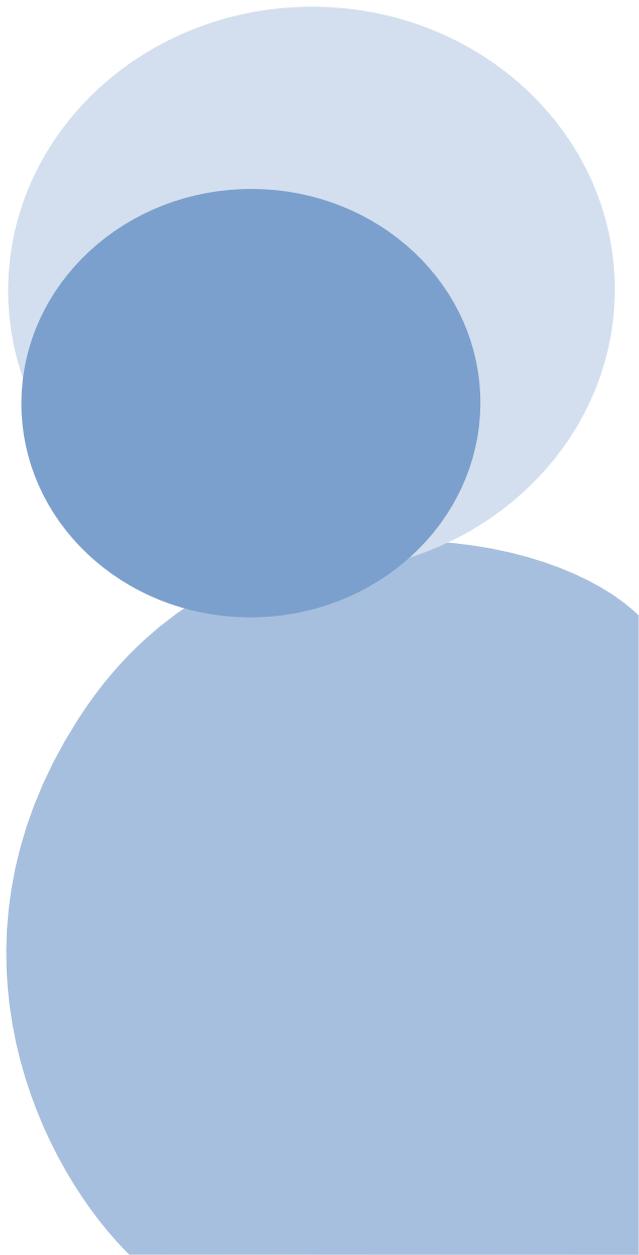


## Case study

### – R servis Havířov

Work Package 2

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## A- EXECUTIVE SUMMARY

Starting a business requires time, capital, and determination followed by a never ending chain of activities to keep the business operating. This was also the stimulus for the origin of the presented case study. The educational and training purposes are to allow the start-up entrepreneurs either with or without economic education step out of the presumptions and gain an insight into the problems small and medium businesses generally face.

The objective of the open ended case study is to present a real SME, its situation, and problems arising from its business activities. R servis, selected for the purpose of the study, is a SME situated in the town of Haviřov specializing in car repair services and tyre services. The main problems detected during the research in the company operation include staff and capacity issues.

The data was collected through an interview with the company owners, internet search, observation, and field work. All the data were a subject to SWOT analysis, semiotic analysis and thematic analysis followed by deduction. The open end of the case study is to involve the readers into the problem solving process – to consider and discuss other potential solutions to the problems based on their own experience.

## B – BASIC INFORMATION ABOUT THE COMPANY

### **Type of ownership**

**R servis** is run by two persons who formed **Association of entrepreneurs** for performance of their collective activity on the basis of a **Partnership Agreement**, concluded according to the Civil Code. This legal form, which does not give rise to a new legal entity, is used especially by entrepreneurs - individuals for their consistent gainful activity. Partnership members - partners - are subject to the private-law regulation contained in the Civil Code. A Partnership Agreement, which is one of the types of civil-law contractual relations, is suitable for association of parties intending to carry out a collective one-shot activity, for performance of a one-shot project. At the same time, partnership members conducting a business activity are also subject to public-law regulation in term of taxes.

## **History of the company**

In 2007 two car mechanics decided to leave their employer and found their own business. There were two main reasons. The first related to the interpersonal relationships at the former workplace often directly connected to the company owner. The second related to the income that had been gradually decreasing while the amount of work had been increasing.

The beginnings were uneasy. They had basic capital to purchase the elementary necessary equipment to start the car repair business, yet it was not enough to buy or build a garage. They could have rented the garage, however they preferred their own space. The ownership was to protect their business against ever increasing rents and risk of not renewing the rent contract.

Having insufficient capital, they applied for a bank loan. The banks, as they had applied in several ones, proved reluctant to provide the funds because of insufficient security to the loan. They also decided to apply for funding provided by the state agency supporting new SMEs, however they were also refused with reference to the fact they did not have to start their own business as there were enough job vacancies for the position of car mechanic in the labour market.

The inconclusive situation changed when they were offered an investment and contract from a family member who owned a well-situated building site and was willing to finance the construction of the suitable space. The newly opened business was to pay rent in return for fair conditions and unlimited period.

Within a year the workshop was built and equipped and the operation of the car repair service could start.

## **Problems**

Naturally, micro companies as any other companies have to face various problems related to their activities. Here are the problems **R servis** has to resolve in order to retain their market position.

In car repair business there are 'high months' and 'low months'. The high months generally April – May and September – October represent the highest amount of work to be done. During the high months there come more customers demanding service works than during the low months. However the company often has insufficient capacity and cannot meet the usual deadline for the repairs. The customer have two options, they can either accept the longer periods or ask a competitor.

Despite the declarations made by political representatives concerning reduction in administrative burden companies usually have to encounter, the amount of paper work has been increasing. **R servis** has to keep necessary records needed for various authorities (financial, social, or municipal) it also has to keep records related to handling dangerous substances and their disposal.

The current general situation of the company can be seen in the results of the SWOT analysis.

### **STRENGTHS**

- The company prides itself in reliability and honesty.
- The car mechanics are experts especially in Renault car repairs.
- The company provides quality service and fair deal with its customers.
- The company has an excellent location between two shopping areas.

FAIR DEAL – customers are frankly told what repair is needed or if the repair is needed and worth.

### **WEAKNESSES**

- The company has a limited capacity during 'high months' (April and May, September and October).
- The company faces high amount of administrative work.
- The company has to fight with its competitors.
- The company website does not provide sufficient information.

### **OPPORTUNITIES**

- The company can enlarge their activity and capacity.
- The company can build its brand name in the car repair market.
- A decrease in purchase power may result in an increase in number of cars for repair by R servis.

### **THREATS**

- The competition in the car repair segment grows and new car repair companies have been established in the area.
- The region has been suffering a drop in purchase power.
- The region has been suffering from increasing unemployment.
- The company has to handle late payments and unpaid invoices.

## **C – ENVIRONMENTAL ANALYSIS**

### **SMEs in the Czech Republic**

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.

SMEs are relatively flexible and provide quick responses to changes in the external environment; they are, however, also very sensitive to this environment. SMEs have high absorption potential of the work force and the ability to fill gaps and niches in the market that are left by large companies because of their lower resolving power. SMEs are also quickly available for subcontracting.

On other hand, SMEs do not have quick and easy access to financial funds and they have a lower ability to control and eliminate the consequences of external factors fluctuation, namely in the initial stages of the company's development.

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.

### **Moravia Silesia Region**

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. 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 (MS 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. The labour force in the region is highly skilled due to a long and rich industrial tradition and a high quality educational system.

### Unemployment and Wages

As it has been stated Havířov (a part of Ostrava-Karviná district) belongs to the most industrialised part of the region with extensive bituminous coking coal extraction. Due to a dramatic decrease in bituminous coal price, OKD a.s., one of the largest mining companies in Central Europe, has experienced serious financial difficulties recently. As a result of that, 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.

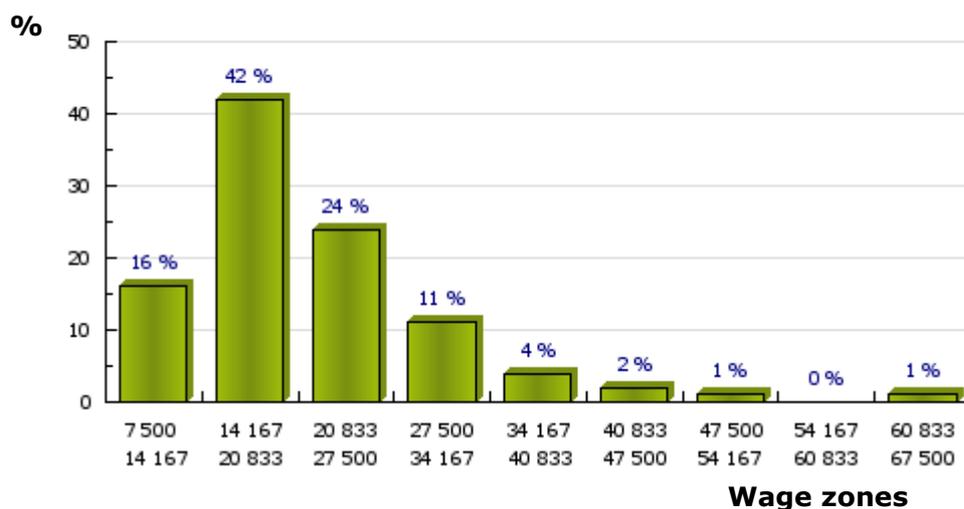


Figure 1- Wages / Salaries in MS region (source: [http://www.platy.cz/partner?region\\_id=12](http://www.platy.cz/partner?region_id=12))

The higher rate of unemployment has an effect on the wages in the region. Following the principles of wage curve theory by Blanchflower and Oswald (1995) that workers

employed in an area of high unemployment earn less than identical ones in a region with low joblessness, it could be expected the situation in earnings will deteriorate. Therefore the purchasing power parity will have a negative effect on the car repair market segment.

The current wage distribution in the region can be seen in picture 2. The majority of **R servis** customers belong to the groups 14,167 – 20,833 and 20,833 – 27,500 CZK (Figure 1), which are also the most endangered groups by the increasing unemployment. [28 CZK = 1 EUR]

### **R servis Market and competitors**

Considering the type of business the company is engaged in, it is impossible to specify the market share. It is rather appropriate to speak about the customer structure and the competitors.

The company provides service for other companies operating their own cars (personal cars, MPV cars and vans), individual entrepreneurs and general public from the region. Considering competition, there are 4 main competitors of comparable size and service within the 4 kilometre radius. There also exist several 'car repair entities' run by individuals often on illegal basis in their private garages. However, these offer cheap service without warranty and can not compete with R servis.

### **D – DEFINITION OF THE PROBLEM**

The company defines the main problem as two interrelated issues – staff and service capacity.

The first problem is the number of staff. There are only the two owners who do all the jobs – service, maintenance, office work. The common procedure is as follows:

*A customer arrives with a car to be serviced. Mechanic A has to stop his work and pay attention to the customer and the problem, Mechanic B keeps working. After the incoming customer leaves and the Mechanic A finishes all the office work, comes back to his normal work and continues until the next potential customer arrives. Evidently the time to be spent on car repairs is reduced by the time spent on office work. During the high seasons the Mechanic A practically does not have time to perform his normal function. There is additional office work taking time after the normal working hours and is related to the administrative burden as it has been mentioned in section A.*

The second problem is with the insufficient physical capacity of the garage. Due to the limited capital at the beginning of the whole business venture only a small building was constructed. The garage consists of two stands for cars being repaired, tyre service stand, and adjoining facilities - office, toilet and bathroom, small storeroom (picture 4). However, the quality of the service provided has attracted a large number of customers and during the time it has become evident that the capacity is insufficient for the future development.

There is a simple rule of proportion. Low capacity results in limited incomes from the new and returning customers as the company is not able to service more cars. Therefore the performance remains on approximately the same level. To improve the services and to increase the performance the company considers the problem solution to be the key point of their business. However the elementary condition is not to reduce the high level of service and offer higher capacity and new services.

Being aware of the problem, the company decided to jointly finance a construction of a new adjoining garage consisting of next two stands for cars and a large storeroom. The building has been finished and is being equipped to start its operation this year.

The capacity problem is being solved but the staff problem still remains. To solve the whole complex problem it is important to bear on mind the elementary condition – offering higher capacity and new services may not affect the high level of service.

## **E – GUIDANCE TO SOLUTION**

Complex problems, such as these presented in the previous sections, require thorough consideration. There are many less or more significant variables and naturally there are numerous solutions or combinations of solutions. Here are some hints to help with problem solving:

### **New staff recruitment**

Generally, good employees can be the company's greatest asset, therefore recruiting and retaining the right person is important. There will be a need for the minimum of 2 new employees (as indicated by the company owners) – one for the administrative work, the other for the car repair work.

New staff recruitment can have the following dimensions:

## **1. Labour cost**

The sum of all wages paid to employees, as well as the cost of employee benefits and payroll taxes paid by an employer. With reference to the wage curve theory, the labour cost should not be an excessive burden for the company as the unemployment prevents wages from rising.

## **2. Labour availability and qualification**

On one hand, **R servis** is situated in a region with high and potentially even increasing unemployment, therefore there will be a high chance of hiring new staff. On the other hand, there is the issue of high quality of service, which requires highly skilled, responsible and devoted employees. Such employees are always hard to find as the competitors are also keen on hiring them as well. Shortage of such employees can also cause an increase in labour costs.

Once the decision is to hire new staff, it is important to be aware of legal obligations to the staff such as:

- wages and employment conditions concerning the staff,
- the taxation office (authority) registration to deduct tax from the wages,
- employment records set up,
- superannuation payment, and
- occupational health and safety laws compliance.

## **Other options – apprenticeship, subcontractors**

**Apprenticeship** can help the company to harness new talent. Apprentices learn on the job, build up knowledge and shape according to the company philosophy. Supervising an apprentice, the company can make sure the potential employee, has the required skills and qualities.

**Subcontractorship** is the case when someone else carries out the processing operation under the authority of the contractor, in this case of **R servis**. The new built garage section can be sub rented, as the garage is already rented, to someone else to provide complementary services to enlarge the offer of **R servis**. The positive of this solution may be in no labour costs and some income on form of a rent, however there might be no concord in the high quality services provided by **R servis** and the subcontractor.

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

The objective of the case study was to present a real SME, its situation, and its problems arising from its business activities. Conducting a research in the company provided the necessary data for the following analysis. The results and the following deduction suggested there are two main problems - insufficient capacity and especially lack of personnel. These problems negatively affect the further development of the micro company.

It has been suggested that the problems are complex by its nature. Thinking about the pros and cons, either of the hints in the section E or additional ones to be suggested by the case study readers, have to be carefully considered in order to reach the solution the micro company could really adopt.

Enlarging the business and hiring new staff is accompanied with an increase in office and managerial work and the company owners will not be willing to change their current job (car repair) to become real managers. Therefore, as claimed by the owners, they would be forced to hire 2 new employees. The administrative worker must have qualification in administration but also in car repair issues, as the administrative work is based on the car repair knowledge. The car mechanic has to be reliable and qualified person being able to provide high performance and quality.

In case of apprenticeship they will train the person to comply with the company needs, but it is a long time solution with an uncertain end. Even though the apprentice would become an employee, there will still be the need for the administrative worker due to the reasons mentioned in the preceding paragraph.

The last hint - subcontractorship - excludes the new employees need. The subcontractors would be only responsible for the high quality of their service and resolve their own administrative work. However, there would still be the necessity to check the quality to maintain the whole company reputation. Not forgetting the still remaining administrative work described in the section D. A part-time administrative worker could be a solution in this case.

Alternative solutions might obviously appear when considering the problems described. The case study has been designed to present the data, to offer the hints, and to discuss the feasible solutions. It has also been designed with the intention to initiate problem solving at the readers as they could have solved similar problems.

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