders if it is aware of their problem and seek professional assistance in solving it. Increasingly, however, in practice we encounter conscious client who believes that there is always a chance to do things better than ever and looks and professional services and if they do not feel the problem. Cooperation with external consulting firms are among companies increasingly sought after, as evidenced seen Table 2, where we can see growing sales, number of employees and the increase in the average monthly wage in firms providing legal, tax and business consulting.

**Tab. 2** Selected indicators by economic activity - legal, tax, and business advice in the years 2003 – 2008

<i>Indicator</i>	<i>Unit</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>
Revenues from own performances	mil. Sk	25 296	25 387	28 833	34 924	39 781	45 130
Number of employees	number	13 372	14 117	17 005	19 734	22 114	24 317
Avg. monthly wage	SKK	17 718	19 894	23 889	26 028	29 064	31 457

Source: own processing according to selected indicators for real estate, renting, business activities and other services by economic activity (2003-2008)

In 2009, except for the transition to the common currency Euro took effect already mentioned revised classification of economic activities SK NACE (Statistical Classification of Economic Activities of the European Union), from which the basic business advice began to report statistics separately as consulting services in the field of business and management. Table 3 is a summary of selected indicators in the period 2009-2012 where we observe an increase in individual values with the exception of the average monthly wage.

**Tab. 3** Selected indicators by economic activities - consulting services in the field of business and management in the years 2009-2012

<i>Indicator</i>	<i>Unit</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>
Revenues from own performances	mil. EUR	419,820	541, 127	668,968	885,442
Number of employees	number	6 645	7 453	7 907	9 388
Avg. monthly wage	EUR	1 300	1 421	1 367	1 169

Source: own processing according to selected indicators by economic activities - consultancy in the field of business and management

Investment to advisory services returns relatively quickly, because in the process of formulation and implementation of communication programs and increasing the potential of internal staff. One objection may be that no external consultant company or organization can know so well as experienced by its employees, HR professionals, businessmen. The value of advice, however, is the experience of consultants from several companies (clients), the professionalism and thorough knowledge of the communication process. For effective collaboration consultant and representatives of the company is to transfer know-how for the client and long-term investment value, which can be further developed and used in all areas of company management, human resources and marketing communications.

#### *Providers of consultancy services*

Advice on specialist services - consultants or consulting organizations on a commercial basis, or is carried out through its own business units. The last of these, however, is possible only in the case of some large and economically powerful companies. Advisor is a person who performs all or some of the typical advisory functions for full or part time in an objective and independent manner helps businesses identify and analyze problems, formulate recommendations to eliminate or deal with these problems, or proposed solution is implemented. Role of the consultant is to help counsel take progressive changes in its organization. All proposals and changes recommended counselor should directly or indirectly contribute to the improvement of managerial work and improve the performance of the organization.

A qualified counselor should possess the following properties:

- ability to work with people - tolerance, courtesy, ability to establish contacts and anticipate people's reactions,
- ability to communicate, persuade and motivate - able to listen to other people's good level of expression,
- intellectual and emotional maturity - the independence and objectivity in formulating conclusions and recommendations, self-control and self-control,
- creativity and initiative - healthy ambition, entrepreneurial spirit and perseverance,
- moral qualities - the ability to know their strength and limitations, the ability to admit mistakes.

Advisory organization is basically any type of organizational unit, which provides consulting services. Counseling organizations can be divided into three basic categories:

- 1 large multifunctional consulting firms - this category includes companies that employ more than 100 professionals. Usually there are multinational companies, providing comprehensive advisory services (the. Full service)
- 2 Small and medium-sized consulting firm - employing 50 to 100 professionals (medium consulting firms) and less than 50 experts (small consulting firm). Provide comprehensive advice or specialize in a particular area of counseling.
- 3 Non-traditional providers of advisory services - their main resp. original activity is different than counseling. Consulting perceived as a supplement to their products or services that enrich and make them more attractive offer.

## Conclusion

Marketing consulting services can in the Slovak Republic is still classified as a market that is relatively young and still growing market with ever increasing nature of demand for the services. Cooperation with external consulting firms is among companies increasingly sought after. The second group of market participants constitutes advice consulting services providers, who may come from different sources: internal (Staff Unit are integrated into the organizational structure of the company) and external (independent consultants or consulting organizations). Because of the higher objectivity and professionalism are just more used external sources.

Entities active in the field of consultancy operating in mutual cooperation as participants in the counseling process, while effective cooperation between them and mutual communication is to achieve the result desired objective and inevitable.

The legal framework for the functioning of the market and the performance of consulting activities in the Slovak Republic by two most important legislation in this area and to the Commercial Code and the Trade Act that regardless of whether a person of a different nationality or Slovak, small or large enterprise, adjusting the basic legal conditions for business individuals and legal entities at territory of the Slovak Republic.

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# Development Trends of Insurance Regulation with a Focus on the USA

Hana Petříková<sup>1</sup>

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## **Abstract**

*The global financial and economic crisis, that broke out in 2007, has caused the deepest recession since the Great Depression in the 1930s. It revealed serious failings in the pre-crisis regulatory architecture, necessitating a revision of the legislative and institutional aspects of financial regulation. The aim of this paper is to compare the pre-crisis and post-crisis financial sector regulation in the USA and to propose its future perspectives with a more detailed focus on the insurance sector.*

## **Key words**

*financial regulation, insurance sector, financial and economic crisis, USA*

**JEL Classification:** G15, G18, G28

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## **Introduction**

The end of the last century is characterized by tendency to mitigate regulatory rules in the financial sector. The liberalized approach to regulation was stopped by the outbreak of the global financial crisis in the 2007. Financial crisis has revealed that many financial institutions on the basis of positive developments in the period preceding the financial crisis underestimated the risk of systemic problems. The financial system has played an important role in transferring problems from one sector of the economy to all others. At the same time as the impact of globalization crisis in the mortgage market in the United States was transferred to other states. After the outbreak of the financial crisis have been adopted measures to reduce its impact and prevent its repetition in the future. The approach to microprudential supervision was reconsidered, since the assumption that the safety of the financial system can be ensured by supervision over individual institutions was false. The crisis has demonstrated the need to also focus on the macroprudential aspect, i.e. the stability of the financial system as a whole. These facts have resulted in the creation of new bodies as well as new rules and measures to strengthen supervision and regulation of financial markets.

## **1 Methodology**

The aim of this paper is to compare the pre-crisis and post-crisis financial sector regulation in the USA and to propose its future perspectives with a more detailed focus on the insurance sector. We apply the basic methods of investigation, i.e. analysis of regulatory measures since the 1930s of the last century after the outbreak of the global financial crisis which were taken in United States and post-crisis regulatory framework, comparative methods will be used to distinguish the main differences in focus of American

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<sup>1</sup> Ing. Hana Petříková, University of Economics in Bratislava, Faculty of Commerce, Department of International Trade, Dolnozemska cesta 1, 852 35 Bratislava 5, Slovakia, hanka.petrikova@gmail.com

insurance regulation. The author uses available data based on the results of research of international specialists in the field of financial regulation.

## **2 Results and Discussion**

### **2.1 Insurance as part of the financial system and its regulation**

The financial system plays a key role in the economy because it stimulates economic growth and affects the economic well-being. It consists of financial markets in which the purchase and sale of financial instruments is realized, financial intermediaries who bring together lenders and borrowers, thus mediate a large part of the movement of funds between market participants (e.g. banks, insurance companies,...), financial infrastructure enabling the transfer of payments, trading, clearing and settlement of securities and financial regulators that perform the task of monitoring and regulation of the financial system participants in the economy (ECB, 2013).

Insurance system is part of the financial system, including entities that carry insurance and reinsurance activities or mediate these activities. These entities take for a fee (premium) insurance risk, i.e. risk of financial loss due to an unforeseeable event (Kafková, 2012).

Regulation is a legal restriction on the activities of regulated entities aimed at protection (stability) of the regulated entity; thus indirectly protecting retail client against loss in the event of bankruptcy of a financial institution; this restriction is enforced by the state authorities through supervision (Jílek, 2009).

The necessity of insurance regulation is based on the time lag between premium payments and insurance payments, because during this period there may be circumstances which could adversely affect the ability of insurers to meet their obligations to policyholders. The subjects of insurance regulation are solvency, i.e. it determines the amount of regulatory capital that the insurance company is required to hold to cover unforeseen events, and the management of technical provisions to serve for the payment of insurance benefits (Majtánová, 2009). Insurance regulation plays an important role in ensuring the confidence of policyholders who are interested in buying insurance product, on the other hand, inappropriate regulation can have a negative impact on the effective functioning of insurers and their ability to offer insurance products, for which there is demand. Insurers' product development and pricing strategies often depend on the regulatory environment in which they do business. The European insurance and reinsurance federation Insurance Europe in its report "How Insurance works" covers the following areas in which regulation may affect the optimum functioning of the insurance market (Insurance Europe, 2012):

- sufficient capital, but not its excess - if the insurance companies are forced to hold excessive amounts of capital, there is a risk that additional costs could be transferred to policyholders in the form of higher premiums, that products could be changed to provide fewer guarantees or coverage or that they could be withdrawn from the market,
- recognition of the long-term value of insurance - insurance companies serve a substantial part of the private pension market and are also significant long-term institutional investors. In case that the regulation will discourage insurance companies from holding long-term investment, it may impair the

insurance sector's ability to provide efficient savings and pension products, which could reduce the role of insurance industry as a long-term investor in the financial markets, and thus the key stabiliser of market volatility,

- differentiation, not discrimination - the fewer restrictions placed on the number and type of risk factors that insurers can use, the more competitive and innovative they can be. Differentiation is the fairest way of ensuring that the premium will adequately reflect the level of risk. Risk assessment is not only cost-effective but it also helps to reduce the risk of moral hazard and adverse selection. People interested in insurance knows about their risks always more than the insurance company, but despite that the risks transferred to the insurance company can be minimized through appropriate risk assessment and data collection. If legislators impose restrictions on the information that can be collected or used by insurers, insurance companies may raise premium rates to compensate the higher level of uncertainty associated with the risks that they take on,
- freedom to insure what is insurable – risk assessment and risk-based pricing in private market enable insurers to set fair premiums and also to innovate and develop new and more sophisticated products. Any regulation ordering the compulsory insurance of certain types of risks, despite good intentions, could have a negative effect in practice, consisting in decline of innovation and economic efficiency.

## **2.2 Financial sector regulation in the USA until the global financial crisis**

The Great Depression was the impetus for the adoption of financial regulation measures. A considerable part of the modern American regulation is the result of measures taken in the 30s of the last century. After the stock market crash of 1929 Glass - Steagall Act was adopted in the USA in order to avoid hazardous disposal of deposits. It separated investment (asset financing, asset management, securities trading) and commercial banking (deposits, loans, guarantees, cash payments). It forbade banks to simultaneously carry trade, investment and insurance activities. The law was signed by Franklin Roosevelt in 1933. Federal Deposit Insurance Corporation was established and it guaranteed consumer deposits to a certain amount in the prevention of bank runs, which were common during the Great Depression (Sherman, 2009). The financial lobby attacked the Glass – Steagall Act from the onset, mainly on the grounds that it restricts growth through the over - regulation of economic players. Increasing the competitiveness of American financial markets was juxtaposed with the need to maintain investor confidence as people will only trust their money to banks whose activities they do not consider risky. Congress published a report in 1987, that collected arguments for and against the Act. It called attention to the fact that the objective of the Act was to maintain the banking system integrity, to prevent financial abuses and to limit stock market speculations. The banks created new forms of investments and financial products since 1933 that resemble securities and securities firms innovated new financial products resembling loans and deposits. Therefore the players of the financial sector tried to circumvent the wall between banks and brokerage firms. The financial deregulation in the world (United Kingdom, Canada and Japan) put additional pressure by financial players on Congress to ease financial regulation (Biedermann, 2011).

Glass – Steagall Act was in force until 1999, when it was repealed by the Gramm - Leach-Bliley Act (Financial Services Modernization Act). The Act eased the operations of American financial services providers and facilitated the establishment of big financial corporations, that were able to combine previously separate financial activities: insurance, portfolio management, commercial banking and underwriting. It allowed the establishment of „too big to fail“ financial institutions, that required government bailouts and capital injections during the crisis. Several analysts criticised „too big“ institutions because of moral hazard, i.e. they build their positions in the secure knowledge that the government will not allow them to fail and that potential losses will be paid by taxpayers' money. Despite of the moral hazard this change was considered necessary in the USA because demand for financial services has changed considerably over the past decades and large American banks found themselves at a competitive disadvantage due to strict regulations versus conglomerates between banks and insurance companies from Belgium, the Netherlands and Australia. The Act distinguished financial holding companies that performed the whole range of financial activities if they had appropriate capitalisation, risk management and credit rating. It organised the supervision of financial institutions on a functional basis, i.e. depending on a scope of activities supervision was conducted by Federal Reserve responsible for the comprehensive supervision, Securities and Exchange Commission, Commodity Futures Trading Commission and State Insurance Supervision. The positive attribute of this Act, that blurred lines between investment and commercial banking activities was the fact that American financial services providers were able to keep up with financial conglomerates in the international markets. On the other hand, under the influence of strong competition they lost sight of the requirement of prudence and transparency and commercial banks have started venturing into riskier investment banking activities. As a diverse range of activities were conducted within the same institution, it led to conflicts of interest and in the long – term investors suffered (Biedermann, 2011).

Since 1998 there have been proposals how to regulate OTC market and reduce the risks related with this form of trading. FED Chairman Alan Greenspan and Treasury Secretary Robert E. Rubin were against this initiative. Their pressure culminated in the 2000 with adoption of Commodity Futures Modernization Act, which excluded OTC markets from the regulation (Janůšek, 2011).

The problems of financial system supervision appeared at the beginning of October 2002, when there was a collapse of the American energy company Enron. American States Congress made public irregularities at the Securities and the Exchange Commission, rating agencies and auditing firms. Enron and other companies like WorldCom, Xerox, Sunbeam, Waste Management, Adelphia, Tyco, HealthSouth, and Global Crossing raised their assets, carried out financial operations in countries with low levels of control (e.g. in South America), moved their tax domicile to tax havens which allowed them to optimize their tax obligations and keep flexible accounting. These financial conglomerates were too interconnected regarding the ownership structure and activities and formed a complex system, where it has become impossible to distinguish individual players, so if one got out of balance, the others followed him (Biedermann, 2011).

Response to financial scandals and bankruptcies of companies was the adoption of the Sarbanes - Oxley Act in 2002, which focuses on accuracy and transparency in the accounting, internal control systems and economic crime sanctions. The Act requires the CEO and CFO of all publicly traded corporations to sign the balance sheets that they submit. The aim was to increase investors' confidence that the published results of companies traded on the American Stock Exchange are not misleading. The law also

established Public Company Accounting Oversight Board, its role is to supervise the auditors of public companies (Komai & Richardson, 2011).

### **2.3 Post – crisis regulatory reforms in the USA**

United States in an effort to prevent another financial crises have embarked on tightening financial markets regulation. Squam Lake Report that examined the causes of the global financial crisis, contained recommendations for a new system of financial regulation. Based on them Dodd - Frank Wall Street Reform and Consumer Protection Act has been developed. It came into force in June 2010 and was adopted with the purpose to promote the financial stability of the United States by improving accountability and transparency in the financial system, to end "too big to fail" financial institutions, to protect the American taxpayers by ending bailouts (financial support to financial institutions from the taxpayers' money) and to protect consumers from suspicious financial practices (U.S. Securities and Exchange Commission, 2010). The Act applies stricter rules on the operation of financial institutions deemed „too big“. United States government has power to take over the large financial institutions at risk of falling, initiate crisis management and pay creditors from funds generated from the newly introduced taxes for the financial sector. „Too big“ banks are required to set up a regulatory board to supervise their operation. Brokerage firms are required to put their clients' interests first, on the other hand they are still allowed to carry out both activities – consulting and trading on their own account. If the Act was focused on the root of the problem, then would require separation of „too big“ financial institutions such as Goldman Sachs and Morgan Stanley engaged in wide-ranging financial activities into smaller units. This would reduce their size and eliminate the possibility of conflict of interest. The Volcker Rule, part of the Dodd - Frank Act, originally wanted to restrict banks from trading on their own accounts as well as making speculative investments into higher risk funds. However, banks are allowed to make higher risk investments, but are only allowed to do so with up to 3% of their shareholders equity and moreover banks can ask for a temporary deferment, i.e. they only have to fully comply with some parts of the Volcker Rule by 2022. The Volcker Rule is in fact the updated version of the Glass – Steagall Act, its main goal is to separate commercial and deposit banking activities and to protect taxpayers and clients from excessive risks taken by banks (Biedermann, 2011). Collins Amendment to Dodd - Frank Act modifies the requirements for the venture and loan capital for bank holding companies, savings banks and systemically important nonbank financial companies. It also establishes an obligation to move hybrid securities from Tier 1 to Tier 2 (Klimiková & Vovk, 2013).

Within the institutional arrangements of the new regulation system Dodd - Frank Act led to the creation of the Financial Stability Oversight Council, Consumer Financial Protection Bureau and Federal Insurance Office. Financial Stability Oversight Council is a systemic regulator in the United States and identifies financial institutions whose eventual downfall would pose a risk to the entire financial system of the United States. Areas of work of Consumer Financial Protection Bureau include rulemaking and control in the area of harmful and unfair financial practices, mortgage credits, credit cards market and consumer protection laws (Zastupitelský úřad Washington, 2013).

## **2.4 The impact of the global financial and economic crisis on the insurance sector and its regulation**

The financial crisis has affected negatively not only banking sector, which is considered a trigger of instability in the financial market, but also other sectors of the economy. Because insurers are among the major investors in financial markets, they were also by the financial crisis and suffered losses, although not as strongly as it was in the case of the banking industry. In the USA the losses in the insurance sector stood at 188.9 billion USD and 62.3 billion USD in Europe. Among insurers the greatest written premiums' losses were achieved by AIG (98.2 billion USD), ING (18.6 billion USD), Ambac (12 billion USD) and Aegon (10.7 billion USD) (Bobovnik, 2013 ). During the crisis the governments and central banks of the G20 provided more than 11,000 billion USD to financial services sector in the form of direct and indirect aid, but the insurance sector got from this amount less than 10 billion USD (Majtánová & Snopková, 2013).

In the past the regulation was mainly focused on the banking sector and did not pay sufficient attention to insurance, securities dealers, hedge funds and derivatives (Jamborová, 2012). The adoption of new regulatory measures in response to the global financial crisis, which should solve the problems in the banking sector, is connected with a negative trend of the penetration of these regulatory proposals to other sectors of the financial market without taking into account the different business models of individual sectors. Banks and insurance companies have played different roles during the crisis, which is related to their different business models and risk profiles at the micro and macro level. Activity of insurance companies focuses primarily on risk taking, banks collect deposits and provide loans with a wide range of additional services. At the micro level insurance companies are pre-funded in long-term, have a simpler structure of the balance sheet and are less exposed to liquidity risk (maturity of long-term liabilities exceeds the maturity of assets). Assets and liabilities in insurance are generally linked. Conversely, banks are often affected by structural imbalances between assets and liabilities, which significantly increases the risk of speculation, are also affected by the higher volatility and high interdependence between various entities. The insurance investment strategy is usually predictable and long-term oriented, banking investment strategy is short-term and profit oriented. In consequence, the risk profiles of insurance and banking sector are radically different. Insurance companies are particularly exposed to underwriting risk and market risk, liquidity and insolvency risks are relatively small. Conversely, banks are exposed to market, liquidity and insolvency risks, but are not exposed to underwriting risk (CEA, 2010). The report of the International Association of Insurance Supervisors (IAIS) draws the attention to the fact that insurance underwriting risks, which are not typically found in banking (e.g. mortality, natural disasters,...), are in general not correlated with the economic business cycle and financial market risks, and therefore insurance business model enabled the majority of insurers to withstand the financial crisis better than banks. The insurance business model does not macro-systemic risk that would be directly carried over to the economy. However, insurance groups and conglomerates that engage in non-traditional or non-insurance activities such as derivative transactions are more vulnerable to financial market developments and can be a source of systemic risk, which is also confirmed in the case of the collapse of AIG (Ambra et al., 2011).

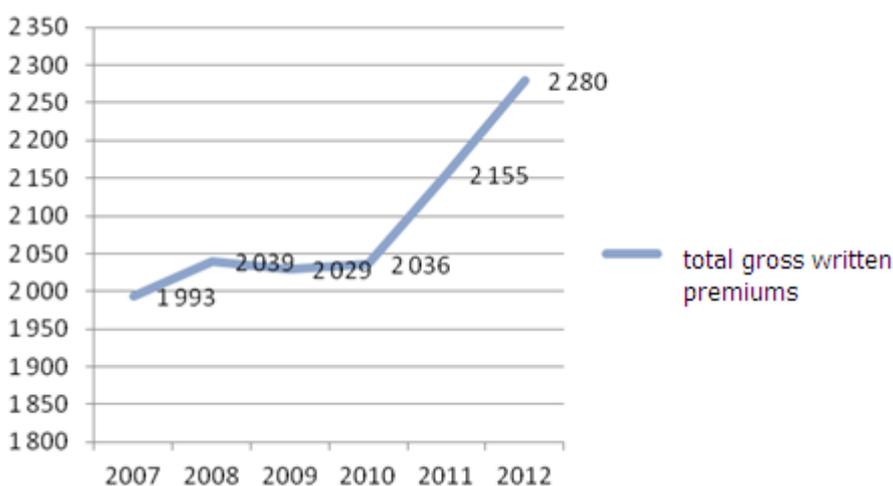
## 2.5 Insurance industry in the USA and development of its regulation

The United States are the largest insurance market and are also a major generator of new insurance products and reinsurance schemes. Insurance sector generates 7% of America's GDP, employs 2.3 million people and includes more than a thousand insurance companies, from which one tenth are foreign insurance companies, especially Canadian, Dutch, French, British and Swiss (Zastupitelský úřad Washington, 2013). Largest insurance company in the field of life insurance and property insurance is AIG - American International Group. Other major insurance companies are Berkshire Hathaway Group, Allstate, Hartford Financial Group, The Travelers Companies, Liberty Mutual Insurance, Nationwide, Progressive, Loews Corporation, State Farm and GEICO.

The financial crisis has generally had a limited impact on the insurance industry and policyholders, with the exception of some pension products in the life insurance and financial and mortgage guarantee lines of property and liability insurance. Several large especially life insurance companies experienced difficulties in capital and liquidity, but the number of insolvency of insurance companies was small and during the crisis did not increase significantly (United States Government Accountability Office, 2013).

Graph 1 which documents the evolution of the total gross written premiums over the years 2007 to 2012, shows that except in 2009, when there was a slight decline, the indicator developed positively. In 2012, the financial performance and condition of U.S. insurers continued to show recovery and improvement from the decline during the financial crisis. This year were also reported record aggregate premium levels. Insurance premiums in the life and health and property and casualty insurance sectors totaled more than 1.1 trillion USD in 2012: net written premiums were approximately 645 billion USD in the life and health sector and approximately 460 billion USD in the property and casualty sector. Insurance companies based in the USA are also important participants in global financial markets. At the end of 2012 they reported total assets of 7.3 trillion USD (Federal Insurance Office, 2013).

**Graph 1** Total gross written premiums (in billion USD)



Source: <http://stats.oecd.org/Index.aspx?DataSetCode=PT5#>

American insurance sector is confronted by the following current issues and emerging trends (Federal Insurance Office, 2013):

- low interest rates – the prospect of continued low interest rates for a prolonged period poses a challenge to insurers seeking to balance investment risks and returns,
- natural catastrophes – 2011 was the second costliest year on record for natural catastrophes in the USA with insured losses estimated to be 44.2 billion USD, the only year with greater insured catastrophe losses was 2005, which included hurricanes Katrina, Rita, and Wilma,
- changing demographics in the USA – the aging of population, increased life expectancy,
- growth opportunities in emerging markets – in Asia and Latin America.

System of insurance regulation in the United States is based on the existence of the individual state regulators who are responsible for enforcing state insurance laws and regulatory requirements. Insurance legislation is determined by the states themselves through their administrations. At the head of the Department of Insurance is Insurance Commissioner, who is also the arbiter of any disputes and insurance clients' complaints. In order to assure at least partial cooperation and similarity rules between states of the USA National Association of Insurance Commissioners (NAIC) operates at a federal level, that voluntarily brings together individual state regulators. Association makes recommendations which states may or may not follow in adopting their own legislation. In practice, most states follow Association's recommendations (Zastupitelský úřad Washington, 2013).

Concerns about the effectiveness of supervision of the insurance sector in the United States worsened during the financial crisis 2007 - 2009, when American International Group, Inc. (AIG), one of the largest holding companies in the USA, suffered heavy losses. These were largely the result of the CDS portfolio, which was sold by its branch AIG Financial Products, which was not the object of insurance regulation. Losses caused the imminent bankruptcy of the company, AIG shares at that time fell by 45% and AIG has become one of the largest recipients of aid under the Troubled Asset Relief Program set up in the crisis. Federal institutions provided AIG with emergency loan of 180 billion USD (United States Government Accountability Office, 2013).

The Federal Insurance Office (FIO) was established by the Dodd-Frank Act. Although FIO is not a regulator or supervisor, it monitors certain aspects of the insurance sector, including identifying issues or gaps in the regulation of insurers that could contribute to a systemic crisis. It represents the interests of the federal government in the International Association of Insurance Supervisors (IAIS), while NAIC and the states represent the interests of the insurance regulators at IAIS. Insurance companies that are owned by holding companies are regulated by the Federal Reserve System (United States Government Accountability Office, 2013).

State regulators require insurance companies to maintain specific levels of capital to continue to conduct business. Under Risk-Based Capital for Insurers Model Act - RBC (1993) state insurance regulators determine the minimum amount of capital appropriate for insurance companies taking into consideration its size and risk profile. RBC limits the amount of risk that the company can take and requires company with a higher amount of risk to hold a higher amount of capital. RBC formulas focus on risk related to assets held by an insurer, insurance policies written by the insurer and other risks affecting the insurer. A separate RBC formula exists for each of the primary insurance types. States have separate guaranty funds for life and property and casualty insurance (United States Government Accountability Office, 2013).

A large part of American insurance companies are established in the Bermuda Islands under British rule because of favorable tax conditions. The absence of a uniform federal regulatory framework is often the subject of criticism of politicians and economists who argue that the fragmented insurance supervision between states of the USA is unable to work with the knowledge of global markets and adequately and timely respond if necessary. Insurance companies do not agree with a single supervision at the federal level. They argue that insurance is a promise to pay the financial compensation in case of damage and therefore it is bound to place and regulatory framework of the state where the damage occurred (Zastupitelský úřad Washington, 2013).

## Conclusion

In 2007 in the USA the mortgage market crisis broke out and was later in the form of financial and economic crisis transferred to all sectors of the economy outside the United States. Pre-crisis regulatory framework proved to be insufficient and failed for several reasons. The experts agreed on the incorrect setting of the then regulation, which focused only on the health of individual financial institutions and paid no attention to the stability of the financial system as a whole. The systemic risks were ignored, relying on self-regulatory mechanism of the market and the regulation was not able to anticipate threats. Many specialists see the roots of the current crisis in the adoption of the Gramm-Leach-Bliley Act in the USA, which enabled linking between the commercial and investment banking and led to deregulation. The Act authorized the creation of large financial corporations, which could not be coordinated effectively at the national level and international regulation absented. Development of financial innovations and securitization have deepened shadow banking system out of regulation. Events that started in the American housing market and led to the financial and economic crisis that hit the world, have been the motive for tightening regulation of the financial markets. Significant milestone in the post-crisis regulation in the United States is the adoption of Dodd - Frank Wall Street Reform and Consumer Protection Act, which came into force in June 2010. System of insurance regulation in the United States is based on the existence of state regulators who are responsible for enforcing the state insurance laws and regulatory requirements. Insurance legislation are determined by the states themselves through their administrations. In response to the financial crisis there are some efforts on federalization of insurance sector regulation. Dodd - Frank Act created the Federal Insurance Office, which although it is not the regulator or supervisor monitors certain aspects of the insurance industry, including identification of the problems or gaps in the national systems of insurance regulation, which could be a source of systemic risk. The main weakness of insurance regulation in the USA is the lack of a uniform federal regulatory framework. Fragmented insurance supervision is unable to respond adequately and timely if necessary. Although we consider the creation of the Federal Insurance Office as a step in the right direction, it is necessary to secure its greater competences in order to become active as a regulator of the insurance sector for the entire United States.

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# The democratization of luxury – a new form of luxury

Klaudia Plażyk<sup>1</sup>

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## **Abstract**

*The increasing wealth of consumers, strengthening of the middle class and the emergence of new markets cause that on the luxury goods market we can observe a new trend called the democratization of luxury (or the new luxury) and the emergence of the new consumers of luxury goods. The article presents interpretations of the concept of luxury and luxury goods and the main features of the new trend of the luxury goods market - the democratization of luxury. On the one hand, the democratization of luxury is a chance for the less affluent consumers to "taste" luxury. But on the other hand, the problem is whether the goods in this category are still luxury goods.*

## **Key words**

*luxury, luxury goods, the democratization of luxury, new consumers of luxury*

**JEL Classification:** D12

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## **Introduction**

The luxury goods market is constantly evolving and expanding. In the early research, there was a simple division of wealthy people who could afford to purchase luxury goods and these people who could not afford it. Thus, it was clear who and how to research. Nowadays, the increasing wealth of the societies, strengthening of the middle class and the emergence of new markets (e.g. post-communist markets) cause that situation on the luxury goods market is now more complicated than ever.

The main purpose of this article is to present different interpretations of the concept of luxury and luxury goods and a new trend on the luxury goods market - the democratization of luxury.

## **1 Methodology**

The main aim of this article is to present the new trend of the luxury goods market - the democratization of luxury (also called "the new luxury"). The article also includes interpretations of the concept of luxury, luxury goods and the characteristics of the participants in the luxury goods market.

Materials and information for this article were collected by the method called desk research. It was used data from a variety of sources: scientific articles concerning the concept of luxury, luxury goods, consumer behavior on the luxury goods market and reports concerning the affluent.

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<sup>1</sup> Mgr Klaudia Plażyk, University of Economics in Katowice, Faculty of Management, Department of Consumer Research, Bogucicka 14, 40-226 Katowice, Poland, [klaudia.plazyk@ue.katowice.pl](mailto:klaudia.plazyk@ue.katowice.pl)

## 2 Results and Discussion

The article showed that the meanings of luxury and luxury goods have a multidimensional concept and are difficult to define. One definition of a luxury goods exists only in economics. In other scientific disciplines term luxury and luxury goods are interpreted in many ways, and each of the authors propose their definitions.

As concerns the participants in the luxury goods market, we can see the increasing number of consumers who aspire to a group of wealthy individuals. They are representatives the trend of democratization of luxury. Their number and income in the future will probably grow more slowly than the rich and wealthy individuals, but in this group it is expected increases in income. The trend of the democratization of luxury is the result of changes in society associated with increasing financial capability of households and changes in attitudes towards life. The trend of democratization of luxury is an opportunity for a large number of less affluent consumer to purchase goods considered as prestigious. But from the point of view of the luxurious image of the company - whether the goods in this category are still luxury goods? They violate the basic principles of a luxury good – a very high price and unavailability for everyone. All these can lead to the reevaluation of the brand.

### 2.1 The concept of luxury and luxury goods

The term "luxury" is used in everyday life in relation to the different kinds of items, services or lifestyle but it operates without a clear meaning what it really is. The problem is that for everyone it means something else. Attempts to define the notion of luxury relate to three main categories.

- economic,
- psychological/sociological,
- marketing.

Initially, attempts to define luxury were based on the difference of luxury from necessity. Luxury was defining as something what is not a necessity for survival (Veblen, 2008). Currently, in the economic theories luxury is defined as something inaccessible for all because of the high price (Groth & McDaniel, 1993).

In psychology, luxury is a tool to gain social recognition, status or to make a positive impression, but also a tool to meet consumer`s hedonistic needs (Vigneron & Johnson, 1999). A similar opinion was given by Dubois and Laurent (1996), suggesting that luxury is designed to give pleasure and is mainly consumed for this purpose.

Marketing theories of luxury and luxury goods grown on the basis of economic and psychological theories. Vickers and Renand (2003) defined three characteristics that distinguish luxury from non-luxury:

1. Functionality - defined as a product feature that solves a specific problem or prevent the emergence of a problem, for example the highest quality and durability of the good prevents its replacement due to damage.
2. Empiricism - entails characteristics that stimulate sensual pleasure, for example design and elegance.

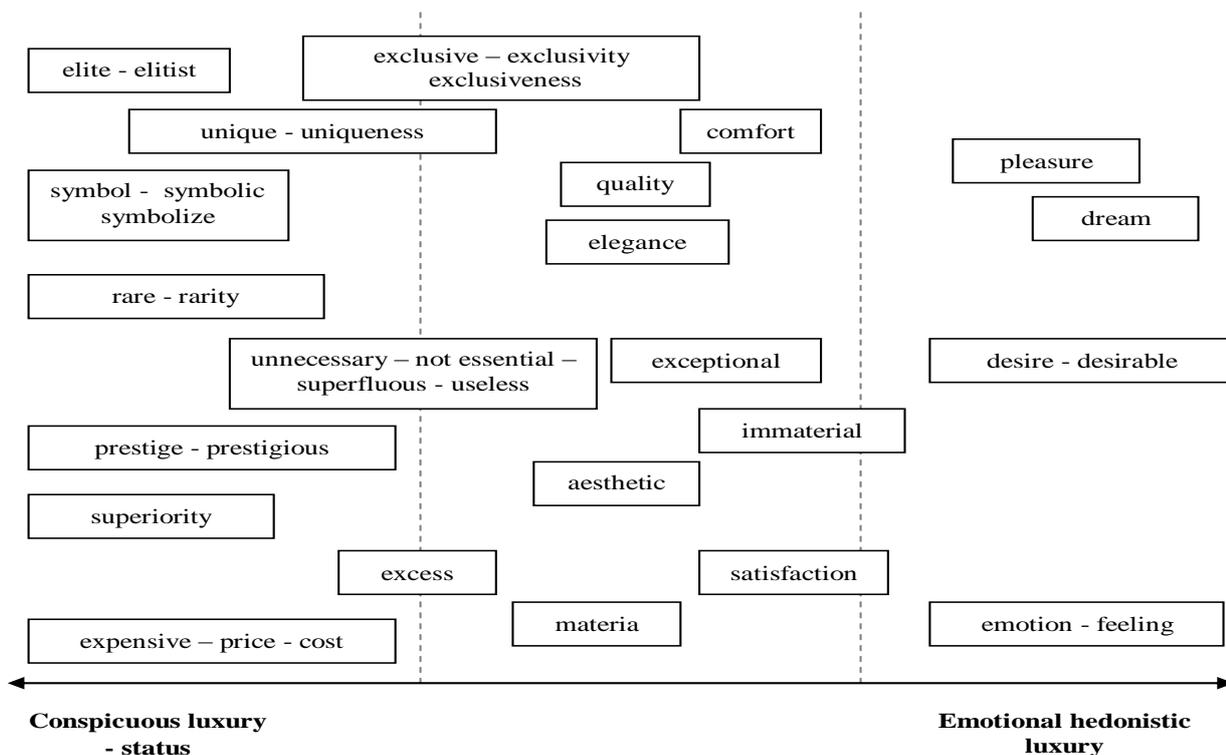
3. Symbolic interaction – includes the characteristics of a luxury good such as a prestigious name, recognizable style and design. Consumption of these goods is associated with the desire to achieve a higher social status or acceptance by the group.

On the basis of intercultural studies Dubois et al. (2001) were identified six facets of luxury:

1. Excellent quality – unique ingredients, components, finesse, crafts.
2. Very high price – expensive, elite.
3. Scarcity and uniqueness – restricted distribution, tailor-made.
4. Aesthetics and poly-sensuality – work of art, beauty.
5. Ancestral heritage and personal history – long history, tradition.
6. Superfluousness - uselessness, non-functionality.

Based on a survey conducted in six countries among young people researches created the map of the lexical units which respondents were associated with the concept of luxury. The results confirmed the multi-faceted concepts of luxury, which appeared in earlier studies, but also clearly shows the strong cross-cultural differences in interpreting the meaning of luxury. For example, for the Italians important is "exclusive" of the luxury goods (far behind is "prestige" and "elitist"), but for the French "prestige" and "elitist" are very important. For German consumers luxury is associated with "expensive" and "prestigious", for the Chinese luxury means that something is "prestige", "extravagance" and "visibility". For Japanese respondents "expensive" is the most appropriate adjective associated with luxury, but American consumers most frequently mentioned "exclusive", "prestige", "desirable" and "extravagant" (Godey et al., 2013).

**Graph 1** Lexical units associated with the concept of luxury



Source: B. Godey et al., 2013, p. 234

Also a very general definition of the luxury goods leads many researchers of different disciplines to try to define this concept. One of the first researchers, who described different groups of goods from the point of view of economics was E. Engel. Paying attention to differences in the income elasticity of demand he identified three groups of goods (Begg et al., 2007):

- an inferior good - a good that decreases in demand when consumer income rises,
- a normal good - for which consumers' demand increases when their income increases
- a superior good - the demand for such goods is growing faster than the increase in income.

But from the point of view of the other disciplines than economics definition of luxury goods is not very practical because it does not give any guidance how to proceed on the market.

Berry (1994) gave the following characteristics of a luxury good: high price, rarity, being desired by a large number of people, refinement, the belief that having such a good provide pleasure.

Analysts from KPMG (2010) for their own studies have proposed the following definition of luxury goods: "A luxury good is any branded good which is commonly recognized on the market as a luxury item or because of its specificity (uniqueness, high price, etc.) acquires luxurious character". According to this definition, whether a product can be classified as luxury goods, decide the specifics of the market and the level of income generated by the consumers.

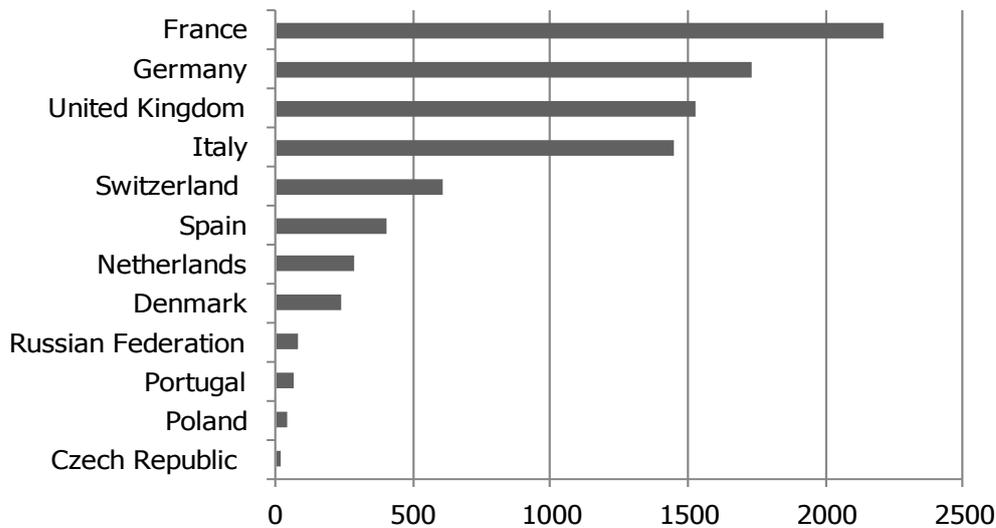
## **2.2 Consumers of luxury goods**

It is generally accepted that the luxury consumers are wealthy and rich people. However, it is difficult to determine the height of the amount which makes a person rich. Markets and revenue generated by people vary sometimes significant and very difficult is to identify a one category for all.

Analysts from the Polish branch of KPMG (2010) showed that, depending on consumers` income, there are two main groups of consumers of luxury goods: the rich and affluent consumers and consumers aspiring to this group. Within the group of rich consumers exists the group of HNWI (High Net Worth Individuals). These individuals typically are defined as having investable finance (financial assets, excluding primary residence) in excess of at least \$ 1 million (generally accepted requirement for this group).

According to Global Health Databook 2013 the highest HNWI population is in France (2.2 million), Germany (1.7 million) and in the United Kingdom (1.5 million) (Credit Suisse, 2013).

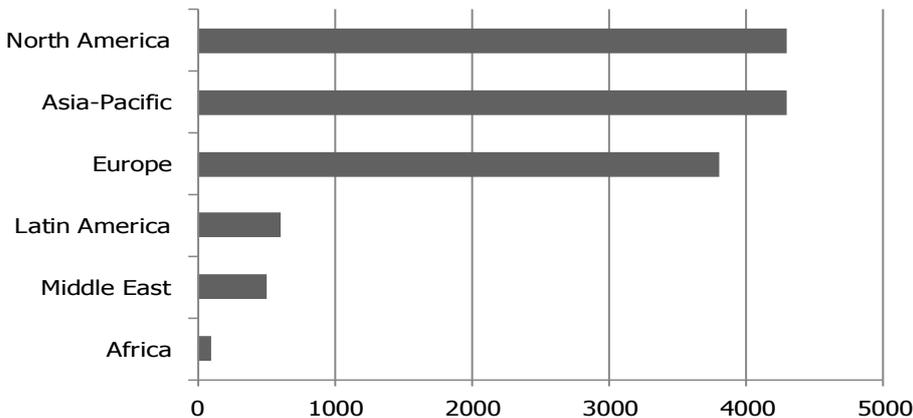
**Graph 2** Number of HNWI (High Net Worth Individuals) in selected European countries in 2013 (in thousands)



Source: based on Global Wealth Databook 2013, Credit Suisse

However, the number of HNWI in Europe ranks only third place in the whole world. Most of this group is located in North America (4.3 million) and Asia Pacific (4.3 million). In Europe the number of HNWI is 3.8 million. These three regions play the biggest role in the world (Capgemini, 2014).

**Graph 3** HNWI population in 2013, by region (in thousands)



Source: Based on: World Wealth Report 2014, Capgemini

It should be noted that consumers of luxury goods is not only HNWI or affluent and rich people. There is a large group of people aspiring to a group of affluent individuals. Their number and income in the future will be growing slowly than the affluent and the rich, but in this group it is expected an increase in income.

### 2.3 A new form of luxury

In recent years on the luxury goods market we can observe the trend toward democratizing luxury goods (in some publications also called as "new luxury"). It is based on the fact that luxury goods, which until recently were available for a small, elite group of the wealthiest people are becoming affordable to a wider, more mass audience. The democratization of luxury is the result of two major phenomenon on the market for luxury goods market (Sęk, 2004):

1. In order to raise capital and to compete effectively in the market, companies are entering the stock exchange. The consequence of this situation is the pressure of investors to improve financial indicators. The companies want to get the largest number of customers.
2. An equally important reason is the emergence of a new consumer. Currently, more people can afford to buy luxury products (increasing number of wealthy individuals) and new customers are mainly young people. The new consumer is relatively poorer and less loyal than traditional consumer but is more attractive for luxury goods companies because of its quantitative advantages over traditional customers. New consumers are mainly young people and nowadays even teenagers are already active participants of the luxury goods market (tab. 1).

**Tab. 1** New and traditional luxury consumer

	<i>Traditional luxury consumer</i>	<i>New luxury consumer</i>
<i>Age</i>	elder (50-69)	younger (30-49)
<i>Wealth</i>	more wealthy, inherited assets	less wealthy, wealth generated
<i>Sensitivity to price</i>	lower - interest in the most expensive goods	higher - interest in products with lower prices
<i>Expectations</i>	more traditional and conservative	more progressive, like changes
<i>Loyalty towards the brand</i>	more loyal	less loyal
<i>Group size</i>	very small	rapidly growing

Source: Ł. Świerżewski & E. Sęk, 2005

According to Garbarski (2007) the main factors affecting the democratization of luxury are:

- increasing financial capability of households,
- lower maintenance costs,
- changing social role of women,
- changing family patterns,
- development of education,
- changes in attitudes towards life.

Democratization of luxury is also affected by the creation and promotion of subbrands. The best known examples are subbrand Baldessarini created by Hogo Boss, Variazione subbrand created by Yves Saint Laurent, Versus by Versace and Fendissime created by Fendi (Świerżewski & Sęk, 2005).

As an important factor of the democratization of luxury we can also indicate unprecedented access to consumer credit and the practice of discount stores where consumer has possibility to buy luxury goods (mainly from the earlier collection) for relatively small price (Górnik-Durose, 2010).

According to Silverstein and Fiske (2003) there are three major categories goods connected with this phenomenon:

1. Accessible superpremium – goods are priced at or near the top of their category. These goods are still affordable to the middle-market consumer.
2. Old luxury brand extensions – goods are the lower-priced versions of products created by manufacturers whose brands are affordable only for the rich.
3. Mastige – it is a neologism for “mass prestige”. Most luxury brands sell products mastige directed to a wider group of consumers. Perfumes and smaller accessories are popular type of mastige.

According to some researchers, the democratization of luxury is a new form of luxury, where the consumer is less interested in the product and more in general aura that is created by the image of the brand (Silverstein et al., 2008).

The trend of the democratization of luxury caused that the luxury goods market has become even more interesting subject of research. Scientists began to modify research tools to can better describe the changes in the market. It all makes that the luxury goods market is a wide field for different research from the economic and social point of view.

## **Conclusion**

The democratization of luxury is a chance for the less affluent consumers to “taste” luxury. However, an important problem is whether the goods in this category are still luxury goods. The basic characteristics of luxury goods such as a very high price and inaccessibility to the general in this case are undermined.

The pressure of investors to improve financial indicators after entering the stock exchange makes that the company diversifies its products for a wider group of consumers. Although these new consumers are relatively poorer and less loyal than traditional consumers but they are more attractive for luxury goods manufacturers because they are a rapidly growing population.

Consumers of such products must also be aware, due to a lower price and availability for everyone, the quality of these products is similar to the quality of the mass-market products.

The democratization of luxury can also cause the reevaluation of the brand and the loss its luxurious character. An example of Calvin Klein and Pierre Cardin showed that the sale of licenses to produce perfumes by an external company can make that a brand is no longer seen as a luxury brand (Kapferer & Bastien, 2009). It is the greatest threat for every luxury brand.

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# Online financial learning as an innovative educational tool efficacious for students<sup>1</sup>

Ľubica Sabadošová – Vojtech Kollár<sup>2</sup>

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## **Abstract**

*Today's university students are in a much different position financially than previous generations of students. Pressure on consumption is increasing, and students gradually lose their vigilance and take on debt to support their immediate needs. The rising level of student debt can cause some students to get into long-term financial problems or eventually to defer graduate study. Financial education is one of most effective tools for protecting consumers in the financial market. The goal of this paper is to analyse available data on student loans, review conditions for student loans in the Slovak financial market, present that financial education is one of the most effective tools for protecting consumers in the financial market, and evaluate the possibility of e-learning as an innovative educational tool efficacious for university students.*

## **Key words**

*debt, student loans, financial education, e-learning*

**JEL Classification:** D14, D18

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## **Introduction**

In contemporary consumer society perceives the majority of young people debt as a normal part of life, without which one cannot exist today. Offer of consumer loans increases at a dizzying pace and Slovaks belong to those nations which are going into debt the fastest in the eurozone. Slovaks owe in total more than 21 billion euros (Kušnířová & Vařuta, 2014). This trend is visible in all age groups, including young people aged 18-24 years.

The most reliable data on the financial situation of young people in Slovakia possess claims administrators. One of them is the financial group KRUK. Data collected by this claim administrator in the year 2013 show that 42% of young Slovaks have unpaid phone bills, 15% owe to non-bank financial institutions and 10% owe money to a bank. Furthermore, young people have unpaid charges for telecommunications services, such as internet and television (Žuffa & Mravčák, 2013).

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<sup>1</sup> KEGA 017EU-4/2013 Youth education in secondary vocational schools aimed at creating innovation and new business opportunities

<sup>2</sup> Mgr. Ľubica Sabadošová, MBA, University of Economics in Bratislava, Faculty of Commerce, Department of Commodity Science and Product Quality, Dolnozemská cesta 1, Bratislava 852 35, Slovakia, lubica.sabadosova@gmail.com  
prof. Ing. Vojtech Kollár, PhD., University of Economics in Bratislava, Faculty of Commerce, Department of Commodity Science and Product Quality, Dolnozemská cesta 1, Bratislava 852 35, Slovakia, vojtech.kollar@euba.sk

Growing willingness of young people to borrow can be also observed from the statistics of the Fund for support of education. The main activity of this Fund is the provision of loans to university students, full-time PhD students, and educators.

Comparison of data related to submitted requests and provided loans in the academic year 2013/2014 and 2012/2013 can be observed in the table below:

**Tab. 1** Comparison of data for the academic year 2012/2013 and 2013/2014

	<i>2012/2013</i>	<i>2013/2014</i>
Total number of received applications	3406	4491
Total value of submitted applications	4 533 383,42 €	16 877 617,28 €
Number of approved loans	3395	2143
Total value of approved loans	4 519 113,42 €	6 890 745,82 €

Source: Fond na podporu vzdelávania, Výročná správa za rok 2013, p. 15

The total number of received applications increased in the academic year 2013/2014 by almost 32% compared to the academic year 2012/2013, and the total value of submitted applications in the academic year 2013/2014 was almost 4 times as high as the total value of submitted applications in the previous academic year.

The consequence is that the value of approved loans accounted for 99,7 % of the total amount requested in the academic year 2012/2013; but, in the year 2013/2014 the Fund was able to cover only 40,8 % of the amount that was desired.

## **1 Methodology**

The aim of this paper is to analyze available data on student loans, review conditions for student loans in the Slovak financial market, present that financial education is one of the most effective tools for protecting consumers in the financial market, and evaluate the possibility of e-learning as an innovative educational tool efficacious for university students.

The main research activity that was carried out to achieve this objective was an extensive literature review: indexed and peer-reviewed journals, papers from conference proceedings, internet sources, annual reports, government reports, previous studies, and books were considered and analysed. The main objective of this activity was to collect available data, information, and research results related to the given subject area, to compare them, analyze and summarize, in order to provide conclusions according to the paper's main perspective and focus.

## 2 Results and discussion

### 2.1 Policies on tuition fees and student loans in Slovakia

In comparison to other countries in the world, proportion of students who have a student loan in Slovakia is low. There are two main reasons for it - public university education is free and student support system is relatively less developed. Tuition at public universities pay part-time students, students exceeding the standard duration of study, students studying at more than one university/faculty, and international students.

In the case of need, the most economical option for a student is to take a loan from the Fund for support of education (further only „the Fund“). The Fund was established by law as a non-state fund, and its role is to provide loans to students and educators. The Fund pursues its activities in the public interest (Fond na podporu vzdelávania, 2013). The minimum loan amount for a student is set at 500 EUR, and the maximum amount is set at 2 500 EUR for students of bachelor and master studies and 5 000 EUR for PhD students. The interest rate is very favorable - 3.19% p.a. - for the academic year 2014/2015, and in addition loans are not earmarked. Students can repay these loans after completion of their studies and a loan is free of interest during the study period.

Another option for a student in need is to borrow money from bank institutions which also offer more favorable rates on consumer loans provided to university students. The following table 2 shows the comparison of student loans offered at different bank institutions, as of September 26, 2014.

**Tab. 2** Comparison of student loans offered by banks

Bank	Interest rate from	Limit from - to	Maturity in months	Bonuses
VÚB Banka	7,90 %	500 € - 10000 €	12 - 72	For active students with excellent academic results, the bank provides a loan at a reduced interest rate
OTP Banka	7,90 %	700 € - 6700 €	1 - 120	Postponement of principal payments after graduation
Sberbank	7,95 %	1000 € - 5000 €	12 - 120	Possibility of deferral of payments
Slovenská sporiteľňa	8,50 %	1000 €- 8500€	12 - 120	Postponement of principal payments after graduation
UniCredit Bank	9,50 %	650 € - 10000 €	12 - 60	Postponement of principal payments after graduation

Source: [www.financnahitparada.sk](http://www.financnahitparada.sk), 26 September 2014

Other options include taking a loan from a non-bank institution, acquiring a credit card loan, or getting an authorized overdraft; these options might be easier to access, but they are, however, more expensive than a student loan provided by the Fund or a bank.

## **2.2 Policies on tuition fees and public subsidies in the world**

Financial aid systems vary around the world. According to the OECD study *Education at a Glance 2013*, there are four country models of student-support system and requisite tuitions:

1. Countries with generous student-support systems but no or low tuition fees: The Nordic countries - Denmark, Finland, Iceland, Norway and Sweden – belong to this group. A level of student aid is high, although there are no or low financial barriers to university education.
2. Countries with well-developed student-support systems and high levels of tuition fees: Well-known countries in this group are Australia, Canada, the Netherlands, New Zealand, the United Kingdom and the United States. Tuition fees charged by public universities in these countries exceeds 1500USD, but large proportion of students can access public subsidies, or can benefit from other forms of student-support system.
3. Countries with less-developed student-support systems but high levels of tuition fees: Significant financial burden is placed on students in Japan, Korea and Chile, where students are charged high tuition fees, but student-support systems are less developed and not so supportive.
4. Countries with less-developed student-support systems and low or no tuition fees: The fourth model is typical for many European countries - Austria, Belgium, the Czech Republic, France, Ireland, Poland, Switzerland and Spain, including Slovakia. Tuition fees in these countries are never set above USD 1300. Relatively limited public subsidies for students are mainly provided to specific groups (OECD, 2013).

One would assume that low or no tuition fees charged by educational institution means zero student debt, or small proportion of students taking a loan or benefitting from a scholarship/grant. The Nordic countries oppose this assumption. Tuition fees are negligible in these countries; yet, majority of students is taking a loan or benefitting from public subsidies. In 2012, around 900,000 Swedish students received financial aid from their government in the amount of almost 2,76 billion euro in order to cover their living expenses, and approximately two-thirds of these funds were loans (Sheehy, 2013).

Another assumption one could make is that high tuition fees mean low entry rates into university education. But countries where students can benefit from generous system of public loans or large public subsidies do not experience low levels of entry into university education. The OECD average entry rate is 60%. The entry rate in the United Kingdom is 64%, in the Netherlands it is 65%, and in the United States it is 72%. These entry rates are higher than in most countries with low tuition fees (with the exception of Nordic countries) (OECD, 2013). Nevertheless, students in these countries graduate with considerable amount of debt. A typical

student in the United Kingdom will graduate with a debt of more than 56 thousand euros (Sellgren, 2014).

### **2.3 Online financial education as a means of protecting students against unnecessary debt**

Young adults often begin their college studies having limited experience with handling their own personal finances. This lack of experience may make them particularly vulnerable to making quick unwise decisions based on their immediate desires or commercial pressure from banks. College students are a lucrative market for financial institutions, both as a source of immediate revenue and as a way to establish brand-loyalty throughout adulthood (Amato-McCoy, 2006). Students may not realize the psychological costs associated with debt, for example increased level of stress, or long-term consequences associated with the years of financial debt, like limitations on future plans and their postponements.

Generally low levels of financial literacy in Slovakia suggest that university students start college life without adequate financial knowledge, but with progressively easier access to loans and credit. For people with limited financial experience, financial education has been defined as crucial factor to improving financial knowledge and promoting personal financial responsibility (Peng et al., 2007). It is thus necessary that young adults are educated about the risks and consequences associated with debt, so they make good financial decisions. This is even more urgent in view of the fact that young people make a lot of important decisions - getting independent from parents, buying the first home, buying a car, preparing for a family life, and ideally setting savings for retirement etc. University students might be particularly receptive to financial information because of their increased financial needs and responsibility.

Young people have a strong need to keep pace with new products and innovations. Consumerism, gradually more present in our society, supports instant gratification and promotes the trend towards borrowing and debt. In addition, well elaborated marketing campaigns on television, in print and online media encourage a young consumer to purchase various financial products. Extremely negative are current advertisements that systematically encourage young people to excessive consumption, without the need of necessary financial resources, only on the basis of an identity card. The need for financial education in today's society is significantly growing.

Past studies indicate that financial education can have positive effects on enhancing students' financial knowledge and positive behavior towards engaging in more responsible financial attitudes in the future. Specifically, the results of a study conducted by Borden et al. (2008) show that after attending a seminar on basic financial skills, students are willing to limit their use of credit cards and have a desire to manage their finances in more beneficial ways, including using more savings/investment financial options within the next year, engaging in more effective financial behaviors, and decreasing the number of risky financial behaviors.

So far, financial education in Slovakia has been targeted at primary and secondary schools. A curriculum is based on the approved *National standard of financial literacy* that describes the minimum requirements for functional financial literacy of students through acquisition of core competencies. Financial education to university students is not provided meantime, with the exception of universities of economics where students have special classes related to finance and currency. The question stands: Should not financial education be also provided to university students when they are much more prone and receptive to such information whereas they need to use it in real life?

Financial education programs for college students are widely provided in the United States in different forms. Financial education to university students may be delivered by numerous methods, such as seminars, pamphlets/handouts, conferences, advisory services, peer education, financial centers on campuses, or online education. However, easy-access and short-duration educational formats might be more attractive and effective for university students than standard classes.

In today's world dominated by technology, there are numerous learning innovations worthy to be further explored. Online education seems as the options with the most undiscovered potential. This generation of university students is ready to receive the online learning. A computer with internet is readily accessible to everyone, and university students are prepared to work independently – at chosen time and pace.

E-learning refers to the use of electronic media and information and communication technologies (ICT) in education. E-learning includes numerous types of media that deliver text, animation, streaming video, audio, and images, and includes technology applications and processes such as audio or video tape, CD-ROM, satellite TV, and computer-based learning, as well as local intranet/extranet and web-based learning (Sri & Krishna, 2014). The term e-learning is used interchangeably with virtual learning, cyber learning, online education, multimedia learning, technology-enhanced learning (TEL), computer-based instruction (CBI), computer-based training (CBT), computer-aided instruction (CAI), internet-based training (IBT), flexible learning, web-based training (WBT), or digital education.

The e-learning activities include:

- Video lectures: videotaped presentations available on demand - recorded live or created specifically for the website, but without interactive elements;
- Video interviews, live events;
- Audio podcasts and conversations – tutors presenting learning materials as downloadable MP3s;
- Animations – short Flash movies;
- Chat rooms – where problems can be discussed and solved with colleagues;
- On-line self assessment – multiple choice questions/tests/quizzes assessing the gained knowledge;
- Synchronous and asynchronous forums – for interacting with colleagues and tutors;
- Issue of certificate - successful completion of the on-line course will allow the registered learner to download a certificate.

The greatest advantage of e-learning is the improved access to education to anyone anytime. For many students this might be the most suitable way how to receive information and educational materials. Students are free to complete their assignments at pace as they need and at times when it is most convenient to their schedule. Immediate accessibility of online education means that part-time students can be more easily reached. Another advantage of e-learning is provision of educational tools that enable students to solve problems independently. This helps to individualize learning, students can skip chapters that have already learned, or on the other hand, they can repeat those sections which are more difficult to grasp. Combining different multimedia instructional design can help to produce attractive educational experience that increases retention of knowledge and content, and supports subsequent practical application. Another strong point is that online education is cost effective. In Slovakia, significant amount of resources, both public and private, is invested in training of teachers who need the necessary knowledge and skills to provide good quality financial education. E-learning basically eliminates this problem. The same quality educational content is available to everyone. Additionally, students can cut the price of traveling, food and other expenses due to its convenience.

The greatest disadvantage of e-learning, that has been found to make online education less effective than conventional classroom, is the need of self-discipline on a student side. Some students might be more prone to procrastination and time wasting. Another concern about e-learning is the technology used during the process. Not all students possess necessary resources to pay for the technology, hardware and software necessary for taking part in digital learning. Unforeseen technical difficulties may impede learning as well. Digital learning is more suitable for tech-savvy students.

There are numerous online educational courses currently offered. Coursera is one of online-enrollment platforms that offers so called *massive open online courses*. Coursera cooperates with universities worldwide in order to make some of their courses available online. Together with the University of Florida, Coursera also offers *Personal & Family Financial Planning Course*. The lectures are recorded into series of short videos discussing different topics and assignments in a weekly basis. According to *Fortune* magazine, millions people worldwide have enrolled in free online courses to date (Mansour, 2013).

## **Conclusion**

At present, more than 119,000 young people under age 29 in Slovakia are unemployed. Youth unemployment rate is alarming, and this problem can not be resolved quickly. Repaying accumulated student debt after graduation may become for many young people difficult and unmanageable without having a proper job. The previous research studies show that financial education can contribute to positive financial attitudes and less risky financial behaviors. Therefore, financial requirements and information needs of university students deserve more attention in Slovakia since young adults often make serious financial decisions. It would be highly desirable to provide targeted innovative financial education in a flexible form also to

university students. E-learning is a method which would certainly deserve verifying in practice.

It can be expected that the interest in e-learning will grow steadily among students in the future. Its obvious attraction is related to the flexibility it offers in terms of time, pace, the access to course material and related resources, and the possibility of feedback on progress using online assessment tools. In addition, online learning can offer alternative ways of learning and gaining understanding through innovative tools/materials, and it can allow more problem-solving of "real-life" activities, including some that involve working with others. Teacher and student can focus their time on understanding, rather than on transmission of information.

Numerous factors influencing the success of e-learning are mentioned in the literature. Based on the insights gleaned from the study *Quality on the line* prepared by the Institute for Higher Education Policy (2000), there are 24 benchmarks within the following categories that are essential to ensure quality in internet-based distance education:

- Institutional support: these benchmarks address the reliability of the technology delivery system, and technological infrastructure issues.
- Course development: this category includes benchmarks related to the development of courseware, whether there are guidelines regarding minimum standards for course development and delivery, or whether instructional materials are reviewed periodically to ensure they meet program standards.
- Teaching/Learning: this category addresses the array of activities related to the art of teaching. Benchmarks in this category include the quality of interactivity, constructive feedback, collaboration and modular learning.
- Course structure: benchmarks in this category are related for example to the existence of course objectives, availability of library resources, types of materials, or student expectations.
- Student support: this category measures the range of student support services, such as admission requirements, books and supplies, training and assistance while using the internet, etc.
- Faculty support: these benchmarks address activities that assist faculty in teaching online, including policies for faculty transition help as well as continuing assistance throughout the teaching period.
- Evaluation and assessment: benchmarks in this category relate to policies and procedures that address how, or if, the institution evaluates online learning (The Institute for Higher Education Policy, 2000).

E-learning does not mean a mass of online material that an individual can access without guidance on how to learn from it in an effective way. E-learning courses are well structured and planned, and in best cases, they are based on prior knowledge of student needs. Learning is an active process and as the latest medical research shows, the brain is a dynamic organ shaped by experiences, and conceptual links are reorganised through active engagement with information in various contexts. E-learning provides a perfect environment for linking different activities in a scaffolded environment where one activity provides the step up to the next level of

development. Integrating e-learning into existing teaching and learning practices has a potential to deepen understanding in a given subject area because it adds more ways for students to be actively involved with learning materials.

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# Customer Influence on the Trading Range of Goods in Retailing<sup>1</sup>

Petra Solarová<sup>2</sup>

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## **Abstract**

*It is obvious that customers influence the range of goods in any retail store. For the purposes of this paper, pre-sales and after-sales interviews are crucial because it is possible to gain much information during these interviews when customers express their requirements. This fact emerged from the qualitative empirical research undertaken in chosen companies. The aim of this paper is to explain and put this phenomenon into a theoretical context. To meet this aim, an inductive approach was used. It was found out that pre-sales interviews can help to identify trends and on this basis it can be recommended to update the retailer's offer. After-sales interviews (mainly warranty claims that are a helpful contribution to the good running of a business) are useful for the modification of the retailer's trading range of goods, although they usually lead to smaller changes. However, in both cases it can be considered as an innovation in the trading range of goods.*

## **Key words**

*trading range of goods, retailing, pre-sales interview, after-sales interview, identification of trends, warranty claims*

**JEL Classification:** M31

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## **Introduction**

Customers commonly affect the range of goods in any retail store. Nevertheless this usually occurs silently; customers buy goods that they like and do not usually express their opinion about the range of goods verbally. Goods that customers do not like remain on shelves and in stock. This is an obvious sign for the retailer that it is necessary to reassess its offer, i.e. its trading range of goods.

But the retailer can obtain such information directly (verbally), during interviews with its customers. Interviews with customers are typical in the case of counter sales but it is also possible to use dialogue with customers in a self-service shop. Hammond and Berman (2014) describe the idea that employees walk around a self-service store and talk to their customers. It is a simple way to gain inspiration for improvement.

Interviews with customers can be divided into three groups: (1) pre-sales interviews, (2) sales interviews and (3) after-sales interviews. During the pre-sales interview customers reveal their needs, desires and wants – this is a really good opportunity for the retailer to gain information about the required range of goods. The sales interview itself is a proof that the customer is relatively satisfied with the retailer's offer. Therefore, sales interviews do not provide much information to the retailer. After-sales interviews occur after the exchange and such a typical example of this interview is a warranty claim. These

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<sup>2</sup> Ing. Petra Solarová, University of South Bohemia, Faculty of Economics, Department of Trade and Tourism, Studentská 13, 370 05 České Budějovice, Czech Republic, PetraSolarova(at)gmail.com

claims are important for the retailer because the retailer receives information about which suppliers send goods that are of poor quality. (Solarová, 2014, pp. 19-20)

For the purposes of this paper, pre-sales and after-sales interviews are crucial because it is possible to gain much information during these interviews.

The trading range of goods that is in the centre of this paper means in general a group of products that is organised on the basis of a certain business purpose. It is not a mere accumulation of goods but it is a group that is sorted (Cimler and Zdražilová et al., 2007, p. 95). Zamazalová (2009, p. 166) emphasises that it is a set of systematically sorted products. This fact was confirmed through empirical research: one small businessman expressed that it is crucial to set certain limits about which products will be traded and which not (own research).

Fig. 1 illustrates in a simplified way what kinds of influences on the trading range of goods exist. Firstly, there is an internal influence, i.e. the decision made by the retailer. The retailer has to determine for herself/himself what goods she/he wants to trade in – that is an important part of her/his business plan. In other words, she/he has to decide about the product orientation of her/his retailing. Secondly, there is an external influence by customers (this is known as demand). The customers decide what they want to buy and therefore a smart retailer adapts the demands to the trading range of goods.

**Fig. 1** Influences on the trading range of goods



Source: Own processing; miniature pictures by Francesco\_rollandin (2009), Lemonade\_Jo (2010), Shokunin (2010b) and Waider (2013).

This paper is organized as follows: after the introduction there is a section on methodology that contains details about the empirical research and the aim of this paper. The following section on results and discussion presents main findings that are enriched with other authors' findings related to this topic.

## 1 Methodology

During the qualitative empirical research in the chosen companies, an interesting fact has emerged: customers affect the range of goods through their behaviour. This was found out as a partial result of self-research related to the topic of customer engagement.

The aim of this paper is to explain and put this phenomenon in a theoretical context and to point out the link with the relevant areas of business management. To meet this aim, an inductive approach (e.g. according to Saunders et al., 2012, p. 48) was used. It is also possible to say that this paper is built through the synthesis of empirical experience and theoretical bases as well.

The mentioned research (in the form of individual semi-structured interviews in three small Czech companies, i.e. with less than 50 employees) was primarily conducted for the purpose of data collection on the topic of customer engagement. Simply said, within the concept of customer engagement customers are considered as company partners or so-called co-workers.

The data collected in the sample were from retail companies with a focus on the so-called hobby segment. This sampling is based on the assumption that customers are more willing to respond to the incentives for engagement in the case of products for leisure time, i.e. they can behave like company partners.

## **2 Results and Discussion**

Much information can be obtained during pre-sales and after-sales interviews when customers express their requirements. This is the reason why these interviews are in the centre of this paper.

Essentially, obtaining information is one of the phases in the process of value creation. Prahalad and Ramaswamy (2004, p. 5) suppose that „active customers are increasingly co-creating value with the firm”. For the purposes of this paper, such active cooperation has the form of dialogues (interviews) with customers. Therefore it is possible to say that customers are involved in value creation.

### **2.1 Pre-sales interviews**

It is easy to derive from pre-sales interviews what goods customers are interested in. Thereby, it can happen that in case of frequent customer inquiries on a particular product, the retailer makes a decision to include this product in its ordinary offer (emerging from own research). It means that the influence of customers affects the modification in the trading range of goods.

The following statements are rephrased words by practitioners (own research):

- If the demanded goods are not available in the store, there is an effort to get them only one-time. In general, if the request for the same goods occurs several times, the goods become a part of the retailer's offer.
- Several years ago, customers wanted a special product because there was nowhere to go and buy it in the particular city so the retailer satisfied them. But customers wanted still other and additional products. As a result, the retailer broadened its trading range of goods.

Nevertheless it is necessary to admit that multiple occurrences of any requests do not automatically mean that a certain product become a part of the retailer's trading range of goods. The retailer usually needs to evaluate whether it is really a significant trend. And in one case (emerging from own research), the retailer has to think about how to ensure good product service (especially if the supplier operates abroad and does not have any division in the Czech Republic).

A very important fact is the indisputable existence of trends that bring inspiration. The trend itself can be defined as „a general direction in which a situation is changing or developing” (Hornby, 2005, p. 1578). Cimler and Zadražilová et al. (2007, p. 95) mention

changes in the trading range of goods. According to these authors, changes can be divided into two groups: (a) evolutionary changes and (b) seasonal changes.

Evolutionary changes are connected with innovation and with the development of population's needs (Cimler and Zadražilová et al., 2007, p. 96) and in essence, these changes indicate a trend.

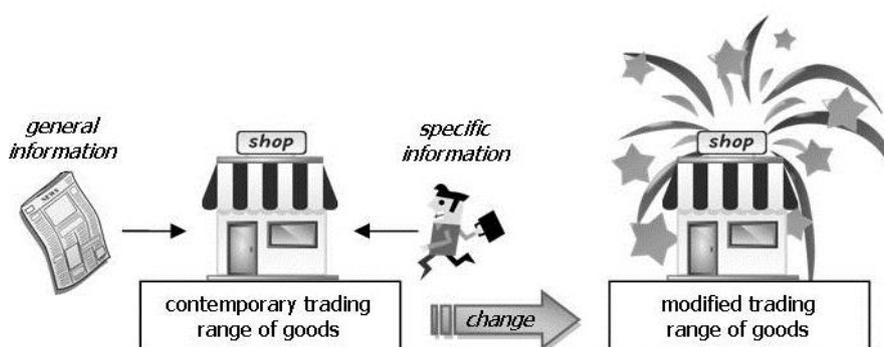
On the other hand, seasonal changes are connected with temporary fluctuations in the demand that are affected by consumer habits during the year (Cimler and Zadražilová et al., 2007, p. 96). Such changes last for a limited period and it is not appropriate to speak about a trend. This opinion is supported by Kotler et al. (2007, p. 436) who explain the term "trend" as something with long-term direction.

According to Hewitt (n.d.), identification of trends in the retail industry is nowadays a very easy task because of today's ubiquity of social media and other tools related to information technologies. This author mentions activities like observing customers, conducting surveys or running focus groups and claims that these activities belong mainly to the past. From my point of view, these activities are still important in business in today's reality although social media represent an additional and significant source of information. It is advisable not to overestimate, nor on the other hand, to underestimate the importance of social media.

Undeniably, officially published trends in the retail industry (in the form of various reports) are a valuable source of information for the retailer. However, every retailer has its own customer base which is specific (e.g. from the point of view of geographical location). Because of this specificity, generalised information about trends has only limited significance. Therefore, retailers have to seek for additional and more specific information. This kind of more specific information can be obtained just through the pre-sales interviews with customers. Retailer's customers can even bring information about trends that the retailer herself/himself has not captured yet.

Fig. 2 shows the relation between general and more specific information about trends as a base for retailer's decisions about the trading range of goods. Both sources of information are a significant basis for modification of the trading range of goods.

**Fig. 2** General and more specific information about trends and its impact on the trading range of goods



Source: Own processing; miniature pictures by Gustavorezende (2013), Nicubunu (2010), Shokunin (2010a) and Shokunin (2010b).

From the empirical point of view, there are no mathematically precise methods or clear rules in the process of modification of the retailer's offer. It seems that it is intuitive (emerging from own research).

## 2.2 After-sales interviews

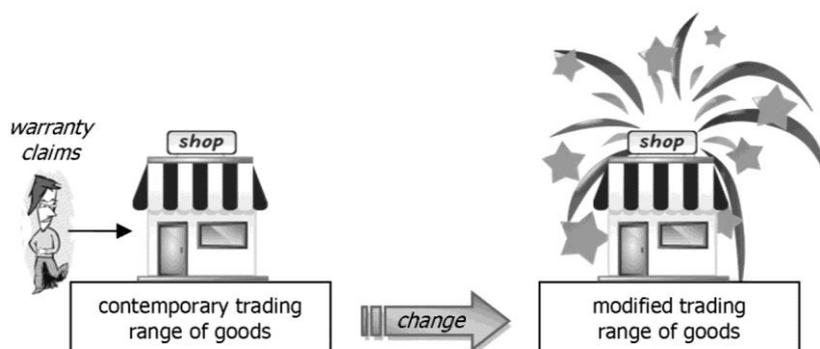
The retail company also gains valuable information in the case of after-sales interviews. Typical examples are warranty claims. Warranty claims are described as situations, „when a warranted product fails within the warranty period and the consumer makes a legitimate claim” (Karim and Suzuki, 2005, p. 667). In other words, warranty claims are connected with badly working products and these claims are usually exercised by the retailer who has sold this product to the customer. According to Toman (2007), a warranty claim itself is an unpleasant issue but the retailer should not consider it as a big disaster. It is necessary to see it as a helpful contribution to the good running of the business.

By means of warranty claims the retailer receives information about which supplier delivers goods that are of poor quality and therefore do not meet customer needs. If a warranty claim about a certain product appears more than once, it is a clear sign for the retailer that it is necessary to reassess the cooperation with the supplier of such goods (Solarová, 2014, p. 20) and therefore, it is an opportunity to modify the trading range of goods. This was confirmed through my own empirical research.

Nevertheless, retailers have to keep in mind that not every customer will come back with a warranty claim. That means that obtained information is distorted and therefore true reality is not caught accurately.

Fig. 3 presents the impact of warranty claims on the trading range of goods in a simplified way. a customer comes to make a complaint and if there are many complaints about the same type of goods or about the goods supplied by the same producer, then the retailer should modify its trading range of goods.

**Fig. 3** Warranty claims and its impact on the trading range of goods



Source: Own processing; miniature pictures by Nicubunu (2010), Shokunin (2010b) and Rdevries (2012).

For depiction, an interesting and very specific approach was identified by one Czech retailer who runs a successful e-shop with computers and other electronics. Not only does

this retailer monitor the occurrence of warranty claims for their own internal needs but also this retailer publishes the obtained data for the customers in its e-shop. The result is that customers can follow not only prices but also figures for failure of goods because customers are in general interested in the reliability of chosen products. The information about failure is not mentioned for every item because some products are in the retailer's offer only for a short time or not enough pieces of a particular item were sold (Rippl, 2008).

## Conclusion

Listening to customers is not only formalized through various satisfaction surveys. The company can advantageously utilize routine situations of daily life to learn in what areas it is useful to make a change. Sales interviews, especially in counter-sale shops, are routine situations in retailing. Therefore, retailers can utilise information that is gained during these interviews.

In this paper, pre-sales and after-sales interviews are the centre of attention. They are considered as a way customers can influence the trading range of goods.

Pre-sales interviews can help to identify trends and on this basis it can be recommended to update the retailer's offer. After-sales interviews (mainly warranty claims that are a helpful contribution to the good running of the business) are useful for modification of the retailer's trading range of goods as well.

Although warranty claims lead to a change in the trading range of goods, such changes concern rather tiny differences in the trading range. On the other hand, pre-sales interviews (together with the influence of trends) cause much bigger changes. In both cases, it can be considered as an innovation within the trading range of goods.

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# The application of neoclassical economic theory and new institutional economic theory to creation of rules Corporate Governance

Dušan Steinhauser<sup>1</sup>

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## **Abstract**

*The paper analyses the theoretical basis of Corporate Governance. From a methodological aspect were used methods of making scientific work. Especially were used analysis, synthesis, and comparison of theoretical paradigms, then analogy, tabular and charting methods. The aim of this article is to demonstrate the application of the new institutional economic theory and neoclassical equilibrium at the level of individual and firms by creation of rules Corporate Governance. Corporate Governance is mainly based on the new institutional economic theory. This establishes from the neoclassical economic theory and institutional economics. In many aspects are both theories in contrast. New institutional economic theory criticizes neoclassical economics for abstraction from significant factors of the economic reality. But by creation of rules Corporate Governance may be applied neoclassical economic theory, especially in the area of personal motivation and individual balance.*

## **Key words**

*corporate governance, new institutional economics, neoclassical economics, balance, ethic, moral, kvazirenta.*

**JEL Classification:** B13, B52, G34

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## **Introduction**

Corporate Governance is a relatively young approach to ensure of asset management. Creation of rules Corporate Governance has developed since the early 90s of the 20th century, but a premise for this creation is separation of ownership and asset.

As theoretical base of Corporate Governance is in general takes the new institutional economics. This is based on institutional economics and neoclassical economic theory. On the other hand is this in many aspects in opposite with this theories.

The New institutional economic theory developed and enriched economic analysis with many factors, from which neoclassical economics abstracted and omitted every day's economic reality.

In our opinion, for creation of Corporate Governance is just useful to know the paradigm of neoclassical economic theory. Especially in research of economic equilibrium and maximize efficiency at the level of the firm and the individual.

In addition to this benefits, which offers approach of neoclassical economic theory, allows this to know the perception of the values and motivations of every individual economic entities.

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<sup>1</sup> Ing. Dušan Steinhauser, University of Economics in Bratislava, Faculty of Commerce, Department of International Trade, Dolnozemska cesta 1, 852 35 Bratislava, steinhauser.dusan@gmail.com

## **1 Methodology**

The aim of this article is to demonstrate the application of the new institutional economic theory and neoclassical equilibrium at the level of individual and firms by creation of rules Corporate Governance. To reach the target were used basic methods of making scientific work. Methodology was prepared by V. Gonda (2012).

Analysis was used to fragmentation of research problematic. As contrast to the analysis is synthesis. This is necessary to formulation of conclusions. Using comparison were compared theoretical paradigms. Then were used analogy, tabular and charting methods.

## **2 Results and discussion**

### **2.1 Theoretical aspects of Corporate Governance**

P. Knapik (2010) defines Corporate Governance as a process of formation of internal rules for the allocation of rights and responsibilities between the bodies of internal environment of the company, but also externally. Corporate Governance thus determines the relationships between authorities in company - owners of capital, management and control authorities - and firm relations with external institutions. For example, bodies of state administration in the area of tax administration, social institutions, and others. Theory of corporate governance is intensive developed since the 80's of the 20th century (Okruhlica, 2013). In this period we meet with the onset of such phenomenon as interdependency, globalization, technological change and changes in the structure of capital-ownership. But evolving of problematic is since formation of historical capital companies and since separation of ownership and administration of capita. This separation increases the risk of failure of company management.

„The term „corporate governance“ appears to have arisen and entered into prominent usage in the mid-to-late 1970s in the USA in the wake of the Watergate scandal and after the discovery that major American corporations had been engaged in secret political contributions and corrupt payments abroad.“ (Knapik & Krajčák, 2012)

The first national code of best practice for the management of the company was introduced from the chairman of Cadbury Schweppes (Sir Adrian Cadbury) in 1992, the Organisation for Economic Cooperation and Development (OECD) has formulated the principles of Corporate Governance in 1999, and these were revised in 2004. According to the scale and scope of the problems we distinguish two approaches (Okruhlica, 2013):

- Shareholder approach - dealing with the interests of the owners of capital. Inter alia, the relationship of formal and informal institutions, distribution of responsibilities between managers and measuring their performance, including risk management.
- Approach of stakeholders - employees and creditors.

P. Knapik (2010) claims, that implementation of rules can increase attractiveness for shareholders and owners of capital. Access to the Corporate Governance is an interdisciplinary. It includes economics, ethics, social sciences and others. For this reason, it is generally acknowledged that, as a theoretical basis for Corporate Governance serves the new institutional economics. This, however, is based on institutional economic theory and neoclassical economics (emphasis on efficiency and balance). In our opinion, the

proper understanding of the application of the rules of corporate governance into practice should be familiar with both paradigms. Short comparison of neoclassical economics and new institutional economic theory shows table 1.

**Tab. 1** Comparison of neoclassical economics and new institutional economics.

Neoclassical economics	New institutional economics
<ul style="list-style-type: none"> <li>- methodological individualisms</li> <li>- homo economicus</li> <li>- unlimited rationality</li> <li>- own interest</li> <li>- certainty</li> <li>- perfect information</li> <li>- change free</li> </ul>	<ul style="list-style-type: none"> <li>- methodological individualisms</li> <li>- contractual man</li> <li>- limited rationality</li> <li>- opportunisms</li> <li>- uncertainty</li> <li>- asymmetric information</li> <li>- transaction costs</li> </ul>

Source: V. Liška et al., 2011, p. 18

In general, we know two theoretical styles (extremes) of Corporate Governance. Lubomír Mičoch (2005) recognizes and compares the Anglo-Saxon system and the German system. The differences are known in three areas - finance, information, management and control. Corporate Govern operates in a society where the company is financed through bank loans (German system), or through the financial market (dispersed ownership occurs in the Anglo-Saxon system). This fact also influences on the sharing of information - companies that are financed by financial market published a lot of information. Thus, companies are under public control. In area of management and control we know "exit system" – owners of capital decide by selling shares through the financial market. This concept we find in the Anglo-Saxon area. The German style is used by "voting system" - capital owners manage the company by voting. Peter Knapik points out that the individual relevant decisions are based on emotions rather than through rational system (Taleb, 2007, 2011 in Knapik, 2012) and in his article lists 10 myths that are presented of mainstream economics - as formulated by David Orell (Orell, 2010 in Knapik, 2012). We give these reformulations in a negative style: economic cannot be described through laws; it is not made up of independent individuals; is unstable; is not easily manageable through statistical reporting; is not rational and efficient; is not gender neutral; it is not fair; economic growth is not eternal; economic growth does not satisfy; economic growth is not always good. Such ideas undermine the position of the mainstream of current thinking and converge to alternatives.

These aspects briefly characterize the breadth and scale of the Corporate Governance.

### *Neoinstitutional economics*

The New institutional economic theory is based primarily on institutional economics and neoclassical economic theory. But in many aspects is the theory in contrast. The Neoclassical economic theory was based on the assumption of perfectly competitive markets and achieving balance. In contrast, institutionalism proved complexity and multifactorial economic reality, which is feasible only through an interdisciplinary approach. Psychological approach advocated T. Veblen. J. R. Commons was representing of the legal approach of institutionalisms. He promoted reform efforts for the development of society. Even he participated on reforms of the "New Deal" of President F. D. Roosevelt.

"In opposite to T. Veblen, who was to the American reality very critical and very pessimistic, Commons highlighted the positive side of the American economy and thought that critical deficiencies can be corrected through thoughtful institutional reforms (Liška et al., 2011)."

JR Commons underlined that the purpose of positive economic analysis is necessary to understand the evolution of the institutional framework. As an institution can be called first formal institutions (companies, public authorities and others) and informal institutions (customs, community relations, corruption, moral standards, ethics and other). Price-setting mechanism takes place not through impersonal market mechanism, but by successive swapping concessions. A major contribution of work of J. R. Commons was the introduction of the term - transaction costs.

"... The concept of transaction costs as the sum of all costs that are incurred in connection with a transaction and emphasized the role of institutions to reduce transaction costs (Liška et al., 2011)."

The original American institutional economic theory formulated assumptions on which analysis worked The New institutional economic theory. The author of this paper is not identifying with the full range of the conclusions of the original American institutionalisms, especially psychological line (separation of people to classes, Marxist's assumptions). For this reason we see as the basis for applying of the rules of Corporate Governance as New institutional economic theory.

**Tab. 2** Theoretical basis of institutionalisms

Institutional economics (US-American)	New institutional economics
<ul style="list-style-type: none"> <li>- American pragmatic philosophy,</li> <li>- behaviourisms, psychology of instinct,</li> <li>- sociology,</li> <li>- German historical school,</li> <li>- Darwin's theory of evolution,</li> <li>- Marx's theory about separation of owners and management,</li> <li>- empirical-inductive method,</li> <li>- Methodological collectivisms.</li> </ul>	<ul style="list-style-type: none"> <li>- Knowledge from new theories from second part of 20. century,</li> <li>- positive transaction costs,</li> <li>- opportunisms,</li> <li>- limited rationality,</li> <li>- imperfect a asymmetric information,</li> <li>- uncertainty from economic environment,</li> <li>- specific actives,</li> <li>- Methodological individualisms.</li> </ul>

Source: V. Liška et al., 2011, p. 21

R. H. Coase, a prominent represent of The Neoinstitutional School, raised the issue of transaction costs at the level of theory. Transaction costs explain the origin and existence of firms in the economy. A transaction cost related with allocation of property rights, their transfer and management and includes management costs. Inside the company are economics operations more efficiently than if the individual had to suffer all transaction costs from all individual processes. Coase-theorem sings as:

"The decrease of welfare partially reflected the fact that the share of resources is used to secure transactions, and partly in that are limited their scope. In a sense, every diversion from the Pareto-optimum is explained through the existence of transaction costs, because if they were zero, all contracts towards Pareto-optimum would be implemented (Lisý et al., 1996). "

Pareto-optimum is a situation where an individual maximizes utility to the moment of the expense of another. This moment is high level of this process (Volejníková, 2005). D. C. North dealt with the evolution of institutions and is caused by a learning process. Prerequisite for this process consists of various factors, including imperfect information, irrationality of individuals, culture, customs and others. However, the reform process is time- and cost-consuming, causing the postponement of the reform effect. Such a situation called D. C. North as dependence on trajectory (Liška et al., 2011). As was written ethics and morality are regarded as informal institutions. These determine social development. P. Knapik defines ethics and moral as follows:

"Ethics examines the relationships between people and other people, man's relationship to society and man to himself... Moral through the commands and prohibitions requires that a person acted in a certain way and at the same sense justifies this behaviour (Knapik, 2010). "

### *Neoclassical economics*

Neoclassical economics dates from the beginning of the 70's. years of 19. century and dominated by the formation of the theory of J. M. Keynes. In the historical development is political economics changing on the Net Economics (Lisý et. al., 1996). The centrepiece of scientific investigation in this period and for this school has become a consumer (Paulík & Švantnerová, 2007). This aspect differs from the classic economic theory to neoclassical economics. Economic science has fundamentally changed by the upraise of so called marginal revolution, which brought mathematical approach to economic analysis and modelling and determined three streams of economic schools (Volejníková, 2005): The Austrian school; The Lausanne school – L. Walras, I. Pareto, v. J. R. Hicks; Cambridge School – A. Marshall, A. C. Pigou, D. H. Robertson. According to J. Volejníková (2005) neoclassical economic theory contains European and American Marginalists (W. Jevons, L. Walras and others), Lausanne and Cambridge school, but Austrian not. The neoclassical economics develops in three stages (Volejníková, 2005):

1. 70's. years of 19's. century to 30's. years of 20's. century - Neoclassical school prior to the teachings of J. M. Keynes.
2. 30's. years of 20's. century to 70's. years of 20's. century - the domination of theory by J. M. Keynes. Convergence by two paradigms (Neoclassical and Theory of J. M. Keynes) - Great Neoclassical Synthesis and Neokeynesian's.
3. 60's. - 70's. years of 20's. - Neoconservationist's.

Comparison of two economic theories can be based on ownership approach (Paulík & Švantnerová, 2007). Lausanne school calculated with private property, but in unspecified forms. This aspect of the property became irrelevant. The leaders of the Cambridge schools differentiated private and social sphere. They worked with the failure of the market mechanism, with externalities, this stemming from defects in property right. Neoclassical economic theory is based on the following conditions (Lisý et al., 2010):

- Methodological individualism – neoclassical analysis relies on the individual and its action, which determines the overall economic development. An individual disposes with all and complete information.
- Anticipated rationality of individuals is achieved by having its own individual efficiency-economic interests. Maximizes your efficiency the best way possible.
- Neoclassical equilibrium balance occurs when individuals are not if – an incentive to change its position.

- Emphasis on the pricing mechanism – the price mechanism.

In our opinion and to understanding the motivation of the individual, which operates under the rules of Corporate Governance, it is useful to acquaint with the theory of joys and sorrows (Jevons, 1911 in Volejníková, 2005). Every feeling of joy and sorrow has its quality (intensity of feeling) and quantitative (length feeling) characteristics. These two dimensions can be plotted in Cartesian system and that can be measure the total amount of sensation. On the amount of feeling, in addition to these factors, operates a sense of anticipation for the future.

"The intensity of feeling in the expected presence must be, to use a mathematical expression, a function of the future feeling of real sense and time, that meanwhile passed; feeling must increase to the moment of realisation of sorrow (Jevons, 1911 in Volejníková, 2005)."

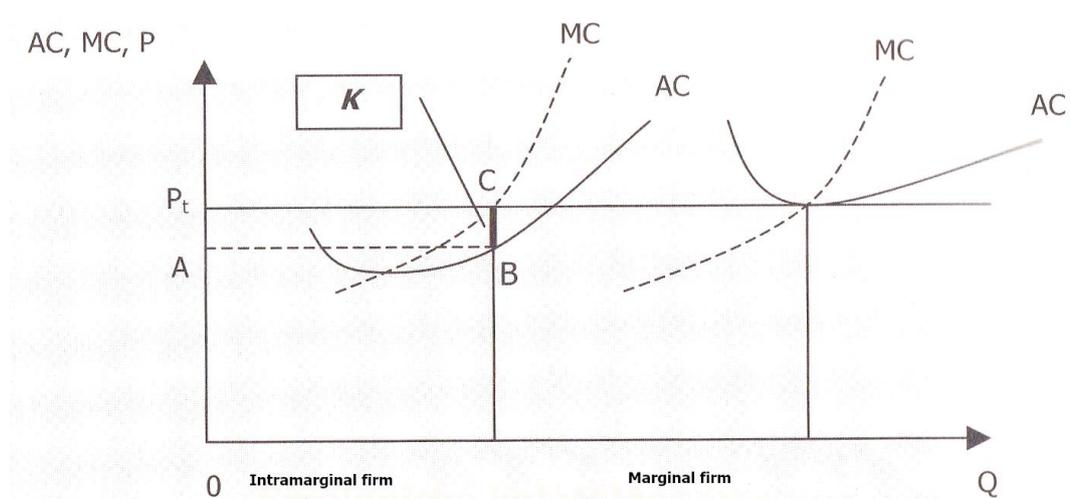
The theory further claims that sorrow as the opposite of joy, the joy is negative.

"... so decrease of sorrow means increase joy; increase sorrow means reduction of pleasure (Jevons, 1911 in Volejníková, 2005)."

This attribute of opposite variables can be applied to the problem of acquisition of products, where ownership of the product must exceed sorrow of its acquirement. In the following text we will deal with selected aspects of neoclassical economic theory (Cambridge School).

A. Marshall (Volejníková, 2005) considered about economic phenomena under conditions of perfect competition. He introduced a time factor and the method of partial equilibrium (analysis of equilibrium individually by all goods). He distinguished two types of firms. Marginal and intramarginal firms. Intramarginal companies own production factors in higher quality, that they achieve special profit in the form of kvazirenta (figure 1). Special profit stimulates entry of new firms into industry and that is kvazirenta reduced. Under the influence of time, marginal costs (MC) are reduced using economics of scale. The offer of firm must follow function of marginal costs.

**Fig. 1** Kvazirenta (K)



Source: J. Volejníková, 2005, p. 124

"Marginal costs represent the increase of total costs, which was driven by the growth in production volume by one unit (Táncošová et al., 2013)."

Economics of scale motivates companies to growth to the point of monopoly. This situation deforms competition. According A. Marshall against this trend operates the life cycle of the company. Companies are going through a phase of growth, then they age and eventually may be in the future eliminated. In the long term marginal costs tend to rise due to depletion of specific factors of production.

A. Marshall understood costs as price for the use of production factors (Volejníková, 2005). Demand for factors of production is derived from the demand for goods that are produced from these inputs. The costs are proportional to the sorrow. The real price from work is the sorrow of injury from work, the real cost of capital is the price for waiting; renta reflects the scarcity of input and is not considered as cost. A. Marshall knew the fourth entry - entrepreneurship - and its price is a normal profit. A. Marshall had strong ethical and moral sensibilities in relation to socially marginalized people. Inequality individual options considered harmful, more than material polarization. Like institutional economic theory A. Marshall was a supporter of reform. Capitalism and its effectiveness considered as a possibility of achieving improvements in the standard of living of the population.

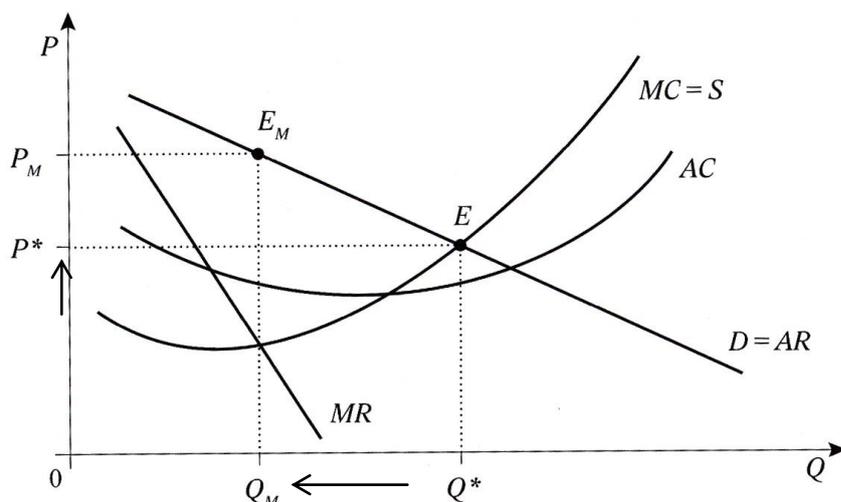
"He considered that the main task of economics is to register the social consequences of industrial change and keep in mind that the same amount of money means more for the poor than for the rich man (Volejníková, 2005)."

A. C. Pigou (Volejníková, 2005) made a distinction between private and social costs and private and social benefits. In this situation, the dual sphere, leads to disturbances in the allocation of resources and arise externalities. This problem undermines the spirit of error-less market mechanism. Externalities can be eliminated through the state economic policy. R. H. Coase later denied the necessity of the state initiative and replaces it by strictly defined property rights.

Theory of imperfect competition in works of J. Robinson (The Economics of imperfect competition, 1933) and E. Chamberlin (Theory of monopolistic competition, from 1933 to 1948) (Lisý et al., 1996) can be considered as an important element to use in preparing the Corporate Governance rules. Imperfect competition occurs in two different forms (E. Chamberlin), the situation of oligopoly, monopolistic competition situation. Lack of regulation in oligopolistic competition increases the risk of cartelization. "Monopolistic competition Chamberlin understood as a competition between the monopolists each of which is the only salesman in something of a unique product or a special variant of the product ... Differentiation is reflected either spontaneously, or it underlines the manufacturer through advertising (Lisý et al., 1996)."

Figure 2 shows the ineffectiveness of the imperfectly competitive market (J. Táncošová et al., 2013). In a perfectly competitive market is a situation of equality of these functions: marginal revenue, marginal cost and average cost ( $MR = MC = AC$ ), and on market is reaching production and allocative efficiency. Under conditions of imperfect competition is applied, that the balance occurs at the intersection of the functions of marginal revenue and marginal cost ( $MR = MC$ ) and the price is extended on the line of demand (D). Thus constituted a higher price (allocative inefficiency) and firms produce lower quantities of output (production inefficiency).

**Fig. 2** Inefficiency on an imperfectly competitive market



Source: J. Táncosová et al., 2013, p. 111

## Conclusion

Article emphasized on neoclassical economic theory, because in our opinion is widely acceptable a role of The New institutional economic theory in the development of rules of Corporate Governance, but it is abstracted from the knowledge of The Neoclassical economic theory. Through discovering of the history of economic theories we meet with thesis, which dealt both representatives of The Neoclassical economics and Neoinstitutional economics (moral principles, social conclusion). Access to the Corporate Governance is multifactorial. It is addressed the relationship between owners of capital and its managers. Similarly multifactorial approach is also new institutional economics. But in setting of goals, which should be achieved through the application of the rules of Corporate Governance, in our opinion plays important role conclusions of The Neoclassical economics. In particular, we mean achieving of a balance. This is reaches by exactly setting of economics, societal and social conditions. This is possible argument to recovering of the objectives and rules of Corporate Governance. In our opinion, it is not necessary prostheses only one economic theory, but it may be useful to use the views of a wide diapason of solutions and ideas from history of economic theory.

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# The importance of marketing for educational organizations in the Czech Republic

Michaela Strzelecká<sup>1</sup>

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## **Abstract**

*The contribution is focused on assessment of current state of using marketing tools in educational organizations in the Czech Republic. Attention is paid to educational institutions, their positions within the public sector and basic method of financing. In connection to constantly increasing competition among schools, demand for students and qualified teachers is raising. Educational organizations compete for funds from public and private sources. Range of educational and learning opportunities is also increasing. Creation of real marketing strategy is a crucial for obtaining financial provision and good teachers. Only the best offers in line with demand could be successful in the educational market in long term.*

## **Key words**

*education organization, non-profit sector, marketing strategy, educational market*

**JEL Classification:** M31

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## **Introduction**

The main and common feature of all types of non-profit organizations is that they were not founded or established for the purpose of business. These are institutions that operate in favor of the state, society and other communities of interest. Emphasis is placed on achieving their main mission, profitability of these organizations remains secondary. Currently there is no uniform legislative definition of the non-profit sector and consequently of non-profit organizations. The issue is partially covered by public law, in connection with the recodification of the Civil Code, a new concept of "public utility" emerges. These changes are in the process of implementation to practice of non-profit entities and in the future we can expect further developments. Non-profit organizations as legal forms can be divided into two basic groups. The first group is private nonprofit organizations that were not established by the state, for example those include associations, charities, foundations and churches. The second group consists of the public sector. These are state organizations, regions, municipal bodies and by them established semi-budgetary organizations. Semi-budgetary organizations operate primarily in the areas of healthcare, education, social care and culture. These organizations cannot operate on the principle of self-financing, as they provide services within their activities free of charge.

Schools and educational institutions provide educational services and also form an important component of the education market. For successful implementation, it is necessary that schools in addition to their development introduce modern management methods. In addition to the introduction of quality management and the application of benchmarking, it is also important to focus on the customer, spreading the good image

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<sup>1</sup> Ing. Michaela Strzelecká, Slezská univerzita v Opavě, Obchodně podnikatelská fakulta v Karviné, Univerzitní náměstí 1934/3, 733 40 Karviná, Czech Republic, o102207@opf.slu.cz

and improving public relations. It is also necessary to create an appropriate marketing strategy for fundraising.

## **1 Methodology**

To fulfill the aim of this paper research was carried out of available literature sources. The methods of description, analysis and comparison were used.

## **2 Results and Discussion**

### **2.1 Financial support for primary education**

The most common legal form of educational institutions of primary education are semi-budgetary organizations. In the case of primary schools these are semi-budgetary organizations established by the municipal authorities. The financing of these entities is provided from several sources:

- contribution from the budget of the founder - local government,
- subsidies from the state budget,
- funds from private and complementary activities,
- contributions and donations,
- funds from projects and grants.

The financial contribution of the founder and subsidies from the state budget to facilitate main purpose are derived by performance volume. The consistent formula of normative funding thus indirectly forces schools to behave in a market-like manner and seek other financing options. Semi-budgetary organizations may, in addition to these legal resources, obtain funds from other sources like projects and grants at all levels of government. Schools can raise funds in projects and grants from local budgets - municipal and regional and from selected chapters of the state budget and EU funds. Grants may be obtained from alternative sources, such as foundations.

#### *Regional budgets*

Municipalities offer for its semi-budgetary organizations the ability to draw public support to facilitate support for pupils' leisure activities and special school cultural and sport events. Subsidy programs of regions focus on programs in environmental education, crime prevention and leisure activities of pupils.

#### *State budget*

Grants of the Ministry of Education are provided to support teaching of foreign languages and activities in the area of integration of foreigners. Resources can also be obtained for the implementation of supplementary educational fields. Traditionally, support is provided in the area of ICT and the environmental education. Schools can also apply for environmental education grants from the Ministry of Environment and the State Environmental Fund.

#### *EU funds*

The widest use of the possibility of drawing EU funds was provided by the Operational Programme Education for Competitiveness (period 2007-2013) in the framework of

Education Ministry's project "EU money to schools". On the basis of the so-called template simplified approach 4.5 billion CZK have been earmarked for this area. Supported topics were foreign languages, reader and information literacy, science, etc. Resources of the Fund can also be obtained through the National Agency for Educational Programs that coordinates programs in the frame of the Comenius project. Another fundraising option offers for instance the European Regional Development Fund for projects of cross-border cooperation.

### *Other (alternative) options*

Semi-budgetary organizations may also obtain financial resources for their activities from non-profit entities, both in the Czech Republic and abroad. The support is provided by organizations such as OKD Foundation, Foundation ČEZ, ACES Program (Academy of Central European Schools, Vienna), etc.

## **2.2 Marketing of non-profit organizations**

Marketing is not at all only linked to the sale of products, it is necessary to apply it to non-profit organizations as well. The aim of the non-profit marketing is customer service. Adoption of marketing in schools is related to changing the existing culture of schools and helps solve the problems of their effective functioning. Only by appropriate communication with its surroundings, schools can develop and meet the growing demands of its users.

Seven key steps for implementing successful marketing of non-profit organizations (Rektořík, 2010):

1. Identifying a link between marketing and strategic plan of the organization.
2. Setting marketing objectives
  - action goals - specific, specifically targeted and measurable results,
  - goals in terms of image - not measurable, like a vision or mission of the organization.
3. Introduction of the organization on the market.
4. Marketing audit, which determines the ratio between the so-called. Marketing "P's".
5. Marketing plan.
6. Development of the marketing communication campaign.
7. Evaluation of the results and practices that the organization used within its marketing practice.

Marketing of schools is often understood and used improperly. It is not only about the activities of finding sponsors and operating websites or organizing crash events before the registration of new students. Marketing of schools represents purposeful communication between institutions offering education and the demand. Successful marketing is only one that is carried out systematically and coherently. The school must respond to environmental demands in accordance with their own capabilities and intentions. On the education market only those can be successful who respond to the demand with their best offer. Only long-term relationship between the inquirer and the bidders become more efficient and stronger.

### Education market demand

- school users - pupils, respectively their legal representatives,
- state - guarantor of compulsory schooling,

- municipalities, regions - founders of educational institutions,
- physical and legal persons - founders of expert education,
- future employers - expected graduation standards.

### *Supply on the education market*

School education is a service, which cannot be evaluated before starting school, but not until several years after completion of education. Inspection day or Open day can not at all offer a complete picture of the pedagogical value of educational institutions. Customer's, user of education services, orientation is mostly impacted by their own experience, recommendations from the closes environment and perception of values.

With appropriate marketing communication a school can

- create favorable public opinion, based on good pedagogical results (excellent student results in competitions, participation in non-traditional projects, implementation of new subjects),
- organize public meeting events (presentation by school performances, cultural and sports events for parents and the public),
- the introduction of quality management system (setting of appropriate communication with the school environment, removing of negative effects both in communication and in the internal environment of the school).

### *Market Research*

Market research helps schools achieve better education market orientation, determines the market size and development, performs the necessary analysis of demand and the status of the competition. The results of the research can identify problems and opportunities that may arise. Research helps determine the direction of marketing activities and evaluate its results. When creating a research agenda the school specifies its goals and requirements for the depth of the required data. Investigated factors can be evaluated by the SWOT analysis, research can be done by questioning, observation or controlled interview. Furthermore, secondary data collected by the founder, the Ministry of Education or the specialized press can be used.

Examined factors:

#### 1. Positive internal factors

- quality teaching staff,
- introduction of new non-traditional forms of teaching,
- implementation of new subjects,
- responsible school management,
- staff helpfulness;

#### 2. Positive external factors:

- school's involvement in projects (obtaining extra-budgetary resources),
- pupils' excellent results in competitions,
- effective communication with the public,
- possibility of cooperation with local media,
- appropriate geographic location of the school;

#### 3. Negative internal factors:

- turnover of staff (teachers and non-teaching staff),
- lack of parents' interest in school events,
- confusing information system,
- unwilling, unresponsive staff;

#### 4. Negative external factors:

- unattractive geographic location of the school (uptown),
- negative population curve (reducing of pupils' numbers),
- presence of competing schools in the vicinity, in town,
- student transfers to competing specialized schools.

For effective research the school management must define exactly what kind of information needs to be obtained, determine the source and evaluation procedures. It is necessary to create a marketing information system for continuous use in the school management. The research results help to understand the education market, identify specific problems and opportunities. Periodic verification helps in the systematic improvement of the marketing program.

## Conclusion

Marketing is one of the basic management methods to improve the performance of school facilities. Properly chosen marketing concept helps the school to succeed in the tough competition. Nowadays when on the education market there is excess supply, it is necessary to be very responsible in evaluating all the factors that affect marketing goals. For its needs the school must develop market research and use regular audits to verify the conclusions and recommendations.

Part of the marketing concept of the school is also obtaining extra-budgetary funds for extra school activities. The funds collected along with other presentations of activities help improve and strengthen the market position of the school on the education market.

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# Assessment of the structural funds implementation in Slovak republic focusing on implementation process in transport field<sup>1</sup>

Lenka Šprochová – Ľubomír Nebeský<sup>2</sup>

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## **Abstract**

*Slovak republic (SR) as other newcomers, that entered the European Union (EU) in 2004, is able to use in 2014 the European structural and investment funds (ESIF) in the third programming period 2014 – 2020 according to the strategy Europe 2020. Till these days still in the full implementation period of previous funding 2007 – 2013 with projects to be ended in 2015. Slovakia has experiences in the field of ESIF funding thanks to the first and second programming period 2004 – 2006 and 2007 – 2013. The aim of this paper is to assess the former implementation period in SR in the area of transport, the main spelled problem in the eyes of domestic and foreign investors.*

## **Key words**

*programming period, transport, investment funds, infrastructure*

**JEL Classification:** F21

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## **Introduction**

Transport infrastructure and transport services are an integral part of everyday life of all subjects of the business environment as well as of the public sector, including all inhabitants of the country. This sector contributes to the achievement of economic growth, increase competitiveness and prosperity of society. It increases employment and is a key factor in decision making process of foreign investors, tourism development and helps reduce disparities between regions. Development of major transport infrastructure is extensive, financially and technically demanding process, and the Slovak Republic (hereinafter as „SR“) in the medium term will continue to be heavily dependent on financial resources from EU funds. Within this framework SR is involving the transport field in the EU funds from the first implementation period 2004 – 2006 within the framework of Operational Programme Basic Infrastructure (hereinafter as “OP BI”), in the second implementation period 2007 – 2013 within the framework of OP Transport (hereinafter as “OPT”) and is planned also in the current implementation period 2014 – 2020 within the framework of OP Integrated Infrastructure (hereinafter as “OP II”).

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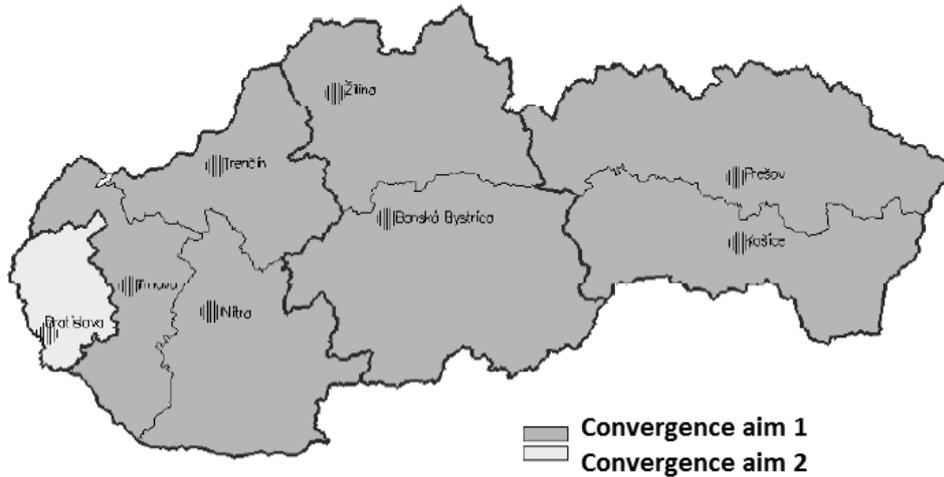
<sup>2</sup>Ing. Mgr. Lenka Šprochová, prev. Šimorová, PhD., University of Economics in Bratislava, Faculty of Commerce, Department of International Business, Dolnozemska cesta 1, 852 35 Bratislava, lenka.simorova@euba.sk

Mgr. Ľubomír Nebeský, Comenius University in Bratislava, Faculty of Management, Department of Economics and Finance, Odbojárov 10, P.O.Box 95, 820 05 Bratislava, lubomir.nebesky@gmail.com

## 1 Methodology

The aim of the paper is to assess the former implementation period in SR (2007 – 2013) in the area of transport, the main spelled problem in the eyes of domestic and foreign investors. According to the historic method we are assessing implementation periods of 2004 – 2006 and 2007 – 2013 with the forecasting prospect of 2014 – 2020 periods. Below we illustrate how Slovakia was divided in different era of programming period.

**Fig. 1** OP BI region division



Source: Operational program Basic infrastructure, 2003, p. 6

**Fig. 2** OPT region division



Source: Operational program Transport, 2007, p. 12

**Fig. 3** OPII region division



Bratislava a juhozápadné Slovensko – Bratislava and Southwest SR, Severozápadné Slovensko – Northwest SR, Stredné Slovensko – Central SR, Východné Slovensko – East SR

Source: Operational program Integrated Infrastructure - draft, 2014, p. 46

As can be seen on the pictures above, SR was initially divided into 4 regions: West SR, Middle SR, East SR and region of the capital city Bratislava. Through the period of almost 10 years the philosophy of European Commission changed and Bratislava was embedded into the region of West SR.

## **2 Results and Discussion**

Implementation of structural funds in SR initiated by the accession of SR to the EU structure in 2004, when SR entered into first programming period in half of the possibility to use these funds. Therefore SR was not prepared to consume the amount assigned. The second programming period was based on previous experiences and therefore there is possibility to assume also about the improvement of the usage of funds in the transport sector.

### **2.1 OP Basic Infrastructure 2004 - 2006**

National Development Plan (hereinafter as “NDP”) identified the balanced regional development as one of specific objectives of the programming period 2004 - 2006. This objective responded to the need of the SR to remove or reduce disparities between individual regions and to promote sustainable economic and social development. Situation in SR in 2004 was complicated by the disparities between regions classified in nomenclature NUTS 2 (according to the picture 1), as well as within the regions themselves. The main themes of that period were the lack in transport and availability of information technologies and as well as lack of infrastructure facilities.

OP BI followed the priority objectives of the NDP. OP BI was a program document of the SR for the absorption of structural funds of the EU. It was aimed to address problems of regional development objective 1 in the SR. OPBI was aimed to remove existing regional disparities identified in NDP in the areas of transport, environmental and local infrastructure. The aim was to improve local conditions by ensuring equal access for local development centres to individual infrastructures.

In 2007 was through OP BI concluded 1,149 contracts in total numbers 20,620 billion of Slovak crowns (hereinafter as "Skk"). Allocated resources from the structural funds and the state budget were contracted to 98%. By the end of 2007, paid 12.7 billion. Skk, what represents 62% of funds. 89 projects (8% of concluded contracts) represented in 1,436 billion. Skk was 31. 12. 2007 financially completed.

**Tab. 1** Situation of EU funds implementation under OP BI, 31.12.2007, in Euro

OP BI		
	Total allocation	21 064 864 102
Received applications	Nr. Applications	3 370
	Application amount claimed	76 481 401 878
Signed contracts	Nr. Contracts	1 149
	Contracts amount claimed	20 620 226 243
	Paid	12 743 071 528
Contracts ended	Nr. Contracts	89
	Contracts amount claimed	1 437 058 628

Source: Operačný program Základná infraštruktúra, nd, <http://www.nsrr.sk/sk/programovacie-obdobie-2004---2006/operacne-programy--programove-dokumenty-a-iniciativy-spolocenstva-v-po-2004-2006/>

As can be seen in table 1 there was a big amount of financial possibilities not implemented and therefore it was not possible to fulfil at acceptable level the aims set in the document. Final amount of EU fund used in SR v programming period 2004 – 2006 was at 6,6%.

## 2.2 OP Transport 2007 – 2013

The objective of the OPT was to promote sustainable mobility through the development of transport infrastructure and public railway passenger transport.

Implementation of this objective contributed to the improvement of SR, individual regions and their interconnections, and in synergy with the objectives of other OP and to reduce regional disparities and support the development of economic activities and increasing competitiveness of the SR. In this context, the OPT focused primarily on the construction and modernization of transport infrastructure in SR and its integration into the European transport system and ensured linking major residential units in order to tackle regional disparities in the less developed regions of Slovakia while maintaining the principle of sustainable mobility. In parallel also provided a means for the progressive elimination of unsatisfactory parameters of transport infrastructure in the regions and urgent issues of safety, reliability and quality of service. By focusing the OP in the field of construction and modernization of road infrastructure as priority axis strengthening the

territorial Regional OP, which was supported within the area of 2nd and 3rd class roads, which creates conditions for a synergistic effect in the development of the road network. Although the OP was not designed to directly support the business, its focus contributed to the stimulation of internal resources regions for the development of downstream business activities (small and medium enterprises) and to increase the attractiveness for foreign investment, thereby contributing to the fulfilment of the priorities of the National Reform Programme in the business environment.

**Tab. 2** Situation of EU funds implementation under OPT, 30.09.2014 in Euro

	Total allocation	3 790 719 992
	Nr. Contracts	85
Contracts ended	Contracts amount claimed	2 621 000 000

Source: internal documents of Ministry of Transport, Construction and Regional Development of the SR (hereinafter as "MTCRD SR")

OPT is still in process of final assessment from the side of MTCRD SR and Euroepan Commission (hereinafter as "EC") plus SR was able to negotiate with EC the exception of use the rule n+3/n+2. Currently the amount of EU funds used in 2007 – 2013 period at level of 69,13% with the view of 107,85%.

### 2.3 OP Integrated infrastructure 2014 – 2020

OPII is a programmatic document of the SR for drawing on EU funds for the period 2014-2020 in the transport sector and in improving access to information and communication technologies and improving their use and quality.

OPII global objective is to promote sustainable mobility, economic growth, job creation and improving the business environment through the development of transport infrastructure, development of public passenger transport and the development of the information society. For the purposes of the OP was allocated 4,749 bill. EUR.

SR priority interest is primarily in the construction of motorways, the absence of which negatively reflected in the economic, environmental state, and which constitute an obstacle to the mobility of the population, reduce the attractiveness of the area in terms of tourism development and investment flows or significantly assist to increase traffic safety. The total planned length of the motorway network in SR is 705 km and is defined by D1, D2, D3 and D4. At present, the scope of the planned motorways in operation is less than 60%.

### Conclusion

The aim of the paper was to assess the former implementation period in SR (2004 - 2006 and 2007 – 2013) in the area of transport, the main spelled problem in the eyes of domestic and foreign investors. Authors identified the lack of experiences in SR in the field of project management especially in the programming period 2004 – 2006, where SR was able to implement and fully used only 6,66% of total allocation of EU funds. There was

also the lack of time, because SR entered the EU only in 2004, when the programming period was almost at the end. The second period 2007 – 2013 based on the knowledge gained in the first period and clearer instructions from EC, SR in September 2014 is at the level of 69,13% of EU funds allocation with prospective of exceeding 100% of EU funds allocation.

From this observation authors can assume that SR is on the right way of using and implementing EU Funds in the field of transport. Therefore it is very important to follow the information and conduct research and analysis after 31.12.2014, when the OPT should provide the final assessment of the whole programming period 2007 – 2013.

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# Ambush marketing during the 2014 Football World Cup in Brazil

Juraj Šupák<sup>1</sup>

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## **Abstract**

*The aim of this paper is to show the importance of applying ambush marketing during top sporting events in order to achieve the economic objectives of the organizations on the example of the FIFA World Cup 2014 in Brazil. The paper is divided into four chapters. It contains 3 graphs and 4 figures. The first chapter defines sponsorship and ambush marketing. Second chapter introduces objectives and methodology. Third chapter describes ambush advertising campaigns realised during the World Cup. The fourth chapter provides a summary of findings resulting from the ambush campaigns.*

## **Key words**

*ambush marketing, 2014 Football World Cup in Brazil, sponsorship, Nike, Adidas*

**JEL Classification:** M31, M37, M49

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## **Introduction**

According to New Zealand Sports and Recreation Minister Trevor Mallard (2006), the term "ambush marketing" was invented in the early 1990s by Jerry Walsh, marketing executive at American Express. In its original concept was the term intended to convey the idea of healthy competition. But since the early 1990s has the term acquired negative connotations and means something akin to commercial theft. Ambush marketing describes the actions of companies or advertisers who seek to associate themselves (their goods or services) with a sponsored event such as the Olympic or Commonwealth Games or the Rugby World Cup. The ambush marketer cashes in on the goodwill and popularity of the event by creating an association between itself and the event without having to pay any sponsorship fees. It is a form of "free riding".

Sports events organizers sell privileged marketing rights to their events to official sponsors who in return gain exclusive option to promote their company, its goods or services. Ambush marketing on the other hand indicates the approach of companies that don't have marketing rights to an event, but build connections to this event through their marketing activities in various ways (Nufer & Gieger, 2011).

Ambush marketing has never been comprehensively defined or delineated. The reason is human ingenuity and the fact that advertisers are increasingly canny in finding ways around official controls on non-sponsored marketing strategies; so the categories of what might be called ambush marketing appear to be expanding.

Three main forms are identified (Nufer, 2013):

1. *Direct ambush marketing* – activities directly target the marketing rights of the event organiser or the event sponsorship;
2. *Indirect association ambushing* - the non-sponsor gives the impression of being an official sponsor by using words or symbols associated with the event;

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<sup>1</sup> Ing. Juraj Šupák, University of Economics in Bratislava, Faculty of Commerce, Department of Marketing, Dolnozemska cesta 1/A, 852 35 Bratislava 5, Slovakia, e-mail: juraj.supak1@gmail.com

3. *Indirect intrusion ambushing* - the non-sponsor piggy-backs on the media and spectator exposure by using the event to provide the ambusher's brand with exposure or publicity for which they are not entitled, for example, advertising near event venues.

## 1 Methodology

The aim of this paper is to show the example of applying ambush marketing during top sporting events in order to achieve the economic objectives of the organizations on during the FIFA World Cup 2014 in Brazil.

The objectives of the article will include:

- theoretical definition of ambush marketing in sport,
- comparison of advertising campaigns of ambush marketers and official sponsors.
- identification of problems related to application of ambush marketing in sport.

Except obtaining knowledge from expert sources and sources available on the internet, we also used more classical methods of scientific research. Of these methods, we relied primarily on:

- method of analysis, which is used mainly in the introduction part, in which we tried to find the definition of ambush marketing and its dividing for better understanding of the issue,
- synthesis method, for examining the effect of advertising in relation to the importance of using the right tools of ambush marketing in order to maximize economic benefits of organizations during top sport events,
- comparison method, which allows us to compare creative approaches of the representatives of ambush marketing and of the official sponsors in creating advertising campaigns during the World Cup 2014 in Brazil,
- method of induction and deduction used mainly in formulation of conclusions,
- knowledge as one of the elements of empirical investigations, we have gained mainly by studying vocational subjects in the field of sponsorship and ambush marketing and its application areas.

## 2 Results and Discussion

Nike, Adidas, KFC, Pepsi, or Volkswagen. All these and many more brands were visible through the most important football event of the world. But not all of them were one of the six official partners of Fédération Internationale de Football Association (FIFA). Not everyone had paid contract fees. Option some company chose is called "Ambush marketing", which main premise is unwonted idea and good execution.

Some companies were able to connect to the World Cup event and achieve imaginary "trade victory" despite the fact that they were not official sponsors. Some companies benefited from sponsoring national teams that had been successful or pleasant surprise. These teams undoubtedly were national teams of Colombia or Costa Rica, which as outsider of the group got to the quarterfinals.

The tournament, time covering more than 4 weeks, was an ideal opportunity for brand presentation. Advantage of this opportunity was taken by several well-known and

internationally recognized companies. Even despite the incident at the 2010 World Cup in South Africa, for which the Dutch brewery Bavaria had to accept sanctions. Head of FIFA, Sepp Blatter, officially declared that it condemns all forms of ambush marketing. FIFA rules strictly prohibit any advertising by a company which is not an official sponsor.

The ban also touched one of the most prestigious manufacturers of audio equipment and accessories - Beats Electronics during the championships in Brazil. Beats By Dre can't be used by athletes in the game or during media events. Official sponsor of the International Football Federation was the Japanese media corporation Sony. After this the company of initiative at the Olympic Games 2010 in London the FIFA gives more attention to the "pirate activity." Completely avoid activities "parasitic" Companies are however expected in the future. A large number of partners from various industries is a normal part of every major sporting event.

The portal offerpop.com estimated about 3.6 billion television viewers during the World Cup in Brazil. Companies don't have opportunity to reach half of the entire population every day. Therefore sponsors activities were thoroughly prepared and precisely timed. Expected amount of 5.7 billion \$ was spent by partners for sponsorship and advertising activities. Most of this amount accounted for just ads – this cost sponsors 4 billion \$. Their sponsorship alone cost 1.7 billion \$.

FIFA's website asserts that all of the following are protected in relation to this summer's World Cup:

- the Official Emblem (both the graphic of hands forming the shape of the World Cup and the words 'FIFA World Cup Brazil') and the similar-looking Fan Fest Logo,
- the Official Mascot of an armadillo holding a football,
- the Official Slogan ('All in one rhythm'),
- the Official Look (i.e. design) > the image of the FIFA World Cup Trophy,
- the Official Poster, which features an artistic representation of a football between two players,
- a variety of terms including the words "FIFA", "World Cup", "Mundial 2014" and "Copa 2014".

## **2.1 Football World Cup 2014 in Brazil**

FIFA set three levels of sponsorship categories After the World Cup in 2006. This concerns in particular the Global brand. The championship monitors global audience, which represents gold mine for these global brands.

FIFA would reach about 66% higher profits this year than in the last championship in 2010 when the majority fell into the category of television and marketing rights. FIFA received guaranteed income from marketing rights associated with the tournament in Brazil in the amount of \$ 404 million last year. It represents 29% of total annual revenues of FIFA.

### *FIFA Partners*

These partners pay between 25 and 50 million dollars annually and are main players in major industries. These brands are also very often attacked by ambush their closest

competitors and it is not unusual that even the unofficial World Cup partners are seen more often than official partners.

This partnership extends beyond the World Cup soccer and support the brand worldwide, including all major football events.

**Fig. 1** FIFA Partners



Source: www.fifa.com

*FIFA World Cup Sponsors*

Partners mentioned below pay between 10 and 25 million dollars a year. These include european organic food producer Moy Park, brazilian telecommunications company Oi or Yingli Solar, which is the world's largest producer of solar panels. These partners have rights for World Cup and the FIFA Confederations Cup.

**Fig. 2** FIFA World Cup Sponsors



Source: www.fifa.com

*FIFA National Supporters*

These partners' rights are limited to the host country only.

**Fig. 3** FIFA National Supporters

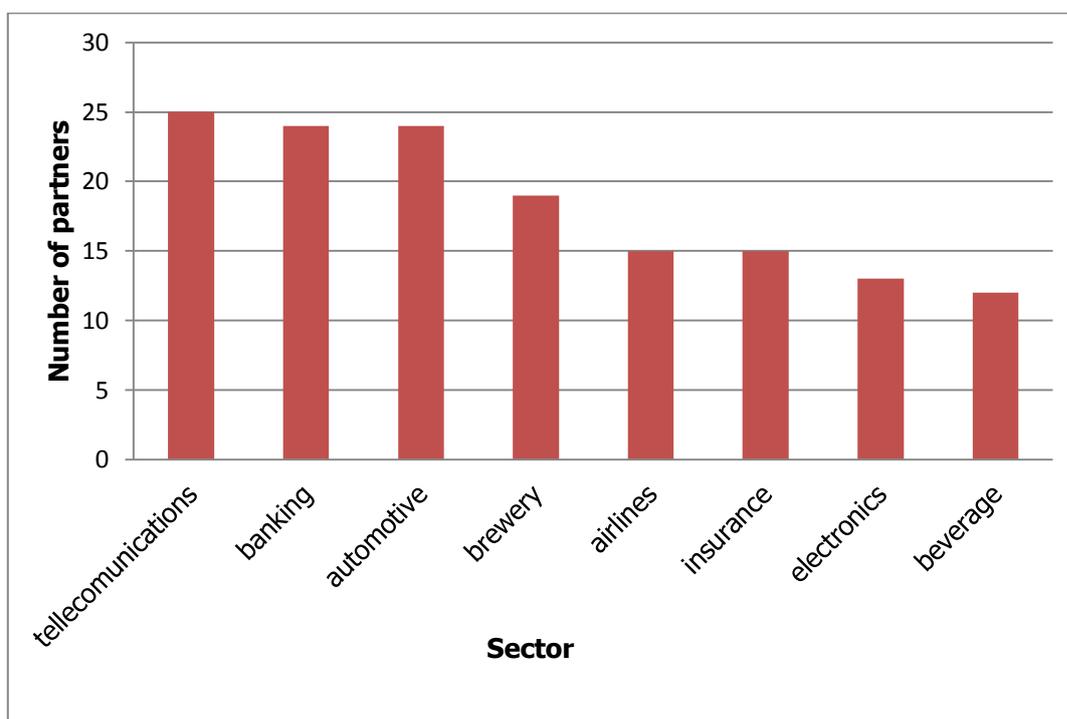


Source: www.fifa.com

### *Partners of the participants*

32 participants have 421 different partners. Costa Rica has the largest number of partners (36), Iran has the fewest (3). It is the most watched partnership for suppliers of sport equipment. There is great competition between Adidas, Nike and Puma. Winner of this mini-contest is Nike (10 teams), next in line is Puma (9) and with 8 teams the third Adidas. 5 teams wore jerseys by other brands than by the three main ones.

**Graph 1** Number of partners of the participants by sector



Source: [www.fifa.com](http://www.fifa.com)

## **2.2 Nike vs. Adidas**

Last championship was accompanied by a number of activities Adidas and plenty of Nike commercial activities. Official sponsor however was only one, Adidas. Nike company has been using age-old advertising trick called "ambush marketing" for a long time. Nike does not pay 70 to 100 million \$ As Adidas or Coca-Cola. This company uses a lot of fantasy while creating ads, which are important mean to increase brand awareness.

Nike is associated with several national associations, number of partner clubs and even larger number of elite athletes.

Hitting consumers could be even greater if the sponsored teams and athletes fared a little more. Stars like Cristiano Ronaldo and Wayne Rooney failed already in the group. Zlatan Ibrahimovic and Franck Ribéry were not present in the championship. Similarly, as the two most successful "Nike teams" lost in the semi-finals of the tournament and fought only for 3rd place.

Nike steamrolled with its campaigns (The Last Game, Winner Stays) almost everything in their path even despite these setbacks. After all, the two most watched videos have more than 150 million views, making them one of the top 20 advertising sport brands.

Campaign was carried out through television, movies, games, phones or print media. Hashtag #riskeverything was used more than 650 thousand times. Ad Winner Stays with more than 88 million views was also a success. Likewise, over 65 million ad views The Last Game.

**Fig. 4** Nike advertising campaigns RISK EVERYTHING and THE LAST GAME



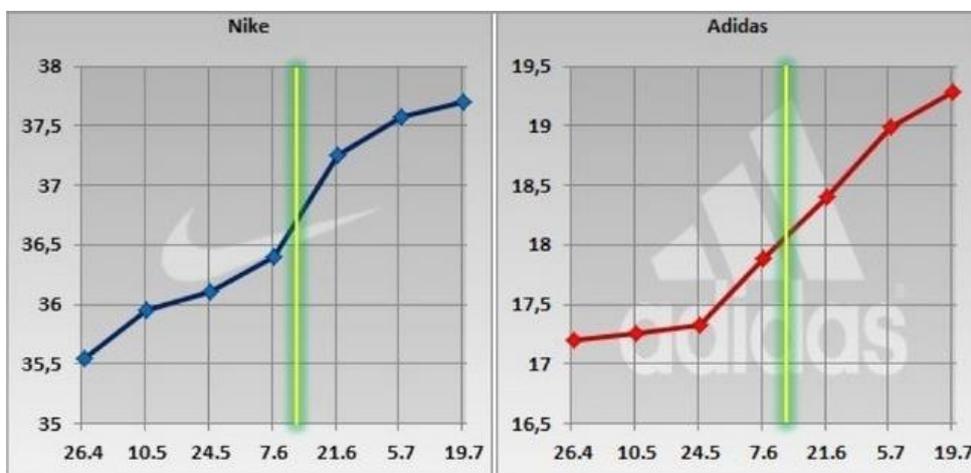
Source: [www.nike.com](http://www.nike.com)

Number of fans on the Facebook pages of companies was changing significantly before the championship, during and after its end. While Nike fan base grew long before the tournament itself, Adidas observed largest increase of fans just before the tournament.

Nike's entry into the tournament was better than Adidas' – they recorded more than half a million new fans after first week. However, the end of World Cup belonged to Adidas. The number of fans of FB page Nike Football slowly flattened, while the number of fans of Adidas Football continued to grow significantly after first week.

Nike and Adidas recorded largest increase of fans on social networks during the beginning of the championship. June 12, 2014 was official date of the beginning and just during the month of June, the number of fans of both FB pages increased (Nike Football, Adidas Football) by more than 1.1 million.

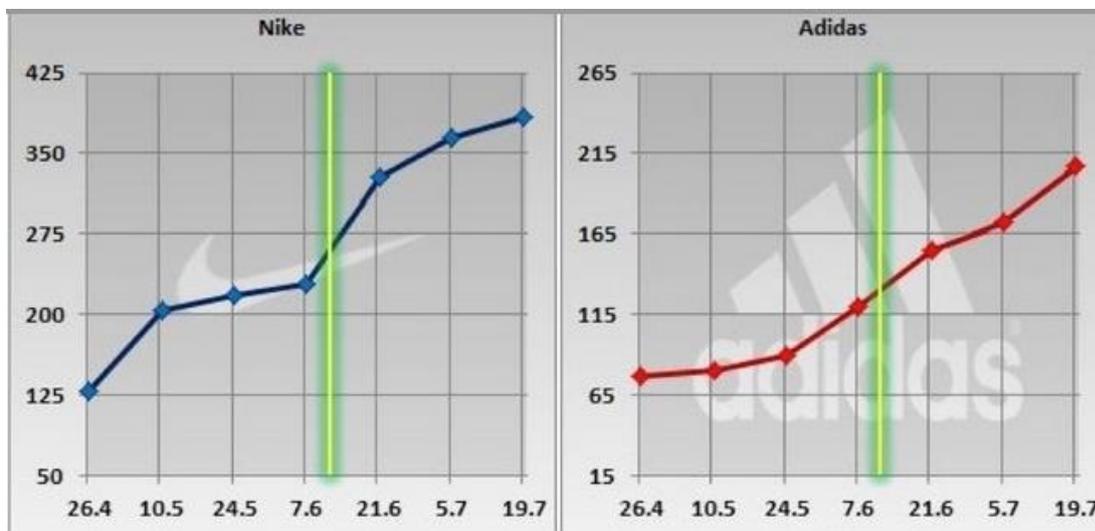
**Graph 2** Progress of the number of fans on the social network Facebook



Source: [www.socialbreakers.com](http://www.socialbreakers.com)

Campaigns by Nike were undoubtedly more successful, and covered larger mass of people than Adidas' advertising. Number of Nike videos views increased during the tournament by more than 100 million, while Adidas attracted slightly more than 50 million people.

**Graph 3** Progress of the number of views on the social network YouTube



Source: [www.socialbreakers.com](http://www.socialbreakers.com)

## 2.3 Other campaigns

American manufacturer of audio equipment Beats has been operating on the market for only 6 years, but they were impossible to overlook at the Olympic Games in London. However, this year was more difficult for them. FIFA gave them "red card" because their exclusive partner is Sony. However, the company continues with ambush marketing activities under the umbrella of Apple, who paid 3 billion \$ for the company. Beats started 5-minute advertising spot just before the championship, which main protagonist is Neymar. 23 million views is strong argument.

Another example of ambush marketing activities is fight between two large American corporations. Pepsi Company does not accept the fact that the official sponsor of FIFA is their main competitor Coca-Cola. Pepsi came up with the catchy advertising celebrating football and with the slogan "Live for now." Several exceptional players participated on the recording. Celebrating in the streets of Rio were players like Robin van Persie, David Luiz, Sergio Ramos, Sergio Agüero, Jack Wilshere and also Lionel Messi.

Another official partner of the World Cup - McDonald's - was not pleased by the activities of its main competitors. The campaigns were launched by KFC, Subway and Burger King. Burger King came up with the slogan: "Show that your love for the Whopper is stronger than the love for your team." Every fan who visited the Burger King wearing his team jersey during a match of the national team, got hamburger called for free.

The case of two brands of credit cards is different. MasterCard lost sponsorship rights with FIFA in 2007. Now this space is taken by Visa. MasterCard don't invest so much in guerrilla activities, but aware of his position rather similar format to the event. MasterCard invests aware of his position rather to the event with similar format. They are partners

with the UEFA Champions League, UEFA European Championship and Rugby World Cup. These connections evoke connection with the FIFA World Cup in people.

Additional ambush advertising campaigns were carried out by Volkswagen, Heineken, Durex, Old Spice or Samsung.

## Conclusion

Does it thrive to official sponsors distinguished thanks to football from its competitors? How effective are ambush activities for competing brands? These questions were asked by Global Web Index, company which analyzes consumer behaviour on the Internet. They conducted research of knowledge of official partners of the World Cup in Brazil during the championship. Research was carried out in the USA, UK and Brazil (Mander, 2014).

Respondents of age 16 to 64 had a choice of 38 brands, which included official partners of the World Cup and also competition. The task of the respondents was correctly identifying the official partners.

Company Global Web Index has reached the 4 basic findings:

- Long-term duration of the partnership is an important success factor.

Highest rate of associations with the greatest sporting event of the planet reach Coca-Cola (since 1978), Adidas (since 1970) and McDonald's (since 1994). All these partnerships last for more than 20 years. The highest knowledge allocates Coca-Cola, from 67% to 85% depending on the origin of the respondent.

- Specific inertia exists.

MasterCard is not FIFA partner for more than 10 years. Nevertheless, 38% of respondents associated the World Championships with this brand. It is only 4% less than an official partner Visa. MasterCard benefits from working with a highly-watched Champions League.

- Stowaways can be successful.

Procter & Gamble's rate of association with the World Championship is above average. It reached more than 20%. For comparison, official sponsor Johnson & Johnson reached 31%. P & G benefits from a connection with the Summer Olympics in 2016 in Rio de Janeiro.

- Ambush marketing.

Nike's level of associations with the World Championship was 33% to 40%. This is less than Adidas, but it's a huge amount of limiting contractual exclusivity Adidas. Nike takes World Cup very seriously and presents itself with the reputable campaigns.

Although protection of the official sponsors is taken seriously and ever more drastic action against Ambusher of the Event organizers can be observed, numerous creative ambushing actions are expected in perhaps not-seen manifestations in the future.

Ambush marketing is disputable and is therefore controversial. From event organizers and official sponsors' perspective it represents a comprehensible threat. For an ambusher it offers the opportunity to reach the target audience cost-effectively. Ambush marketing may, however, be carried only in the "sleazy corner" of sports marketing because of its controversial nature not per se. Ambush marketing is rather classified as a competitive

tool in the context of a sporting event. The fact that the Ambush marketing is often a "hare-hedgehog-race" is where the organizer assumes the role of the hare, is therefore to be regarded as a sign of effective competition, in which each of the actors involved in its specific "weapons" used : official sponsorships versus creativity.

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# Nordic countries in the European integration processes<sup>1</sup>

Jana Tánczosová – Viera Gaval'ová<sup>2</sup>

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## **Abstract**

*The paper will be dedicated to the assessment and explanation of the variances in the engagement of the Nordics within the European integration process. Nordic region is considered as a relatively homogeneous unit, despite of this fact the integration tendencies of the particular countries have been different. Differences have been observed mainly in the aspect of timing, as well as in the level of the integration. Primary European integration of the Nordic countries took place within The European Free Trade Association. Later, countries decided to enter the European Union considering economical, as well as political reasons. From this time, there is a possibility to analyse different approaches to the European integration. Denmark, Sweden and Finland joined European Union, in case of Norway and Iceland, we talk about a struggle for integration with no success.*

## **Key words**

*integration, nordic countries, european union, european free trade association*

**JEL Classification:** F15

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## **Introduction**

“Why do I support the country's entry to the European Union? Because the government's task is to shape the policy of the future not to preserve the past.”

Ottar Befring (The assistant secretary of the Ministry of agriculture of Norway)

The development of the integration processes in the Europe became dynamic primarily in the afterwar period of the 20th century. There were many different reasons conditioning this growth: the struggle to eliminate the possible war conflict, the response for USSR's expansion and the effort of the particular countries to increase their political influence in the region. Other reasons are connected to the most essential contribution of the international economic integration - the growth of the market, increasing volume of the trade and as a consequence, the economic growth and the increase of the competitiveness. Integration tendencies have been influenced by the economic and political interests of the countries. As the best example showing the differences in approaches to the integration processes based on the economy and politics, we can consider the region of the Northern Europe.

Nordic countries have performed as a homogeneous unit for many decades (similar language, the same society structure, values and the level of economic development)

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<sup>1</sup> VEGA 1/0391/13 Significance of the third countries for EU strategic developing plans in the aftercrisis period (with its implication for Slovak economy)

<sup>2</sup> Ing. Jana Tánczosová, University of Economics in Bratislava, Faculty of Commerce, Department of International Trade, Dolnozemska cesta 1, 852 35 Bratislava, Slovakia, jana.tanczosova@gmail.com  
doc. Ing. Viera Gaval'ová, CSc., University of Economics in Bratislava, Faculty of Commerce, Department of International Trade, Dolnozemska cesta 1, 852 35 Bratislava, Slovakia, viera.gavalova@euba.sk

however; the entry of the particular countries to the European integration blocks is distinguished by different timing and level of engagement. Based on the above mentioned reasons, the thesis concentrates on the analysis of the background of the Nordic countries integration processes, including its causes and consequences.

## **1 Methodology**

The aim of this paper is to analyze the integration process of Nordic countries in Europe and the reasons for different levels of their engagement within the process. Differences in the integration of the Nordic countries in the European Free Trade Association (EFTA) will also be emphasized. We will describe the reasons which have led to the integration and the causes why some Nordic countries decided to withdraw from the EFTA and join the European Union (EU).

The accession processes of Denmark, Finland and Sweden to the EU will be analyzed. Also the various degrees of endogenous integration into the European Monetary Union will be mentioned. Furthermore, we will study the current position of Iceland, as an EU Member State candidate that suspended its access process in 2013.

Particular attention will be paid to Norway, which after several attempts did not join the EU, however remained in the EFTA. Nevertheless, it closely cooperates with the EU in many areas. In the Norwegian case we will review the causes that led them to reject EU membership and consider the advantages or disadvantages that could occur in case of possible future accession.

For the purpose of this paper following methods will be applied: induction, deduction, analysis, synthesis, statistical method and the historical systemic approach.

## **2 Results and discussion**

The international economic integration was initiated by the selected Nordic countries<sup>3</sup> (note: a term "Nordic countries" represents the area of the Northern Europe, including countries: Denmark, Finland, Iceland, Sweden and their three autonomous regions - Åland Islands, Greenland and The Faroe Islands.) - Denmark, Sweden and Norway in the sixties of the 20th century, when these countries became the constituents' members of the European Free Trade Association (EFTA, 1960). In 1961, Finland became associated and in 1986 the full member of the EFTA. Later, Iceland gained membership in 1970.

We need to remark, that the EFTA has been built on the principle of the intergovernmental cooperation, opposite to the French concept - EU based on the transnational cooperation. The EFTA helped to intrascandinavian business growth (from 12 % in 1995 to 22, 3 % in 1973) (Krines, 2000). Despite of the interregional trade growth, the Nordic countries were worried about the loss of the contact with the states-members of the European Economic Community (EEC), as their economic growth has been faster. Due to this fact, in

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<sup>3</sup> A term "Nordic countries" represents the area of the Northern Europe, including countries: Denmark, Finland, Iceland, Sweden and their three autonomous regions - Åland Islands, Greenland and The Faroe Islands.

1961, Denmark, accompanied by Great Britain and in 1962 also by Norway, applied for the entry into the EEC.

Considering the aim of this thesis, in the following text we will focus mainly on the integration of the Nordic countries, or more precisely, the attempt to the integration to the European Union structures. We will mention the chronology of the access processes, political point of views and also the attitudes of the country's population to the this process. We will determine the barriers, and will consider the advantages as well as the disadvantages which have emerged from the integration process and have influenced the particular countries.

## **2.1 Integration tendencies of Denmark**

Denmark applied to join EEC in 1961. However, the application has been declined and therefore the country became the member of the EEC just in 1973. Denmark has been the first Nordic country entering the European Communities, even though its function in the European Union structures is accompanied by the high level of euroscepticism.

We will mention the particular examples: Danish euroscepticism occurred in the nineties of the last century, when the country gained three exceptions in the Treaty on the European Union (The Maastricht Treaty). To be more specific, the exceptions in the sphere of the third stage of the economic and monetary union – the common currency (opt-out clause, Denmark does not have to adopt the EURO); in the sphere of the Common Security and Defence Policy; justice agenda and home affairs and in the sphere of the institute of the European citizenship.

In Denmark, three referendums occurred concerning the questions of the European integration, two of them ended up with the negative response. For the first time, the negative response occurred regarding The Maastricht Treaty (June 1992), for the second time regarding the question of adoption the common currency in 2002 (Mouchova – Nemeč, 2013). As already mentioned, Denmark, as a member of The European Union, did not continued in an endogeneous integration (did not enter the monetary union), despite of the fact, that the country has met the convergent criteria already in 1998. The reason for that was the referendum in 2000, in which the population of Denmark refused to accept the euro (Denmark utilised opt-out clause, which enabled not to participate). A fear from the loss of the sovereignty and the national identity, as well as the fluctuation of the euro rate of exchange, has been reflected in the referendum result: 53, 1% of the participants were against and 46,9% voted for the establishment of the euro. The Danish Prime Minister P. Rasmussen, as well as The European Commission expressed their disappointment.

However, The European Commission added that Danish people's decision will not negatively influence common relationship between Denmark and EU. This situation had no negative impact on the financial market, too. Nevertheless, the psychological effect of the unsuccessful referendum raised a fear in Sweden and Great Britain inhabitants, who were just waiting the upcoming referendum about adoption of euro in their countries (Stavrovská, 2000). As has been already mentioned, the negative result of the referendum has supported the doubts in questions concerning the euro, its future as well as the doubts in the entire process of the European Integration.

It's necessary to add, that despite of the euro's refusal and the Danish crown preservation, in the area of the foreign trade, there were no significant changes or losses,

as the Danish crown has been participating in ERM II and it's linked-up to the euro with the fixed rate with possible variation +/- 2, 25 % (even though ERM II allows variations +/- 15 %) (MFA SR, 2012). For reasons given, low level of volatility, or more precisely, ups and downs of the rate just in the specified tape measure can occur. This helps to predict the rate risk. We can point out, that satisfaction of Denmark with its membership in The European Union increases; however the inhabitants come out against the deeper political cooperation within the frame of the EU.

## **2.2 Integration tendencies of Sweden**

We will continue with the topic of the international economic integration of Sweden. Sweden is the constituent member of the EFTA. One of the first actions of the country leading to the creation of the relationship with the main stream of the European integration was a signing of The Free trade agreement concerning manufactured goods between the EFTA and the EU in 1973. Later, Sweden as a member of the EFTA participated in a creation of the European Economic Area (EEA, 1992/1994). At the beginning of the nineties, the entry of the country to the EU, in consideration of the economic crisis and high level of unemployment in country, seemed to be necessary. Therefore, the official application to become a member of the EU was given in 1993.

However, few years before the country's entry to The European Union, public opinion and inhabitants' support has rapidly changed. A period of enthusiasm has been alternated by a period of scepticism. Enthusiasm has been supported by a vision of possible prices decrease and an idea of greater freedom. On the other hand, scepticism has been speeded by an idea of a loss of the sovereignty, mainly in the area of the security policy (Sweden has been a neutral country for many decades, and in case of the EU entry, there was a risk, that the country will have to participate in the common foreign and security policy of the EU) and an obligation to accept regulations created by the EU bodies.

Finally, Sweden succeeded to keep its sovereignty in the area of the security policy, adjustment of the EU to more strict ecological regulations valid in Scandinavia and as well the keeping of the specialized liquor stores. The country required keeping the state monopoly for selling the liquor, but this demand has not been enforced and the sole trade ceased to exist. Nevertheless, the EU permitted to maintain the specialized liquor selling stores. A compromise in the topic of the safety has been based on the idea, that Swedish neutrality will be applied just in the case of a war conflict in the region. A declaration of the neutralism (also regarding Finland) has been passed under the terms that the country will affirm a statement that there are no obstacles to participate in the common foreign and security policy of the EU.

Concessions of the European Union increased the inhabitant's preferences to the country's entry to the Union. A national referendum (1994) of the Sweden's entry to the EU ended up positively – 53% participants voted for and 47% against the membership in the EU (EU-OPLYSNINGEN.DK. 2014). Mainly men, conservatives, living in bigger cities and in the industrial South voted for (Samson, 1995). There has been no other inconvenience preventing Sweden to become in 1995 a full member of the European Union. Sweden has supported the creation of common currency from the beginning. At the same time it committed itself The Stability and Growth Pact fulfilment which has been a forshadowing of adoption the euro in a future.

Despite of that, in the period of the Eurozone's formation, Sweden did not feel "prepared enough" for a monetary union participation. As the country has not gained an exception, so called opt-out clause as e.g. Denmark did, there has been an assumption that it will enter the monetary union after fulfilling The Maastricht Treaty criteria. The given assumption has been supplemented by another requirement – an inhabitants' agreement based on the successful referendum. This took place on 14<sup>th</sup> September 2003 and ended up negatively – 56% participants were against and 42% voted for the euro adoption. As the main reasons for the euro's refusal, there have been classified the following: a fear of the loss of a control over the monetary policy of The National Bank, the loss of the national identity, a fear from prices increase as well as concerns regarding the adaptation on a "new" coins and banknotes usage and prices conversion (Damašková, 2010).

When making decisions, Swedish people have been influenced by the unsuccessful referendum in Denmark, hostile economic situation in Finland (increase of prices, economic growth slowdown), which – according to them – has been caused by the euro adoption. In comparison, the economic situation in Sweden has been improving more smoothly than in the countries of The Eurozone. The economic growth in Sweden achieved 1, 5 %, in The Eurozone just 0, 2 %. The same situation occurred in case of the unemployment rate – In Sweden: 5, 30%, in The Eurozone: 8, 9% (Jančík, 2003). As Swedish economy has been stabilized (since the EU entry) and there has risen a question why the country with the more accelerated economic growth than in The Eurozone, should adopt the euro. Swedish still have not trusted some of The Eurozone countries (Germany, France), which have been constantly in a breach of The Stability and Growth Pact. All the above mentioned facts have contributed to the referendum's unsuccess.

This non-acceptance has disappointed mainly the businessmen, who have expected that after the euro adoption, the volume of the foreign investments will increase, and a trade with The Eurozone's members will become more intensive. In that particular period, an export to The Eurozone made almost 50% of the total export of Sweden (Molnárová, 2003). In consequence, the potential euro adoption would support the business with The Eurozone's countries because transactional costs as well as the exchange rate risk would be eliminated. Some of the companies have claimed that concerning none adoption of the euro, they will decrease the volume of the investments in the country.

Of course, there has been a need to take account the political situation, too. This time was characteristic by The European Union enlargement that took place in 2004. The new members had an advantage of a cheap labour costs, so they were attractive for the potential investors. They were also willing to accept the euro in the future. Sweden was in that particular period endangered by the weakening of its position within Europe. Of course, we cannot compare Sweden to the countries which were joined in 2004, as regarding the economic development were on the different levels. Every decision making is dependent on the actual economic and political situation of the country. The same happened in the case of Sweden.

After a long period of the euroscepticism, the global economic crisis brought a change. Under pressure of the external factors (crisis), in the public opinion research in 2009, the majority of the participants voted for the acceptance of the euro. They assumed that the stronger currency is under the crisis conditions more fixed and more resistant to the external factors. However, the crises in The Eurozone brought the increase of the euroscepticism back. Sweden has not adopted the euro till now. The country has not

participated neither in the monetary policy of the EU nor the ERM II and still applies a currency system – floating (EUROPEAN COMMISSION. 2012).

According to the European Commission's report about the convergence from 2012, Sweden fulfils The Maastricht Treaty's criteria: prices stability (1, 3%, reference limit – 3, 1 %), financial criteria of the public debt (38% GDP, reference limit – max. 60% GDP, 2011), the state budget deficit (+ 0, 3 % GDP, reference limit – max. deficit 3% GDP, 2011) and the long-term rates of interests (2, 2%, reference limit – 5, 8%, 2011). However, the country does not meet the criteria of the exchange rate stability (EUROPEAN COMMISSION. 2012). As Sweden has not negotiated so called opt-out clause, there is a real possibility that in a future the country will enter The Eurozone. Though, this fact will be conditioned by the external (e.g. world economic situation, financial and debt crisis of the EU members) as well as the internal factors (e.g. political situation, population's approach to The European integration and their belief in the euro).

### **2.3 Integration tendencies of Finland**

On the contrary, the process of the integration of Finland has some specific characters, which have an origin in the historical relation of the country and the USSR. In 1809 - 1917 Finland was a part of the Tsardom of Russia. In the thirties, because of a regional conflict with Russia, Finland was obliged to cede a part of its territory to Russia. The following years has been significantly marked by the country's struggle to get the ceded areas back. Finland has asked Germany, or let us say Hitler, for material help and thereby after the World War II the country got to the list of the defeated countries.

To prevent the other possible conflict between Finland and Russia, in the late forties, there was signed The Treaty of Friendship, Cooperation and Mutual Assistance (1948), (Zemanová, 2000). The Treaty has created a specific relationship between these two countries and based on this, Finland did not participate in the afterwar renewal within the Marshall's plan. Moreover, the Treaty has influenced the relationship of Finland and the other European countries, or more precisely the economic integration of the country.

The beginning of the integration to the European structures can be identified with its activity in the EFTA. When the EFTA was found (1960), Finland was not prepared enough to join it. The problem was in the insufficient orientation of the Finnish economy to the members of the EFTA. Moreover, Sweden seemed to be a strong competitor in wood-using and paper industry. These two areas were supposed to be the most important parts of the Finnish economy.

Since 1961 Finland has been considered as associated (has used the same advantages as the full members have) and since 1986 as the full member of the EFTA. The country has changed its tendency to make business with the USSR and started to trade with the countries of the EFTA. The deeper integration began after the weakening of the relationship between Finland and the USSR, after the USSR's dissolution and the cancellation of the Treaty from 1948.

A disadvantageous economic situation at the beginning of the nineties of the 20<sup>th</sup> century (overestimated Finnish mark – a problem for the export, the state budget deficit, the structural problems of the manufacturing industry, high interest rate and the destabilization of the eastern market caused by the dissolution of Comecon and the USSR) accelerated Finland to make an application for the membership to the EU.

In the following text we will focus on the particular facts related to the Finnish economy status in the nineties, on the prominent position weakening Russia in the business related relationships with Finland, as well as on the impact of the USSR's dissolution on the export of the country. At the beginning of the nineties of the 20<sup>th</sup> century, there has been observed a significant decrease in the percentage of Finnish export to the USSR, which has been reduced from 26% (1982) to 5% in 1991 and 3% in 1994 (Samson, 1995). The business of Finland with the USSR decreased in the period of ten years from 24% in 1981 to 6, 6% in 1991 (Samson, 1995). The given fact can be referred to the USSR's dissolution but also to the greater orientation of Finland to the European markets. The following table 1 completes the general overview on the Finland's economy in the period of making an application to become a member of the EU, in the period of the entry process, in the period of the entry itself and in the next two years.

**Tab. 1** Evolution of selected macroeconomic indicators during term 1989 - 1997, percentual growth/decrease

<i>Year</i>	<i>1989</i>	<i>1990</i>	<i>1991</i>	<i>1992</i>	<i>1993</i>	<i>1994</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>
GDP Growth	5,7	0	-7,1	-3,6	-2,0	4	5,1	3,6	5,9
Unemployment	3,5	3,5	7,4	12,7	17,3	17,9	16,7	15,8	14,5
International trade									
- Export		-19,9	-4,5	-13,1	29,5		8,2	3,9	12,8
- Import		-13,7	1,9	-0,1	5,3		6,9	4,3	9,3

Source: Zemanová, 2004, p. 284-312

The table displays the critical situation of the economy of Finland and explains a necessity of the entry to the EU. This has brought a possibility of gaining the financial resources from the development programs of the EU. In that period, the country suffered from the increase of the rate of unemployment and a notable assault of the export (the reasons have been given in the text above).

Finally, at the beginning of the nineties Finland initiated the negotiations about the EU enrolment. As in the case of the other Nordic countries, a referendum took place also in Finland. At the same time, together with Finland, Norway and Sweden applied to become the members of the EU. Swedish referendum occurred one week before the Finnish one. It may be considered as a psychological game. As the Nordic countries have been sympathetic to each other, there has been a chance that Swedish referendum will influence the Finnish one as well. Finally both referendums were successful.

59, 6 % of the Finnish participants voted for and 43, 1 % were against the membership. Mostly inhabitants of the bigger cities, the south industrial area, academic and conservatives voted for the EU enrolment. Those, who voted against were mostly the inhabitants of the rural areas, older women, less educated people, left-wing oriented and people living in the North of the country.

The opponents were mostly afraid of the loss of the sovereignty, possibility of the economic problems uprise, decline of the agriculture, a growth of migration, decrease of the social security, decline of the environment and the negative impact on the Finnish cul-

ture. On the other hand, the defenders supposed that the economic situation will be improved, as well as the international cooperation. They expected the culture development, bigger social security, strengthening of the national security and improvement of the agriculture conditions.

From the given statements, we can consider that in some areas, expectations of Finland were contradictory – e.g. culture, agriculture. Three key spheres, in which Finland tried to gain the own conditions were: compatibility of the membership and sovereignty, inviolability of the national sovereignty and the continuity of the regional policy. Another important part discussed was the agriculture. It played an important economic and political role. Fears of the Finnish farmers (regarding the internal market opening) from the loss of their living, processing industry decline and subsequently the rate of unemployment increase accelerated the society to a heated discussion. Eventually, after the negotiations with the government, the EU agreed with some compromises regarding the agriculture. They permitted the budget grants (for period of four years) for the Finnish agriculture, so 85% of the cultivated area should benefit from this (so called disadvantaged zone), (Samson, 1995).

The industrial areas and sector of services should have created new jobs at least for some of the affected producers. In fact, the Finland entrance into the EU (overtaking the common agricultural policy) has led to the number of agriculture corporation's decrease and subsequently the loss of jobs for more than 25 000 inhabitants and decrease of the prices of the agriculture production by half. The losses have been compensated by the grants provided by the EU budget and Finland budget.

As mentioned before, the Finnish referendum was successful and in 1995 the country became a full member of The European Union. Finland completed its integration by the monetary union enrolment, The Eurozone member became in 1999 and Finnish mark has been replaced by the euro firstly in the clearing, in 2002 in the cash payment. Nevertheless, Finland is the only Nordic country which adopted the euro. The main reason for this action has been the increase of the country's political impact.

## **2.4 Integration tendencies of Iceland**

Iceland became a member of the EFTA in 1970, in 1972 there was a bilateral agreement about a free trade with the EEC signed. The country is a member of the European Economic Area (1994) and is also the associated member of The Schengen Area (1996). In July 2009, the country made an application about the EU membership and since 2010 it has had a status of the country – candidate.

A high public debt, topic of fishing (Iceland is fishing whales, which is against the EU legislation) and compensation of the Dutch and British who have invested into bankrupted Icelandic banks, were the main issues of the pre-entering processes. The Netherlands and Great Britain have declared that they will block Iceland's entrance into the EU until the country settles all claims (ZUBALOVÁ – ROSENBERG, 2011).

In Iceland, 2 unsuccessful referendums took place and the population voted against the payment. The fishing is another controversial topic. Fishery makes 40% of all export incomes of the country and gives a job to 8% of the population. Therefore every regulation defined by the EU is a very sensitive topic (EURACTIV.SK. 2011). The regulations of the European Union could guarantee a free access of the other member countries to Iceland waters. Fishing whales – mammals is in the EU protected by law, EU struggled to set

fishing regulation quotas, however Iceland vigorously denied. There comes a question: What was a purpose of Iceland's request to become a member of The European Union?

The main accelerator was the impact of the global economic crisis and per its consequences the destabilization of the Icelandic economy, first of all banking sector. The bank crash has led to a resolute decision, which would not have been considered before the crisis occurred. Pro-European oriented government has perceived a membership in the EU as a tool for the international credibility of the country increase as well as an attempt for the economy stabilization and the elimination of the exchange rate's volatility. Due to the volatility of its currency (during the global crisis Iceland crown reached depreciation to EUR about 35 %), country's main goal became its stabilization by future adoption of common currency - EURO (EURACTIV.SK. 2011).

Shortly after making the application for a membership, a crisis in The Eurozone fully bursted out (caused by problems of the peripheral countries with the public debt and the state budget deficit). The crisis has destroyed inhabitant's interest in the integration. There comes to our mind an idea whether it was more important to establish the euro or the membership in The European Union itself.

Nowadays, the future of the access process is questionable. The changes in the political garniture caused by the parliamentary elections in 2013, have led to radical changes. The access process has been stopped because of the new eurosceptically oriented government. The new government uttered that the continuation or the ending of the integration process will take place based on the public opinion expressed in a referendum which will be realised in the next 4 years. This step should make a decision on the Iceland's future direction. However, the expectations seem to be pessimistic, as the government tries to enforce a bill about the ending of the negotiations. Neither public opinion tends to be for the membership in the EU.

## **2.5 Integration tendencies of Norway**

Norway is the only Nordic country (considering the current indefinite status of Iceland), which has not entered the European Union. Despite of that, the country actively cooperates with the EU in many spheres of interest. This cooperation enables Norway to maintain the high level of economic integration and political cooperation with the EU and its members. The country, as a member of the EFTA, has participated in The European Economic Area since 1994 and in 2001 signed The Schengen Agreement (all passport controls between Norway and the Schengen countries were cancelled), (MFA, 2012). There comes a question: what did stand behind the formation of the current relationship between Norway and the EU?

Norway, Denmark and Great Britain already in the sixties of the last century have made an application to become members of The European Communities (two times). Both attempts were unsuccessful. The reason was the French president Ch. De Gaulle who placed a veto on the negotiations about the entrance of the country into the ECC. He disagreed also with the acceptance of Great Britain. After Ch. De Gaulle's abdication, the negotiations were reopened (1970).

In 1972 in Norway a referendum about the country's enrolment into the ECC took place. The referendum was unsuccessful, as the majority of Norwegians (53, 3%) were against and just 46, 5% voted for the country's entrance into the ECC. In the nineties Norway attempted to enter The EU again, however without any success. In 1994 the

inhabitants disapproved the participation in the EU in the rate of 52% against and 48% for (EU-NORWAY.ORG. 2011). As the main reasons of their negative response they considered the transatlantic relationship of the country with the USA, the agriculture, fishing and a fear from the loss of the national identity and sovereignty (psychological impact of the longterm struggle for the national autonomy, as till 1814 Norway was a part of Denmark and then till 1905 a part of Sweden – Balcar, 1999). In that particular period, the country had a strong relationship with the USA. Therefore any kind of activity leading to the transatlantic relationship weakening has been perceived very sensitively (Samson, 1995).

The topic of agriculture and fishing, as in the other Nordic countries, has been a very sensitive part of the entry negotiations. The access into the EU would cause the opening of the Norwegian waters to the other EU members. Norway was afraid that fishing of these countries would radically decrease the number of fish, so the conditions for the national fishing would be made worse. The agriculture could be marked as the “stumbling-block” of the Norwegian integration. The country’s agriculture, considering the geographical conditions (arctic and subarctic climate, vegetative period in the North lasted just three months, polar night), has required great grants. Farmers were afraid that the EU entry will cause the decrease of the government’s support.

The idea of a common EU market has increased their fear. Norwegian agriculture was not competitive to the other members of the EU, which gained benefits from their good geographical (climatic, soil) conditions. Possible agriculture weakening has from the inhabitants’ point of view created a catastrophic scenario => farms bankruptcy => the unemployment increase and subsequently degeneration of the rural areas. Considering the culture and social characteristics of the Nordic countries, there is solidarity among people; it means a great support of rural population by the non-rural ones. Nevertheless, solidarity has led to the unsuccessful referendum.

There comes a question: Is the membership in the EU still attractive for Norway and does the EU need Norway more, or vice versa? As we have already mentioned above, Norway actively cooperates with the EU in the economic field within The European Economic Area – EEA (the EU is the biggest Norway’s business partner). The EEA guarantees to Norway four freedoms: free movement of goods, services, labor and capital among Norway, Liechtenstein, Iceland and the other members of the EU. The EEA is characterized by the common market however does not include the custom union. From the common market, the areas of the agriculture, fishing, trade with the energy, coal and steel products, have been excluded, as these are a sensitive topics for the EU, as well as Norway.

The EEA includes the possibilities for the cooperation on the common EU programmes – within the research, education, social policy and culture. Norway participates in the following programmes: Lifelong Learning Programme, The Competitiveness and Innovation Framework Programme, Young in action, Galileo programme – navigation system, Erasmus and many others. The cooperation is realized in the justice, foreign policy, energetic and climate changes (EU-NORWAY.ORG. 2011).

It seems that this cooperation fully suits Norway. As one of the wealthiest European countries, with huge amount of the mineral resources (the sixth biggest exporter of the oil, the second biggest exporter of gas - EU-NORWAY.ORG, 2011), can afford this cooperation. There still have existed negative attitudes towards the country’s enter into the EU. Though, these have been moderately changed by the global economic crisis, when the

sympathy for the EU increased. The number of opponents for the first time in history was lower than 50% (Grančaj, 2010).

Later, the Eurozone's crisis has changed the given tendency. The reasons for the unwillingness of Norway to integrate to the EU are: a fear from the democracy weakening, loss of the sovereignty, identity and social state threatening, loss of the tools for economy control as well as the environmental policy release. On the other hand, Norway's potential entry into the EU could for EU member countries mean a chance for fishing in the Norwegian waters; there would be the EU energetic safety and the budget situation of the EU would improve (because of the Norwegian payments to the EU budget).

The future status of Norway as a member of the EU is still controversial. Based on the economic, political and social situation, Norway does not consider it obligatory to enter the EU. Smoothly working economy, population's satisfaction, and high revenues originated in the tax burden, exploitation of the mineral resources; give Norway chance to choose. It looks like that the current situation and level of the mutual relationships with the EU is from Norway's point of view satisfactory and in the close future, the country will not initiate any changes.

## **Conclusion**

After the investigation of the Nordic countries integration processes we came to a conclusion that although the Nordic region is considered to be a relatively homogeneous unit, the integration tendencies of the particular countries have been different. Differences have been observed mainly in the aspect of time, as well as in the level of the integration. (In case of Norway and Iceland, we talk about a struggle for integration into the EU).

Primary European integration of the Nordic countries took place within The European Free Trade Association. Later, the particular countries decided to enter the European Union considering economical, as well as political reasons. From this time, there is a possibility to analyse different approaches to the European integration. History of the integration tendencies of the region has shown that a political ambition does not have to always correspond with the population's opinion. Referendums played key roles in the decision making processes – about entering the EU, as well as in the other phase of a macrointegration – the monetary union.

Denmark, Finland, and Sweden migrated from the EFTA to the ECC/EU structures. Finland has continued in endogenous integration and in 1999 adopted the euro. Based on the referendum, Denmark and Sweden has denied the common currency. Denmark has utilised so called opt-out clause and does not participate in the monetary union. However the country takes part in the ERM II and links its currency to the euro (in the fluctuation measure +/- 2, 25 %). Sweden does not use opt-out clause, does not participate in the ERM II and does not meet the criteria of The Maastricht Treaty about the exchange rate stability.

Norway tried to enter the European Union twice, but with no success. Referendums have stopped the political ambitions. Nevertheless, Norway as a member of the EFTA cooperates with the EU within the scope of The European Economic Area.

In a context of the Nordic countries integration processes, Iceland is contemporarily the most controversial country. The country has been a member of the EFTA since 1970. In 2009 it made an application to become a member of the EU. The application was

approved in 2010, so Iceland became a country – candidate. Though, government change in 2013 stopped the negotiations about the joining the European Union. These should continue after a referendum about the country's entrance into the EU.

In the conclusion, we would like to present our observation – what some countries may consider natural and essential (e.g. integration of The Slovak Republic into the EU), does not have to be in the another countries' conditions (concerning different economic, political, social and historical conditions) necessary. For example, while "the new members" (from 2004) try for the deep integration in the Union, on the contrary the Nordic countries struggle to keep the high level of their sovereignty and national identity.

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# **New trends in interactive marketing communication – event marketing**

Lucia Vanková<sup>1</sup>

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## **Abstract**

*The article aims to map the positives, negatives and perspectives in the development of elements in interactive marketing communication of companies in the context of the international changing environment. The article describes one of the most discussed marketing communication form - event marketing. The article analyzes event marketing communication campaign of two different financial institutions - insurance companies that have decided to apply the elements of event marketing into their marketing communication strategies in order to reach new customers and present their products to them.*

## **Key words**

*marketing communication, interactive marketing, event marketing*

**JEL Classification:** M31

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## **Introduction**

Global crisis has grown in all spheres of international business environment. It has caused changes in consumer behaviour and thus has forced businesses to reactions which have a direct impact on the change in their international marketing communication strategy. Each business entity, in order to be competitive and successful in the current circumstances, had to submit its marketing communication policy to one fact. That fact is that it is the loyalty and building of long-term relationships with customers that provide the only way of getting a unique competitive advantage to differentiate themselves from their competitors and to win the position on the oversaturated market. However, building relationships that are based on a long-term orientation and loyalty is conditioned by a complex change of up to recently valid and established rules of marketing communication policy. New conditions and new targets need new methods and procedures, and new innovative solutions that are not lacking creativity, courage, interaction, individual approach, uniqueness and communication through the latest media.

Under influence of changes regarding conditions of functioning of the international business environment and changes in consumer behaviour, a new trend of communication in internal as well as external form has become experience-oriented form of communication - Event Marketing. Event Marketing provides consumer with direct experience, leaves a positive impression, and brings the added value. It means that in addition to the communication message, the consumer takes with himself something 'extra' such as positive experience, knowledge, a gift, etc.

Development trends of international marketing strategy are determined by the development of information and communication technologies. Under their influence arises a need to find new ways of reaching customers, which should lead to increased creativity

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<sup>1</sup> Lucia Vanková, University of Economics in Bratislava, Faculty of Commerce, Department of International Trade, Dolnozemska cesta 1, 852 35 Bratislava 5, lucia.vankova1@gmail.com

and efficiency in using them. With the process of creating interactive marketing strategy are increasingly involved marketing agencies, or rather event agencies themselves. These specialize in the preparation of events as an efficient and effective tool of marketing communication of companies. The latest trend is the outsourcing of event services, which means delegating tasks in terms of extension of communication messages through events to specialized agencies that command positive distance, experience and the important know-how.

## **1 Methodology**

The aim of this article is to theoretically define the specifics of the concept of event marketing as an integral part of an interactive marketing communication of firms and to assess its effectiveness on the basis of analysis of specific examples from practice, as well as to identify possible trends of further development through analysis of the pros and cons of implemented event marketing communication campaigns.

In the article, the author analyzes event marketing communication campaign of two different financial institutions - insurance companies that have decided to apply the elements of event marketing into their marketing communication strategies in order to reach new customers and present their products to them. Both insurance companies have decided to outsource organizational tasks to an external event agency. The agency offered the companies that were essentially competitors, two completely different concepts of event marketing communication with aim to present their products to the right target audience with a high degree of feedback in terms of gaining new clients.

Event marketing is currently one of the most important marketing communication tools for business entities that are trying to become competitive in spite of constantly and rapidly changing market conditions. The aim of the event marketing is to mediate to people, to potential clients or customers such situations so that experiences connected with them are only positive and enjoyable, and do it in such manner that it is possible to identify the specific entity that brings this type of experience. Experience and its subsequent uncontrolled "spreading" among people who only mention the name of the company and the particular pleasant memory in a "by the way" manner, is one of the simplest forms of building the company's reputation, its image and goodwill. Through event marketing an unobtrusive familiarisation of customers with new products occurs. This is achieved exactly in the context of some "successful" event, the aim of which is identification with a given business entity what, in the next step, should influence purchase decisions. (Frey, 2005).

## **2 Results and Discussion**

Event marketing is currently one of the most important marketing communication tools for business entities that are trying to become competitive in spite of constantly and rapidly changing market conditions. The aim of the event marketing is to mediate to people, to potential clients or customers such situations so that experiences connected with them are only positive and enjoyable, and do it in such manner that it is possible to identify the specific entity that brings this type of experience. This way, a positive experience gets into a kind of imaginary mosaic of impressions and ideas which the customer attaches to the firm.

Perhaps the first people who discovered the magic of event marketing were ancient Romans, who organized the pompous celebrations, ceremonies and sports games. Already at that time they were able to recognize the important role of positive emotional experience that is stored into emotional memory and strengthens and develops itself through cleverly thought-out and prepared experiential events. In this case, the simple rule applies: experience is better than just description. Lived out memories are stored in the memory much longer (Drenger, 2003).

The concept of event marketing has been theoretically defined by several authors who deal with issues of marketing communication. For the first time the definition of event marketing appeared in 1984 in C. Jaekel's article in the journal *Werben & Verkaufen*. It said that event marketing is a "concentration on certain events during the advertising year, instead of on the regular cumbersome campaigns" (Apfelbaum, 2010). An interesting view and perhaps the most comprehensive one was defined by O. Nickel (2002), who defines event marketing not as a separate tool of communication mix, but as "the systematic planning, organizing, conducting and controlling of events within communication tools such as advertising, sales promotion, public relations or internal communication." There are many other definitions that complement O. Nickel with terms such as orchestrating, modern communication, experience, the activation process etc. In the light of these definitions, event marketing can be defined as an interactive, experience-oriented, premeditatedly thought-out and directly targeted marketing communication tool whose primary objective is the systematic planning, realizing and controlling of specific events supported by other instruments of communication policy, the result of which should be a positive building of company name and image, its reputation and goodwill. (Bowdin and co., 2006).

Event marketing is such specific area that it is not possible to classify events in such a way as to take into account all the necessary criteria. Literature suggests several possible approaches for classification of events that result from different understandings, views and experiences of the authors themselves. Each approach focuses on a certain condition, as for example, the characteristics of the events, the place of realisation, the type or realisation or the type of target group and the like. As perhaps the most comprehensive one we consider the understanding of the classification of events by M. Bruhn (1997), which is presented in the following figure 1.

**Fig. 1** Clasification of Event Marketing



Source: own processing according to Bruhn M. 1997, p. 379

The difference between good events and great vents is tight execution on marketing, automation of administrative tasks, an good management of the ecents. Team of Eric Eden has revealed the best ways for event and meeting planners to fill the room, not overbook, and manage events efficiently (Eric Eden, 2011):

- effective and economical invitations,
- custom communications reach the response,
- comprehensive campaign management,
- leverage the event web site
- let attendees do the planning,
- avoid the payment headaches with automation,
- embrace technology,
- secure the details,
- optimize every opportunity,
- get clear insight, get clear results.

The mere implementation of the event, more particularly of a successful and effective event, is in practical terms a rather challenging task, which involves several aspects. Event concept must be thought out in detail, carefully planned, correctly organized, and last but not least objectively evaluated. Each phase is equally important in the process of creation of any type of event. An incorrectly chosen strategy in any of the steps can result in damage to the company reputation, the loss of key employees or customers. On the contrary, carefully thought out and prepared strategy may increase the loyalty of existing customers, but also increase the loyalty of the internal ranks, attract new potential customers and also help to improve the perception of the company and its image, which is clearly a competitive advantage in today's conditions in the marketing environment.

## **2.1 Analysis of event - Amslico road show**

Company MetLife Amslico is a financial institution that has been successfully operating in Slovakia since 1995. The company provides a wide range of products in life and accident insurance. In Slovakia, Amslico is trying to build a strong position in the oversaturated insurance market and to build an image of financial security and professionalism. In 2014 the company MetLife Amslico entered into its nineteenth year on the Slovak insurance market and currently owns almost 10% share of the life insurance market, while gross written premium reached the value of EUR 121.5 million at the end of 2013 (Slovak Insurance Association, [www .slaspo.sk](http://www.slaspo.sk)). In 2013, the insurance company MetLife Amslico received an award from Trend, the largest independent Slovak weekly, when it won 2nd place in the category Insurance Company of the Year 2013 (MetLife MetLife Alico, <http://www.metlifeamslico.sk/sk/Individual/Kto-sme/index.html>).

In 2012, the company MetLife Amslico approached event agency Artactive Events with aim to launch a new product - child insurance "Friend Snoopy". The insurance offers a special combination of savings and health benefits. Event agency was faced with a specific task – to prepare a concept of event marketing communication with a clear purpose: to

acquire new customers for unique child insurance "Friend Snoopy." First step in the preparation of event marketing communication is the creation of the assignment, which comes from the contractor – client, who must have clearly defined objectives that should identify the target group, presented product, content of promotion, and target indicative budget.

In the second step, the mutual client-agency meetings follow, which aim at answering all questions of agency so it can carefully draft a suitable concept for the upcoming campaign. The content of the meetings are additional issues that arise while designing and preparing the presentation of concepts in approaching potential suppliers for the implementation of the event. Based on the number of meetings of event agency with marketing department of MetLife Amslico a concept of presentation through a live mascot Snoopy across the country was prepared, which was named Snoopy Road Show 2013. A part of this phase is a creation of budget that is elaborated in individual items, such as partial costs of implementation of the given concept. In the final concept there were approved 13 cities for implementation of the project across the country in which the company MetLife Amslico was to present itself with the help of a live mascot and of course with the active work of MetLife Amslico agents. The following figure clearly shows the sites that were, in the final phase, approved as Road show stages.

**Fig. 2** Map of Snoopy Road Show



Source: own processing based on data provided by the event agency Artactive Events

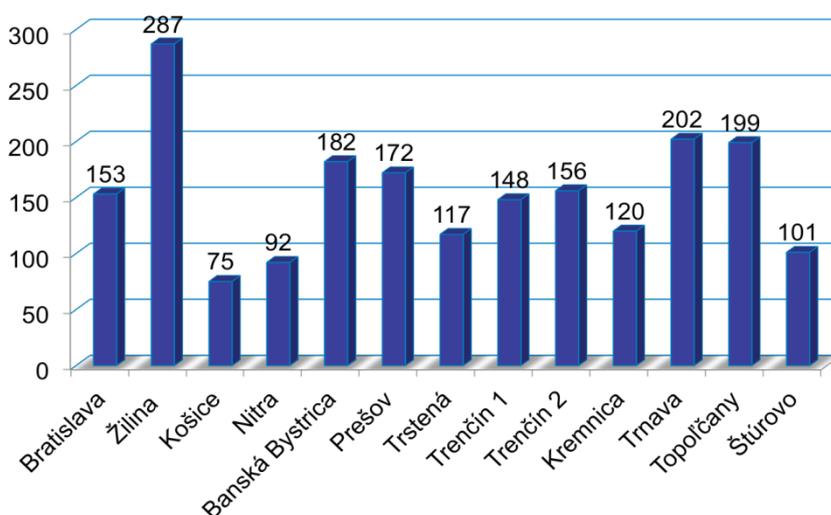
Calendar of events started at the time of giving school certificates (last month of school), exactly on June 1st, 2013, simultaneously in three cities in Slovakia. In Western Slovakia, the site of realisation was the capital city of Bratislava - namely commercial centre Eurovea. In central Slovakia Snoopy showed up in Žilina´s Aupark shopping centre, and in Eastern Slovakia "Friend Snoopy" product was introduced in the Optima shopping centre in Košice. The main idea of the concept was meeting of children with live Snoopy, as beloved fairy tale character. This meets the main idea of event marketing – bringing of joyful moment, a positive experience. Nevertheless, considering the long experience, the agency drew attention to the fact that people need to take something away with them, to have some memento. For this point there was suggested a concept of taking photographs

with Snoopy, while the photos were not printed immediately, on the spot. In order to gain parents' contact details, the pictures were to be delivered.

As a suitable way of contact there were designed pexeso memory games with Snoopy theme, branded with MetLife Amslico logo. The games had been perforated - hence after filling in the contact details it was possible to tear the contact off and the game was left to children. Apart from the already mentioned game, various promotional gifts with MetLife Amslico logo and Snoopy were designed for children (balloons, reflective tape, inflatable balls, whistles, crayons, painting picture, flashlights, bubble blows, candies, lollipops, rulers, etc.).

The concept was gradually implemented in 13 different cities in Slovakia, where in the majority of cases it affiliated with existing event such as the fair, city festivals and the like. The following chart shows statistical comparison of success achieved in individual cities. The success was influenced by weather, by the activity of MetLife Amslico agents but also by the accompanying events. The average number of collected contacts was more than 154 pexeso memory games that were duly completed and signed. Client's signature on the pexeso game was very important since by this signature the client agreed with processing of his personal details for marketing purposes, which was in accordance with the applicable law of the Slovak Republic. After the realization another important step comes into place and that is a business plan to attract new clients, therefore the role of agents to reach gained contacts, deliver them the picture and try to present conditions of insurance for children "Friend Snoopy" in more detail. Effectiveness of the chosen form of event marketing communication cannot be directly statistically recognized on the level of event agency, because it has no access to the number of signed contracts due to the implementation of the road show. Percentage of success can be secondarily derived from the final evaluation of the agency by the client or his interest to continue on cooperating with the agency. Within an internal evaluation of the event agency, success can be measured by the number of collected contacts. The following graph shows a graphical comparison of the success of individual locations within Snoopy Road show.

**Graph 1** Success of Snoopy road show



Source: own processing based on data provided by the event agency Artactive

In the final phase of cooperation with the event agency comes the evaluation, namely, billing the individual items of budget according to the real consumption and processing of the final presentation. Consequently there comes the evaluation from the side of a client which, after the realisation of the project, was positive. This was also the reason why the Snoopy project continues. However, event marketing is a sphere where you need to constantly innovate and bring new creative concepts.

Snoopy Road Show was supported by various other forms of marketing communication as for instance advertising through TV spots, billboards, and other forms of presentations to the existing clients of MetLife Amslico. The promotion is ongoing; currently work is being done on the new concepts with live Snoopy. The agency has worked out and implemented the concept of Snoopy in elementary school twice. Here, Snoopy brought into the selected primary schools a competition fun afternoon, concerts with stars like rapper Rakby or sweet singer from the popular television show Superstar, Martin Harich, numbers of gifts and a lot of positive experiences from the program. The agency has presented and has already four times implemented the concept of "Finding Snoopy at the Zoo" where Snoopy has introduced himself in the ZOO Bratislava, Košice, Spišská Nová Ves and Bojnice. The concept was prepared as a simple stamping competition for children who did various tasks in the ZOO. When they completed them successfully, they were given simple help for other stages, while at the last stage a live Snoopy, Snoopy photo gift or promotional items were waiting for them.

## **2.2 Analysis of Event - Union road show**

Health insurance Union was founded in 2006 and became the first health insurance company in Slovakia whose sole shareholder is a foreign company (Achmea BV). It has more than 200 years of experience on the insurance market and is one of the largest cooperative insurance companies in the world and the largest insurance company in Europe. Health Insurance Union holds the philosophy of a positive interaction with social environment and its trade policy supports this interaction through participation and sponsorship of various specific projects and organizations, for example, companies' Days of Health, which include a combination of lectures, trainings with using of medical devices, medical tests and measurements with the possibility of consulting a doctor at the workplace. Annually, it organises the public health programs - the so-called travelling road show - that offers a unique opportunity for the public to undergo preventive examinations of blood pressure, body fat, skeletal muscle, cardiovascular conditioning system, or functionality and state of their lungs. In order to appreciate the care of Slovak companies for a healthy lifestyle of its employees, health insurance Union announced already the fifth annual event of the Healthy Company of the year. For its innovative approach and high standard service to clients, health insurance Union was since 2006 awarded 2nd place once and 1st place six times in the competition "Golden Coin" in the category healthy insurance ( [www.union.sk](http://www.union.sk) ).

In 2014, health insurance Union approached event agency Artactive Events regarding traveling roadshow with aim to innovate the road show concept and to come up with a new idea. Due to the range, we present only the final version of the approved concept, which was the result of a similar preparation process as with a client of Amslico. Event agency was guided by the slogan "Direct contact and personal approach to health by not only of individuals but of the entire families as well." Event agency proposed a program concept of health and lifestyle prevention, where it relied on structure of the previous road

show - health truck of Union health insurance and altered only the contents of the accompanying events. Gregor Mareš, as the person identified with a healthy lifestyle, became the presenter. Together with a famous sports trainer Lucia Medeková they created a supportive foundation for the whole event and attracted people to the truck of health. In the truck, there was trained medical personnel who performed preventive health measurements, which aimed to examine the health state of people, inform them of their health and, at the same time, to offer them the opportunity to participate in the daily competition for vitamin supplements, or the final competition for spa stays in Rajecké Teplice , Smrdáky and Piešťany.

In addition to these benefits, people had the opportunity to use free massage services directly at the truck, be photographed near it and take a nice memento with them. Moreover, they could attend specialised seminars consisting of expert advice; and exercises under the supervision of Lucia Medeková. She addressed topics such as school of healthy sitting, breathing exercises, health exercises to strengthen the pelvic floor, spine, or a little more demanding athletic program. This was always the top of the day, called Functional training and stretching for all, which is currently one of the world's most popular trends in exercising. Within the concept there were prepared many activities for children such as face painting, children's playing area, and sports for children led by Lucia Medeková, or number of presents (balloons, reflective tapes, pens, inflatable bambam bars, raincoats, lip balms, gel antioxidants, mirrors, bags, sports bottles, thermoses, cups, etc.). The concept enjoyed success in 9 Slovak cities. The main program was complemented by a number of details that almost equally added to the success of the concept, such as - green apples for free for all participants, as a symbolic logo of Union health insurance, collecting elevation on individual devices in various cities and subsequent evaluation of the " healthiest city of 2014", or the actual distribution of vouchers from Union health insurance for answering mini quiz aimed at prevention.

**Fig. 3** Map of Union Road Show

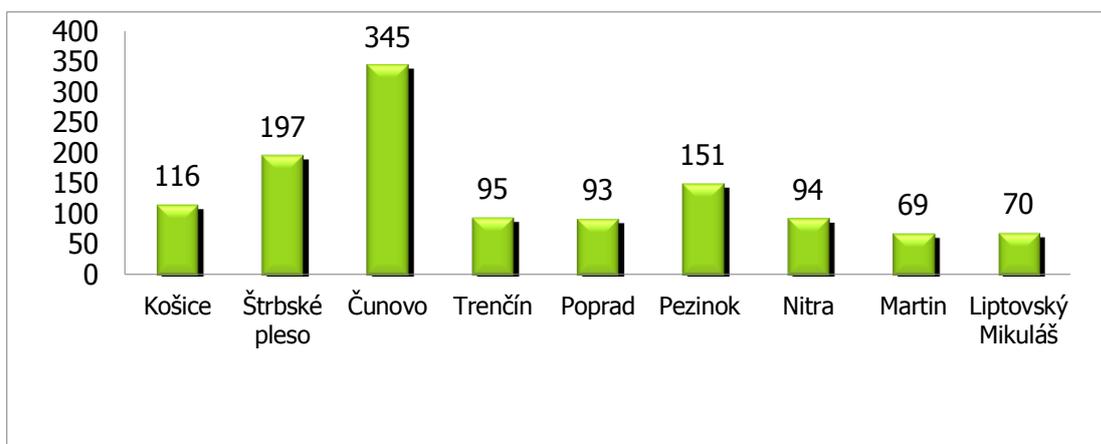


Source: own processing based on data provided by the event agency Artactive

Calendar of events was opened again on the first of June. On this day there was International Children's Day event with FC Galaktik in Košice and the Union Road show started as a road show of healthy truck from Union. Healthy truck was also presented during the famous international running event Tatra Running Tour at Štrbské Pleso, as

well as at the festival „Wild River“ in Čunovo, or at the city run in Nitra and Pezinok. The truck, or rather the smaller version of the presentation with the edited accompanying edited program visited also the cities that did not offer any major accompanying events, such as recreational and sports complex on the „Island“ in Trenčín, or in front of the shopping centres in Liptovský Mikuláš and Martin, but also in aquapark in Poprad. By the joint effort of event agency and Union health insurance agents it was managed to collect 1230 complete forms. The average number of the contacts gathered at the event was almost 137 contact forms. Contact forms also contained miniquestionnaires where people reported on what insurance company they were at that time insured in and whether they were considering a change which was possible until the end of September 2014. From the collected contacts, the possibility „maybe“ was chosen in average of 33% and the possibility of „yes“ in average of 6.3%. Similarly, there was reported satisfaction with the measured results and satisfaction with the offered program measurements. In almost two thirds of cases, the assessments were highly positive and people expressed high satisfaction with the preventive measurements; labelled them as interesting and useful. In case of satisfaction with the measured rates, people were at 50% satisfied and at 50 % not very satisfied with the results that were shown to them at the health truck. For the clarity, we again provide a graphical representation, which compares the percentage of success of individual towns where the Union health truck showed up.

**Graph 2** Rate of success of the Union Road Show



Source: own processing based on data provided by the event agency Artactive

Again, it is not possible at this point to assess the level of efficiency and success of the realized concept, or the rate of finance return. On the other hand, the cooperation with the event agency still continues. Currently, they are on the point of planning new schemes and concepts, aimed at promoting healthy lifestyle and spreading the prevention of health; thereby the good name of the health insurance among the existing clients of the Union health insurance.

## Conclusion

Event marketing, as one of the current, innovative and interactive marketing communication elements began to develop in ancient Rome, as we have already mentioned above. Event marketing has survived different periods of societal governance

and today it plays an important role in the effective and successful marketing communication strategy of the international companies. Many businesses understand the power and importance of event marketing. It is more than necessary to pay attention to the fact that not every organized event – i.e. social event, is considered as a part of event marketing. As event, within the event marketing, we understand only the event organized with the aim of marketing communication, i.e. promoting business entity, building its reputation, image and maintaining positive relationships with customers.

In this paper, the author focused on one of the currently very often used form of event marketing - road show. By road show we understand an event organized at several places during a certain period, while the places and times of the event are precisely established beforehand. It is characterized by a "nomadic" way of travel when the number of trucks full of technical equipment and personnel move from place to place (Bruhn, 1997). The participating event agency has implemented two vastly different concepts within the summer Road Show, both with the same aim: to obtain a database of new contacts, of the potential clients. Percentage of individual concepts can be compared only from a purely subjective point of view. A little more objectively known are the collected figures, as for example, the average number of contacts, financial returns and the like. Given the number of contacts collected, a more efficient concept was the one with Snoopy friend, where the number of contacts collected was approximately 154. Union Road Show, on the other hand, with its healthy truck obtained approximately 137 contacts. Roughly, the budget for concept with Friend Snoopy equaled the half of the budget for the health truck. From this perspective it may seem that the concept with Friend Snoopy had much more effective financial returns than concept with the health truck. However, from the subjective perspective of the experts from the event agency, the concept that was financially more challenging met the rules and functions of event marketing to a higher extent, because people were left with pleasant experience. Moreover, it is still in their memories in terms of awarding the healthiest city or in terms of competitions for spa stays for all participants who joined in the travelling preventive examination. The concept with Snoopy Friend is aimed more at the younger age group; the children who, after meeting with Snoopy, take with them positive experience. That experience may, however, not be passed onto their parents who are the ones that ultimately decide and represent the clients. It is very difficult to compare the two such different concepts, although both fall within the same category of event marketing - road show.

Due to the views expressed, it is possible to argue that the concepts have been designed and in the final stage also evaluated positively; that their aim was to reach a portfolio of clients in Slovakia (about 5.4 million Slovak Insurance Association, [www.slaspo.sk](http://www.slaspo.sk)). Concepts were customized to client requests that were perhaps different, but in the final phase aimed at the same goal. Each business entity must choose a certain way, an idea by which it decides to present itself. It is important to continue with that idea, develop it and thus achieve the defined communication goals of the given company. Nowadays, there are many ways to present one's communication strategy and its objectives. But it is event marketing which, as an innovative and interactive way of reaching people, is one of the effective and appropriate forms of marketing communication, referring to its most effective competitive advantage - positive experience, memory and the emotional strength.

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