

Case study of export-oriented SME from the Czech Republic

The successful entry of the Hlimont s.r.o. company to the Serbian market and the establishment of the HK Metal Cluster

CONTENT

1	Introduction.....	1
2	Hlimont s.r.o. company	1
3	Establishing business cooperation with Serbia	1
4	The identification of market opportunity and its use	2
5	Experiences and recommendations	4
6	Follow-up activities.....	4
6.1	The expansion of the range of imported goods from Serbia	4
6.2	Cooperation at the cluster level	4
7	Evaluation of commercial cooperation with Serbia	5

1 INTRODUCTION

The case study is prepared in the framework of the international development cooperation project Aid for Trade programme Serbia - "The importance of Clusters for the Trade and SMEs Development", in order to inspire and set an example for other Czech companies and clusters to enter the Serbian market. The case study is focused on the company Hlimont s.r.o. and its entry into the Serbian market. The successful entry of the company on the Serbian market is demonstrated by the story of Milan K., the partner in the company. His study internship in Serbia and other activities led to the development of trade between the Czech Hlimont s.r.o. and Serbian Agroferocoop doo Temerin companies. The case study also includes a description of the formation of the HK Metal Cluster and clarifies the events that contributed to its creation.



2 HLIMONT S.R.O. COMPANY

Hlimont s.r.o. company is a family owned company doing business in machine installation and metal working. It was founded in 2001 and currently has 25 employees. The initial focus of the company was on machine installation (installation of technological equipment, cutting lines and conveyors). Since 2010, its services expanded to include the manufacturing of products of steel (fence systems, railings, stairs, gates, sliding gates, canopies, various stands, cages, gratings, steel structures for industrial and construction purposes, platforms, candlesticks, small pieces and serial products, products of forged steel etc.), welding of metals, truck haulage (truck with hydraulic arm - domestic and international transport, express delivery shipments, moving and relocation services) and recruitment services (offer its own employees in engineering fields - mechanics, welders, cutters etc.).

3 ESTABLISHING BUSINESS COOPERATION WITH SERBIA

In 2010 Milan K., the son of the company owner started his work in the company Hlimont s.r.o. At that time, Milan K. studied at the College of Entrepreneurship and Law in Ostrava, the Economics and Business field of study. In 2012 he joined the Erasmus for Young Entrepreneurs cross-border exchange programme, which gives the starting or aspiring entrepreneurs the chance to learn from experienced entrepreneurs running small businesses in other participating countries (www.erasmus-entrepreneurs.eu).

The European Commission has approved his application to participate in the programme. Through an intermediary organization (The South Moravian Innovation Centre), Milan K. chose the company Agroferocoop doo Temerin in Serbia – the manufacturer of agricultural equipment, where he took his internship. The South Moravian innovation Centre has made, through its project activities from previous years, some contacts with the representatives of the University in Novi Sad and with the Vojvodina Metal Cluster. Milan K. was provided with a list of selected companies from the Vojvodina Metal Cluster, which had expressed their interest in cooperation in the framework of the Erasmus programme. He chose Agroferocoop doo Temerin company because their production programme is close to the one of the Hlimont s.r.o. company. Agroferocoop doo Temerin is engaged in manufacturing hydraulic cylinders with the experience in metalworking. Since the 90s, they are producing agricultural machinery and steel technical equipment (loaders for tractors, cultivators of soil, sprayers, rollers and other cambridge and hydraulic cylinders in agricultural machinery). Most of their business is in the area of Novi Sad, but they operate on the territory throughout Serbia. The company is one of the leading players in the domestic market in its field. The company also exports to countries of the former Yugoslavia and to Germany. They came on the German market based on direct communication with the German business partner that mediated



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their market entry. The Agroferocoop doo Temerin company representatives expected from their participation in the Erasmus programme to obtain information about the Czech market and possible export of their products.

The internship in the Agroferocoop doo Temerin company was started in 2014 and lasted six months when Milan K. alternately lived in Serbia and in the Czech Republic. He had spent a total of three months in Serbia. After consultation with the owner of the Agroferocoop doo Temerin company, the business plan has been prepared. The main job of Milan K. was the study of the Czech market in agricultural machinery (internet, meetings with competitors, the Fair of Agricultural Technology in Poland), translations and cooperation on the marketing strategy of the company, participation in exhibitions and fairs and presentation of results of the Czech market survey. During his internship, Milan K. closely cooperated with and learned from the owner of the host company, was in permanent contact with the sales manager and studied the production programme and product portfolio of the company. During the internship he had the opportunity to become familiar with business practices of the company. The close cooperation and study of the Czech market have resulted in the future business cooperation between the two companies in the sale of the Serbian agricultural technology at the Czech market.

4 THE IDENTIFICATION OF MARKET OPPORTUNITY AND ITS USE

During Milan's internship, within the survey of the Czech agricultural machinery market, Milan K. reached the conclusion that the product portfolio of Agroferocoop doo Temerin can be interesting for the Czech market. Given the focus of the Hlimont s.r.o. company mainly on the civil engineering sector and then the instability in this sector in the Czech Republic, the company was looking for other opportunities and areas of its operation. Therefore they quite welcomed the possibility to expand their services towards the imports of agricultural machinery from Serbia and its sale on the Czech market. Milan K. has built good business contacts with the host Serbian company during his Erasmus internship. The representatives of both companies had the opportunity to spend together enough time which considerably helped to build the mutual trust.

During the internship, in 2015, Milan K. and the owner of the Serbian company discussed their possible cooperation, namely the import of goods (agricultural machinery) from Serbia to the Czech Republic. Milan K. negotiated the specific terms of cooperation with the owner of the Serbian company. To promote the Serbian agricultural equipment, the Hlimont s.r.o. company has created the www.palnistroje.cz web site, which also includes the e-shop. From the beginning, the storage rooms in the Czech Republic were not taken into account. After ordering the goods by the Czech customer, the Serbian partner is contacted and the transportation of the ordered machines



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from Serbia is secured to the Czech customer directly. The transportation is provided by the Hlimont s.r.o. company itself. Currently, one Serbian machine is stored in the Hlimont premises and serves for the promotion of the Serbian products on various events (field days, fairs, etc.).

Each import or export in the third countries regime (i.e. countries that are not part of the European Union) is subject to customs clearance at the customs office. Therefore, Milan K. contacted the Customs Administration of the Czech Republic to determine whether they would have to pay the duty for the import of agricultural machinery and what documents would be necessary for the customs procedure. It has been confirmed by the customs office via emails that in this case the duty would be zero. However, it is necessary to fill in the customs declaration form (including the declaration of goods, category of the tariff rate etc.), that the importer shall submit to customs officials at the border crossings.

The services related to the transport of goods, incl. processing of the customs declarations, are provided by the so-called forwarding companies. While planning the export of goods into the Czech Republic, the Agroferocoop doo Temerin company had already cooperated with a forwarding company providing the transportation of their goods to Germany. After the communication with the forwarding company, Milan K. came to the conclusion that it will be better for the Hlimont s.r.o. company to ensure the transport of goods on their own. Hlimont s.r.o. has a truck that is suitable for transporting agricultural machinery. They decided to use the services of the forwarding company only for the customs declarations processing. Due to the smaller size of the imported machinery, the transport is led via farther (about 200 km detour), but smaller (for vehicles up to 7.5 tons) customs office with a shorter waiting period. The usual waiting time at major customs is up to 20 hours.

After the order of the goods is issued by the Czech customer, the Serbian partner is contacted by Hlimont s.r.o. company and the ordered machines from Serbia are directly delivered to the Czech customer. The Agroferocoop doo Temerin company exposes the invoices with the longer due day to Hlimont s.r.o. so that the invoices can be refunded after the payment of the final customer is received. In this way, the cooperation is based on the mutual trust of both partners, which was established during the Milan's internship in Serbia. Thanks to this collaboration, there are also no needs of bank guarantees, loans or other types of funds for the payment for Serbian business partner, which considerably lowers the standard transactions.

The Hlimont s.r.o. company continues in the business collaboration with the Serbian partner, annually purchases about 10 machines from Agroferocoop doo Temerin to be sold on the Czech market.



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5 EXPERIENCES AND RECOMMENDATIONS

Based on his own experience, Milan K. appreciates especially the personal not just business relationships. It was very important for the future cooperation between the two companies and their mutual trust to know each other personally; this gave the business relationship a deeper dimension. Thanks to the mutual trust between both companies, the trade can be done without loans and other bank guarantees, because both companies know that their business partner is reliable.

Thanks to the Erasmus programme, Milan K. had a great opportunity to spend a longer time in Serbia, thus learn more about the local culture and customs, which greatly helps also in business dealings with other companies. The successful and long-term business cooperation between Agroferocoop and Hlimont is also the result of the ability of both partners to develop the relationship also on the informal level outside the work.

6 FOLLOW-UP ACTIVITIES

6.1 The expansion of the range of imported goods from Serbia

The Hlimont s.r.o. company continues in looking for new opportunities in business, trying to expand their services and increase the stability and competitiveness of their business both inland and abroad. On the basis of good business cooperation with Serbia, Hlimont would like to continue in cooperation with Agroferocoop and expand the current import of agricultural machinery with the import of metal products. For this purpose, Hlimont has established a new Czech company solely focused on the purchase and sale of products from Serbia.

6.2 Cooperation at the cluster level

The familiarization with clusters and their philosophy was the further knowledge gained within the Erasmus internship. Agroferocoop doo Temerin is a member of the Serbian Vojvodina Metal Cluster. During the internship, Milan K. was exploring also the other cluster members and the overall functioning of the cluster. He is still in touch with the cluster managers. The advantages and opportunities that the membership in the cluster offers, impressed him so much that after his return to the Czech Republic, he decided to establish a cluster organisation in the field of metal industry. This intention was mentioned to Mrs. Pavla Bruskova, the President of the National Cluster Association (NCA), during her participation in accompanying business delegation of the Prime Minister Bohuslav Sobotka in Serbia, organized by the Chamber of Commerce in September 2015. On this mission, Pavla was contacted by representatives of the Vojvodina Metal Cluster and informed about the transfer of the cluster concept from Serbia to the Czech Republic by Milan K. of



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the Hlimont s.r.o. company. The subsequent meeting of Milan K. and the NCA cluster experts in the Hlimont company's headquarters in Havířov brought him further important information about clusters and their support in the Czech Republic within the Operation Programmes of the Ministry of Industry of the Czech Republic. Also the transfer of knowledge of how the cluster organisations work effectively took place including the basic principles to be followed, such as the necessity of the critical mass of specialised actors involved locally and the key role of the cluster management for the successful cluster development and implementation of joint projects. Based on this mentoring exercise provided by the NCA and the experiences from Serbia, Milan K. founded the HK Metal Cluster in late 2015 with the membership basis consisting of Hlimont and the cooperating companies within the manufacturing of metal products value chain.

After the foundation of the HK Metal Cluster, the cooperation with the Vojvodina Metal Cluster got more developed. At the beginning, the cooperation was mostly about recommendations and advices and about transfer of experience concerning the functioning of the cluster from the Serbian cluster to the newly established cluster in the Czech Republic. This cooperation is mutually beneficial. The newly formed HK Metal Cluster can gain valuable information and experience from a well-functioning cluster in Serbia and Serbian cluster has, thanks to cooperation with Czech cluster, the opportunity to participate in projects financed from EU funds that usually have a condition to involve partners from EU member states.

The first joint activity was submitting the project to the COSME programme to promote international cluster cooperation, but it was not successful. Currently, another project has been submitted (in partnership of six countries) to improve the quality of clusters through mutual cooperation in the COSME programme, the COS-APP 05/02/2016 call for proposal "Improving SMEs' access to public procurement". Another plan is the cooperation on research and development of joint product of both clusters and its placing on the market in both countries.

7 EVALUATION OF COMMERCIAL COOPERATION WITH SERBIA

The greatest benefit of the Milan's internship in Serbia within the Erasmus programme was the possibility to learn about the business environment of a foreign country through the experience of a company operating on the market, get connected not only to the hosting company but also to a number of other Serbian companies associated in the cluster. In this way he could establish direct trade cooperation both with the company Agroferocoop doo Temerin (customer relation) and on cluster level with the Vojvodina Metal Cluster (project and research activities leading to increase the competitiveness of the involved companies).

The opportunity to travel to a foreign country, stay there longer and get there not only



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business contacts but also build a variety of personal contacts and gain the confidence of business partners is definitely a unique experience that Milan K. highly recommends to all.



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