

## Case study

# Arista

Work Package 2

**Authors:**  
**Krystyna Heinz, PhD**  
**Silesian University in Opava, Czech Republic**

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Picture 1 Available from [www.arista.cz](http://www.arista.cz)

*At 3 a.m., Meggy, a personnel manager of the Arista company, was sleeping in her bed, when suddenly she was waken up by a phone call. Although she was used to getting up at 3.30 in the morning to get to the bakery for the shift, she did not expect anyone to call her at this unusual time. When she answered the phone, she heard a policeman announcing that one of Arista shops had been robbed after the midnight. The thieves broke in the shop and stole everything available. Meggy was asked to come to the shop immediately. She knew she was needed in the bakery to replace an employee who had just given his notice and at the same time she was supposed to be in another place to participate in the police investigation. It was a difficult decision for her to make.....Anyway, she was sure she would have to insist on her boss to solve the situation about the staff in the company very soon.*

It is possible that the mentioned situation happens to you or your relatives and friends. This case study will give you information about:

- Operation of a bakery and its shops in the Czech Republic,
- Privatization of SMEs after the year 1989,
- Problems they have to face,
- Branding a product – traditional bread,
- Subsidy from the EU for purchasing a new modern assembly line
- Delivery to supermarkets and selected institutions,
- Quality of products – certificate KLASA.

## **A- EXECUTIVE SUMMARY**

ARISTA company, founded in 1995 in the North Moravia Region of the Czech Republic, deals with the production of pastry and its delivery to business partners. It has a long and complicated history closely related to political and economic changes that took place in Czechoslovakia in 1989.

The current economic situation is very difficult for bakeries and a lot of them have gone bankrupt. The bakers' labour is not paid in an adequate way and the average salary is about 600 euro per month. According to the statistics every seventh bakery was forced to stop its production.

In the course of the last 5 years in spite of the economic crisis, demand for ARISTA's products has not decreased probably due to the long tradition based on an old recipe coming from 1935 using the traditional ray leaven, due to the brand with good reputation because of producing high quality goods, effective investment in the technological equipment ( a European Project ), and the fact that the firm belongs to the family-owned ones.

However, the company faces some problems related to competition, especially from Polish bakeries, fluctuation of the personnel, and legal and communication ones.

In 2005 ARISTA applied for a subsidy from the EU related to purchasing a new modern assembly line (55% of all expenses) and decided to introduce the changes in 3 stages. The process finished in 2010 preserving the number of employees - between 36 to 38 - moving some employees from the production to shops. However, the employees show a very high degree of fluctuation and after getting necessary skills usually leave the firm.

## **B – BASIC INFORMATION ABOUT THE COMPANY**

### **1. Characteristics of the company**

ARISTA company, that involves bakeries and shops located in the North Moravia region of the Czech Republic, has a long and complicated history closely related to political and economic changes that took place in Czechoslovakia in 1989. Its present owner and founder, Ing. Tadeáš Czudek, a woodman, had worked on the position of a division

director of OKD (Mines of Ostrava and Karviná Region) before the Velvet Revolution, dealing with delivering wood for mines, and had nothing in common with food industry.

Arista deals with the production of pastry and its delivery to business partners. It runs a bakery in Orlová Zimní Důl, where bread is manufactured in a traditional way, and a bakery in Havířov-Podlesí ( former Savela premises) with the production of a wide selection of pastry. Arista belongs to medium-sized businesses that are able to respond to consumer demand as well as to changing legislation.

The products are delivered to supermarkets, but also to state institutions run by municipalities, like schools, old people´s homes, hospitals, and school canteens in the Karviná and Frýdek-Místek districts. Some of the products have been given the national award of KLASA provided by the Ministry of Agriculture of the Czech Republic taking into consideration qualitative criteria related to making pastry.

## **2. History of the company**

ARISTA (the name is derived from the Latin word for an ear) began its operating with delivering of pastry first to self-service shops and later to supermarkets (Pramen, Jednota, Euronova, Hypernova, Albert, Billa, and others). The basic philosophy of the firm was to deliver to the chains of supermarkets, but also to state institutions, like schools, old people´s homes, hospitals, and prisons.

The new regime in 1989 brought numerous changes including industrial restructuring. In the North Moravia region it involved closing mines and steel works leading to the decline of demand for wood. This situation and the privatization of services made Mr. Czudek his friend to establish PETAX (limited company) firm in 1991. It consisted of two parts – the first one dealt with the construction activities, while the other one involved two bakeries – Komendír in Doubravá and Szyпка in Orlová, both of them having long tradition and good reputation in the region.

In the first years of their existence bakeries focused only on baking bread bought by customers from their premises with no need of any transport. The premises had always been known for high quality products and customers used to come to the location to buy them. Between the years 1992-1993 the owners decided to take leasing for the Bongard assembly line (also available for a lot of other firms) producing baguettes that presented

a completely new and very successful sort of pastry on Czechoslovak market. As it was very difficult to pay off the instalments, other firms who also had bought the same Bongard equipment, went bankrupt.

Although the two mentioned bakeries were equipped with old machines and the premises themselves required improvement, it was not a problem for the owners to rebuild them as they had at their disposal a construction firm. This coincidence proved to be a big advantage for PETAX.

By the year 1992 PETAX involved two rented bakeries and the third one bought in Havířov-Šumbark. The two owners then divided their responsibilities in the firm and later they decided to split the firm into PETAX and ARISTA that came into being on January 1<sup>st</sup>, 1995.

The year 1998 brought problems connected with the notice from the Komendír bakery, which meant that the company had to leave the premises. This loss caused the change of the area covered by the firm's services and showed the need of shift toward Ostrava, the biggest city in the region. At the same time it made the owner introduce innovations related to production in the other bakery in Orlová introducing sliced packaged bread, which required leasing for investment into new proper equipment.

In 2005 ARISTA applied for a subsidy from the EU related to purchasing a new modern assembly line (55% of all expenses for the purchase of the assembly line) and decided to introduce the changes in 3 stages. The process finished in 2010 preserving the number of employees - between 36 to 38 - moving some employees from the production to shops. However, the employees show a very high degree of fluctuation and after getting necessary skills usually leave the firm. This will probably be one of the problems identified in the company.

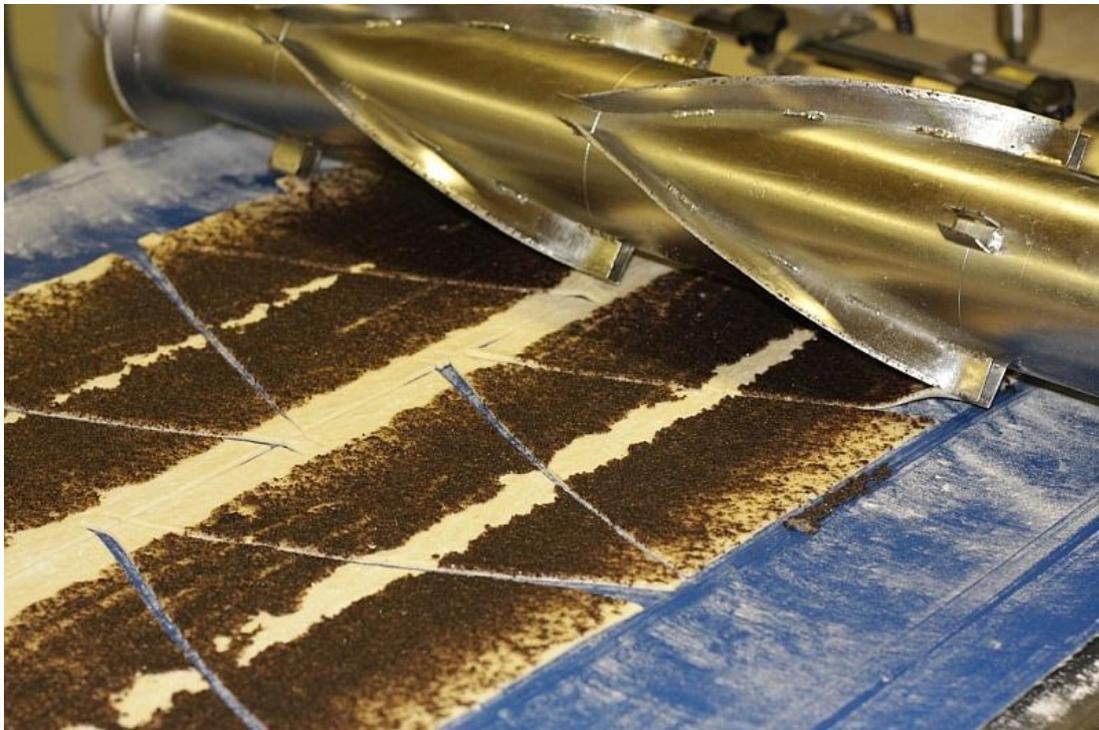
The last year, the worst in the period during previous 20 years, was not favourable for bakeries in the Czech Republic due to bad crops leading to an increase of the flour price by 20%. However the prices of pastry did not increase under the pressure from the side of supermarket chains that wanted to keep the same price for their customers even after rising the VAT. The higher production expenses had an impact on Czech bakers and led to closing bakeries, as mentioned above.

However, in spite of the economic crisis and above listed circumstances , demand for ARISTA ´s products has not decreased, in the owner ´s opinion, due to the long tradition based on an old recipe coming from 1935 using the traditional ray leaven, due to the brand with good reputation because of producing high quality goods awarded KLASA, and the fact that the firm belong to the family-owned ones.

Nowadays, the inspiration related to new pastry products ( whole wheat products) and fully automatic production is found in European trade fairs, where the employees are regularly sent, and from various suppliers of flour and other ingredients who bring the proposal of new products together with new technologies.

### **3. Current situation**

Company ´s premises are systematically renovated and modernized and machine equipment is expanded to reduce demanding manual work and increase the quality of products. Gradually, there have been installed new ovens, kneaders and a roller CANOL CANOLINO purchased from the company TEN-ART. The machine is equipped with a precise weighing appliance as well as with an electronic filling machine.



Picture available from [www.arista.cz](http://www.arista.cz)

The company also invests in the staff's education and developing their specialist skills to ensure their stabilization and loyalty, which has a direct impact on the quality of production. The company guarantees the quality of products and their positive influence on consumers' health and the system of critical points and protection of consumer is observed in the production process.

Between July 14<sup>th</sup>, 2005 and September 14, 2009 the company was the holder of the certificate related to quality according to the norm ISO 9001 : 2001 and since June 2010 it has been the certificate holder of the norm ISO 9001 : 2009. Obviously, the company is involved in the EKO-KOM system related to take-back and utilizing packaging waste.

The company attempts to create favourable conditions for the staff and assess their performance in an appropriate way. Newly recruited employees are offered recruitment bonus and the permanent ones are given loyalty bonus corresponding with the number of years spent if the company. In spite of these measures the members of the staff frequently leave the workplace. There may be several reasons of this situation to be identified. The staff can find inspiration at home and foreign exhibitions and trade fairs that focus on food production.

#### **4. Branding the product**



*Picture 2 Available from [www.arista.cz](http://www.arista.cz)*

Every country and region has a favourite kind of bread. The wheat-rye bread made in the bakery in Orlová-Zimní Důl has had a long tradition since 1935. It is produced according to the original recipe.

The dough is made with the traditional natural rye leaven without artificial additions. The traditional production is demanding in terms of technological parameters – time, dosage, flour quality, ingredients and surroundings temperature, and staff's skills. The

production has been innovated introducing flour bins, a cutter and a packer. The basic production stage, which involves dough kneading, shaping loaves and placing them in scuttles, is carried out in the traditional manual way.

The customers are aware of the product as its name *Granny's bread*, and especially its picture available from the company website and ads, indicates that this kind of bread follows an old traditional recipe. On the contrary, general public is informed that majority of pastry available from supermarkets is made of the same mixture – a kind of powder widely used by bakeries.



*Granny's bread* was introduced to market in 2003. To prevent competition from using a similar name, the company obtained a trademark issued by the Office of Industrial Property in Prague on December 22, 2005.



Picture 3 Available from [www.arista.cz](http://www.arista.cz)

## C – MARKET ENVIRONMENTAL ANALYSIS

## **1. Position of SMEs in the Czech Republic and economic situation in Moravia-Silesia Region**

Small and medium sized enterprises are an important sector of the Czech economy. These companies contribute more than 50% of the GDP and are the biggest employers in the region..

The importance of the SME sector for the Czech economy is illustrated in the data available. According to the statistics 1,122,511 private and legal persons (with the number of employees between 0 and 249) were registered and actually conducted business activities. The share of small and medium sized companies in the total number of active business subjects accounted for 99.86 per cent. SMEs employed 1,786,000 employees in 2012, which accounts for 59.43 per cent of the total number of employees in the entrepreneur sphere. The data prove the importance of the SME sector.

## **2. Situation in Moravia Silesia Region**

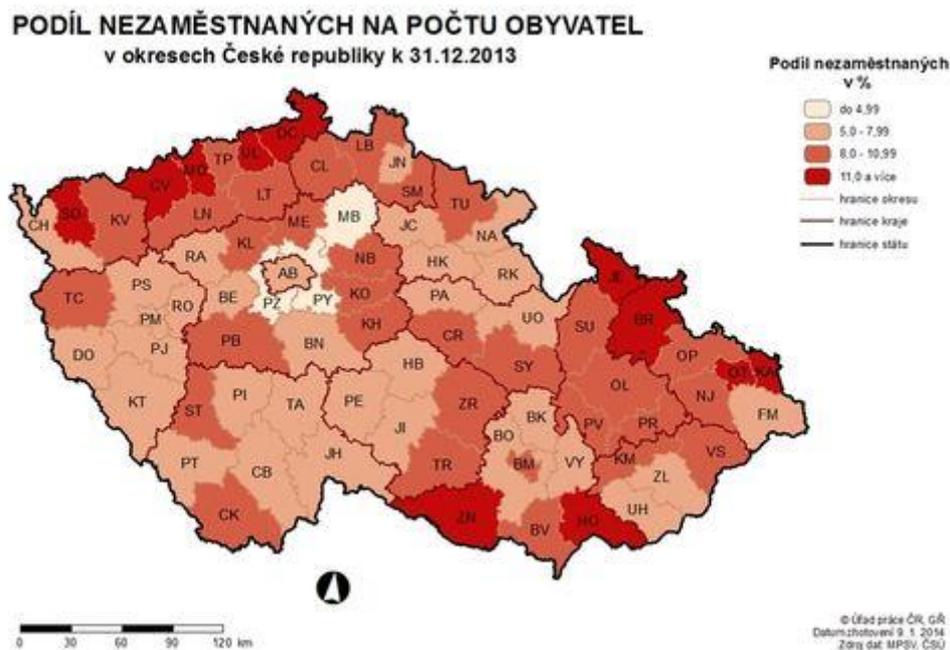
To understand the economic situation in the North Moravia and Silesia Region and the position of Arista and its development, it is necessary to get acquainted with its recent transitions.

The Ostrava region is one of the most industrialised parts of the Czech Republic with extensive mining, metallurgy, steel and oil processing and heavy engineering activities. Many foreign investors have already set up their production facilities in the region and take advantage of skilled labour force. The region suffered from heavy pollution in the past but extensive cleanup programs in recent years have improved the environment significantly. Besides the heavy industry, sectors such as pharmaceutical industry, food processing, production of building materials or automotive have been steadily developing. Restructuring in traditional industries has been shifting the region's industrial base to light manufacturing – automotive, metalworking and electrical engineering. Numerous Business Zones have been built to attract new potential investors to the regions in order to reduce its dependency on the heavy industry and to reduce the threat of increasing unemployment.

The most industrialised part of the region is the Ostrava-Karviná district (Havířov is a part of the district) mainly due to large deposits of raw materials such as bituminous coking coal. The region is the nation-wide centre of metallurgy. Moreover, almost the entire output of bituminous coal comes from this area. A whole range of companies in the region are involved in generation and distribution of electricity, gas and water, production of transport vehicles, chemicals, chemical products and man-made fibres.

The Moravian-Silesian region is the most populated region in the CR (almost 1,250,000 inhabitants) however, the number of municipalities places the region among the regions with the lowest number of settlements. The region is highly urbanised – nearly 50 % of the population live in large cities – and it has the highest population density in the Czech Republic.

As numerous mines and steel works are being closed or the number of their employees is being reduced, there exists a potential of a dramatic increase in unemployment. The current unemployment rate, accounting for 13.7 per cent, belongs to the highest in the Czech Republic. The described situation is illustrated in the following picture showing the percentage of the unemployed in the regions of the Czech Republic.



Picture available from [www.nezamestnanost.cz](http://www.nezamestnanost.cz)

### 3. Problems in SMEs – staff and contracts

A research project conducted in 2005 and 2006 by the University of Economics, Prague, *Specific Aspects of Human Resources Management in Small and Medium Enterprises* (Lucie Václavková et al, 2007), examined flexible forms of work among SMEs in the Czech Republic. The chief form of employment for this size class is the open-ended contract (83%). Slightly less than 50% of companies used other forms of employment, e.g. agreements on performance of work, part-time employment or fixed-term contracts. Medium-sized enterprises most often used open-ended or fixed-term contracts, and also frequently engaged temporary agency workers. Open-ended contracts were also used

most frequently by small enterprises, although they also often used agreements on performance of work and part-time work. In addition to open-ended contracts and other forms of employment, microenterprises (and SMEs too) often used work on the basis of trade licences (c. 17%).

According to the research project, the form of flexible working hours most often used by the companies surveyed was overtime (75% of medium and 71% of small enterprises). Slightly less than half of the SMEs used flexible working hours, work during weekends and shift work, while in those companies the incidence of tele-working was relatively common (25%). A small percentage of microenterprises (c. 18-22%) reported working on weekends, flexible working hours and overtime.

According to the Czech Statistical Office, there are extensive differences in salaries in regions of the Czech Republic. The North-Moravian Region belongs to so called disadvantaged regions where the GDP per capita declines from the average in the whole Czech Republic. This region used to be a significant leader of heavy and black coal industry, but it has lost its role due to the industrial decline.

## **D – DEFINITION OF THE PROBLEM**

### **1. Problems being solved within the project**

Arista company, being aware of its problems, has developed a project within the Operational Programme *Enterprising and Innovation* which supports the development of the company by investment in its technological equipment.

The programme focuses on solving the following basic problems:

1. The need to invest in new equipment to extend the selection of products
2. The need to renew technological equipment for the following reasons:
  - Exchange of outdated equipment
  - Following new trends in production
  - Taking into consideration changing input - change in the quality of agricultural products
  - Increasing demand related to pastry quality
  - Ensuring efficient equipment
  - Decreasing the physical burden of the staff.

3. The development of the company including its outlets and ensuring working positions in the region with the high rate of unemployment. The company regularly announces recruitment for new workers on its website. The requirements for the staff involve good physical condition, vocational training and 1 year's experience with working in a bakery. However, no announcements mention the salary offered to the candidates.

## **2. Problem to be solved**

### **A. Personnel and its fluctuation**

However, the most ardent problem the company has to face is the fluctuation of the personnel. This question is closely related to the type of work agreement. According to a research project carried out at University of Economics in Prague *Specific Aspects of Human Resources Management in Small and Medium Enterprises* (Lucie Václavková et al, 2007) there exist flexible forms of work among SMEs in the Czech Republic. The most frequent types of agreement are the following:

- the main form of employment - the open-ended contract (83% of companies)
- other forms of employment,
- agreements on performance of work,
- part-time employment or fixed-term contracts,
- temporary workers from job agencies.

### **B. Legal problems**

As the company does not have any ambitions to penetrate foreign markets – Polish or Slovak, as competition especially from Polish bakers is very strong, the main focus is on introducing European norms, like the law related to food, certification, etc. The main problem is related to the application of Czech administration law in the situations when Polish illegal mobile shops where hygienic regulations are not observed, penetrate Czech market, and are not checked by Czech authorities regularly. Legal company problems are solved by a lawyer, the owner's son. In terms of legal issues, the company faces numerous problems related especially to financing marketing, accounting, labour-law relations, etc. It is obvious that big companies employ an expert for each of the mentioned areas, while in SMEs all the problems must be solved by a small number of people.

## **E – GUIDANCE TO SOLUTION**

Solving the problems mentioned above, it is necessary to take into consideration the following issues:

### **A The basic philosophy of the firm**

1. to deliver first to self-service shops and the chains of supermarkets,
2. to state institutions, like schools, old people's homes, hospitals, and prisons with
3. more favourable invoice due dates,
4. to stick to the quality of products.

### **B Personnel and its fluctuation**

- better motivation of employees – **HOW?**

- better payment
- scholarships during study at vocational schools
- other incentives

### **C. Competition from Poland – mobile shops**

- Czech administration law
- prices
- hygiene regulations

## **F – ANALYSIS, DISCUSSION AND REFLECTION**

Taking into consideration all the provided data, it is necessary to carry out the SWOT analysis according to the following instructions.

It is necessary to answer all the mentioned questions and create a short text based on the answers.

- What is the main problem of the company?
- What kind of solution was proposed?
- What are other possible alternatives of solution?
- What are the measures the company should take for the future?
- What will be chances and threats of the company in the future?

Interesting helpful statistics related to SME can be found at

[http://ec.europa.eu/small-business/policy-statistics/facts/index\\_cs.htm](http://ec.europa.eu/small-business/policy-statistics/facts/index_cs.htm)

<http://www.reportlinker.com/ci02034/Bakery-and-Pastry.html>

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