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STRATEGIC AUDIT OF MAXIMA EESTI OÜ

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International Business Administration

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I hereby declare that I have compiled the paper independently and all works, important standpoints and data by other authors has been properly referenced and the same paper has not been previously presented for grading.

The document length is 13143 words from the introduction to the end of conclusion.

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ABSTRACT

The aim of the paper is to carry out strategic audit of Maxima Eesti OÜ in order to identify external and external factors that influence the company’s performance. Based on results of this environmental analysis, the study will propose an improved competitive strategy that will help increasing the company’s profit margin. In order to formulate improved business strategy, author makes reference to Porter’s competitive strategy approach of cost leadership and added value, a model predicting higher profits through lower costs.

Keywords: competitive strategy, profit margin, retail chain, strategic audit, strategic management

INTRODUCTION

Estonia has one of the ampest commercial spaces per capita in Europe. The main strategy for ensuring advantage on such a highly competitive markets is mainly the price. In relation to this, on one hand, retailers face serious pressures from their suppliers, who have important bargaining power in setting their price conditions, and on the other hand, from the customers, who have wide choice and advantageous position due to the price wars between chains. Despite hypercompetition, profitability in retail business is low, meaning that in order to generate bigger earnings, chains need to sell more, and with the highest difference possible between supplier’s price and final price.

Present study focuses on one of the biggest players on Estonian grocery retail market - Maxima Eesti OÜ. The chain is a member of the Maxima Grupe corporation, which unites 568 stores in Estonia, Latvia, Lithuania, Poland and Bulgaria (Maxima Eesti, 2019). Maxima Grupe fully belongs to the holding group Vilniaus Prekyba and is the largest Lithuanian capital company in the
world, as well as the biggest employer in the Baltic States (Maxima LT, 2019). Maxima Eesti operates in Estonia since 2004 as a grocery retailer, a key component that links manufacturers to consumers (Levy, Weitz, & Grewal, 2014, 7).

Maxima’s slogan is “that's what you need”, meaning that client is supposed to always find the requested product in the most convenient way, with the minimum time spent, and at the most affordable price (Maxima Eesti OÜ, 2019). Following its business strategy, the company has succeeded to establish itself as a price leader over the last 15 years due to its great negotiation power with suppliers, mainly by virtue of Maxima Grupe’s huge purchase volumes. Nevertheless, recently the chain experienced a sudden loss of price leadership on the Estonian market.

Although Maxima Eesti’s annual report revealed that the company had the highest revenues from sales in 2017 among its main competitors, surprisingly, company’s profit margin was nearly half below the industry’s average. The aim of this study is thus to carry out strategic audit of Maxima Eesti OÜ in order to identify factors that influence company’s performance and, based on findings, offer an improved competitive strategy that would help boosting it. In order to formulate efficient strategy that would support an increase of the company’s profits, author makes reference to Porter’s competitive strategy approach of cost leadership, a model predicting higher profits through lower expenses.

Present research consists of four parts. The first chapter rises the research problem and justifies the importance of solving it. This part also gives a brief overview of Maxima Eesti OÜ in order to adapt the context of the paper to its business model.

The second part clarifies theoretical approaches to the core concepts of the present research: strategic management and competitive advantage. Further, the importance of strategic audit in company’s performance improvement is explained. Finally, author brings in competitive strategy approaches of Michael Porter.

The third part discloses methods that author applied to analyse information and find solutions to the research problem. Data collection and analysis techniques used in the research are described in this part.
The fourth section of the paper is an empirical study - strategic audit of Maxima Eesti OÜ, which opens with a deeper analysis of the company, going through its current performance and corporate governance. The chapter continues with a detailed environmental scanning in order to identify the most important strategic factors - those external and internal elements that will determine the future of the corporation (Wheelen & Hunger, 2012, 16). The paper culminates with the formulation of an improved competitive strategy following the principles of Michael Porter’s theory.
1. THEORETICAL FRAMEWORK: STRATEGIC MANAGEMENT FOR PERFORMANCE IMPROVEMENT

A theory of business has three parts: the environment, the mission, and the business strategy that the organization needs to accomplish its mission (Drucker 1994 used by Miller, 2016). The present study reached all the parts by carrying out an analysis in order to find out how Maxima Eesti’s profitability can be increased through an improved strategy. Thus, it is important to understand the context in which author interprets the core concepts. Theoretical part of the paper defines links between strategic management, strategic audit and competitive advantage – factors that lead to company’s performance improvement.

1.1. Strategic Management for Competitive Advantage

Strategic management is a set of managerial decisions and actions that determines the long-run performance of a corporation. It includes environmental scanning, strategy formulation, implementation, evaluation and control (Wheelen & Hunger, 2012, 5). In other words, strategic management focuses of finding the best solutions to face external factors by using company’s internal elements. For instance, some of the external threats can be decreased by the internal strengths and new opportunities can be taken by overcoming existing weaknesses.

Research reveals that organizations that engage in strategic management generally outperform those that do not (Wheelen & Hunger, 2012, 6), meaning that strategic management is essential for achieving competitive advantage on the market. A survey of nearly 50 corporations in a variety of countries and industries found the three most highly rated benefits of strategic management to be clearer sense of strategic vision for the firm, sharper focus on what is strategically important and improved understanding of a rapidly changing environment (Wheelen & Hunger, 2012, 6).
In globalized and fast changing environment, it is not enough to follow an established plan. In order to stay in business, it is crucial to develop strategic flexibility — ability to adapt and switch between strategies. Strategic flexibility demands a long-term commitment to the development and nurturing of critical resources. It also demands that the company become a learning organization — an organization skilled at creating, acquiring, and transferring knowledge and at modifying its behaviour to reflect new knowledge and insights. Organizations that are willing to experiment and are able to learn from their experiences are more successful than those that are not. (Wheelen & Hunger, 2012, 14) This means that firms that are engaged in strategic management practice are more likely to achieve competitive advantage.

The firm has a competitive advantage over a competitor when its difference between buyers’ willingness to pay – the most that buyers will pay for a firm’s product – and suppliers’ willingness to sell – the least price for which suppliers will provide products – is greater than the competitor’s difference. Thus, there are two ways of increasing competitive advantage: either by raising the price that the customers are willing to pay or by lowering the price at which suppliers are willing to sell. The company will have to pick one of the options depending on the alternatives it has with its customers and suppliers. (Puranam & Vanneste, 2016, 5)

1.2. Role of Strategic Audit in Company’s Strategy Formulation

In order to become prosperous, firms must succeed in many areas, such as finance, human resources, changing environment, and many others. Managers face strategic choices every day, thus, it is crucial to follow a framework for decision making. Furthermore, these choices are made by multiple decision makers and implemented by many employees in different functional areas (Saloner, Shepard, & Podolny, 2001, 2). For this reason, it is extremely important to ensure that all the stakeholders follow the same framework and not implementing “firefighting” solutions that are not in accordance with the general strategy and goals.

One of the instruments that allows to map the most important environmental impacts and shape company’s decision-making process is strategic audit. Strategic audit provides a checklist of questions, by area or issue, that enables a systematic analysis to be made of various corporate functions and activities (Wheelen & Hunger, 2012, 28). Based on the most relevant external and
internal factors, strategic audit will develop an improved strategy for Maxima Eesti to enable its management to have more control over the goals, and consequently, achieve better performance.

1.3. Porter’s Competitive Strategy

Since the main issue of Maxima Eesti’s performance reviewed in the current study is its low profitability compared to the main competitors, it is crucial to consider strategies which aim at reducing costs and thus contributing to a higher profit. Michael Porter points out two ways of general competitive strategies: low costs and differentiation. Given Maxima’s established strategy, business model and characteristics of the industry in which it competes, the suitable strategy is cost leadership.

Lower costs allow Maxima chain to charge lower prices than the competitors and still make a satisfactory profit. The company may not necessarily have the lowest costs in the industry, but they must be lower than its competitors’ costs. (Wheelen & Hunger, 2012, 186) For instance, Maxima Eesti’s future competitor Lidl is successfully following cost leader strategy.

Having a lower-cost position gives a company a defence against rivals. Its lower costs allow it to continue to earn profits during times of heavy competition. Its high market share means that it will have high bargaining power relative to its suppliers, because it buys in large quantities. Its low price will also serve as a barrier to entry because few new entrants will be able to match the leader’s cost advantage. As a result, cost leaders are likely to earn above-average returns on investment. (Wheelen & Hunger, 2012, 186)

Despite its clear advantages, cost leadership strategy also has important difficulties to be sustained due to the facts that competitors will imitate it, technology will change, and finally the differentiation will be lost as well. Porter argues that to be successful, a company must achieve one of the generic competitive strategies, either cost leadership or differentiation. Otherwise, it will be stuck in the middle of the competitive marketplace with no competitive advantage and doomed to below-average performance. (Wheelen & Hunger, 2012, 188)
Although each of Porter’s generic competitive strategies may be used in any industry, certain strategies are more likely to succeed than others in some instances. Estonian grocery retail market is a consolidated industry dominated by several large companies, where competition is focused on price. Slow growth, overcapacity, and knowledgeable buyers combine to create obstacles on a firm’s ability to achieve cost leadership or differentiation. (Wheelen & Hunger, 2012, 190)

Consequently, a company must constantly work to improve its competitive advantage. It is not enough just to have the lowest-cost, since competitors are usually working to lower their costs as well. Thus, firms must find new ways not only to reduce costs further, but also to add value to the products or services they provide. (Wheelen & Hunger, 2012, 191) Expected outcome of the present strategic audit is to formulate competitive strategy for Maxima Eesti, which will follow these principles.

Figure 1. Theoretical Framework of the Research

![Theoretical Framework of the Research](source: author's design based on theoretical framework of the present research paper, 2019)

The three theoretical approaches serve as a base for reaching an improved business strategy aimed at the company’s performance improvement (Figure 1.). Strategic management stands for managerial decisions, strategic audit is a tool for taking the right strategic decisions, and Porter’s competitive strategy theory helps to predict the outcomes of a chosen strategic direction.
2. METHODOLOGY

Strategic audit requires various types of information on distinct components of the environmental scanning. This qualitative study collects and processes data obtained from different primary and secondary sources.

2.1. Data Collection

In order to obtain primary data, author carried out interviews with various members of Maxima Eesti OÜ’s top management on the 29th of March 2019. The meeting was held in the company’s headquarters situated in Tallinn. Interview summary enclosed in the Appendix 1.

Additionally, in order to cover the issues which were not clarified during the interview, as well as to reach stakeholders who were not able to participate personally, author provided an online questionnaire. Questionnaire summary can be found in the Appendix 2.

Besides the aforementioned data collection techniques, author had chance to observe company’s internal processes while being employed by its logistics and supply chain departments from December 2016 to August 2018. This experience has also allowed to get familiar with Maxima Grupe’s corporate structure on international level, as well as with chain’s management and strategy on local level.

Finally, non-confidential documents, such as annual reports and media communications of Maxima Eesti OÜ, as well as of its main competitors, have been used to obtain additional figures and statements.

2.2. Data Analysis

Given the nature of strategic audit, the data that is analysed in the frame of this study, is purely qualitative, as shown in detail previously. Strategic audit carried out in this paper is based on the structure proposed by Wheelen & Hunger in their book “Strategic Management and Business Policy: Toward Global Sustainability”.

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3. STRATEGIC AUDIT OF MAXIMA EESTI OÜ

3.1. Current Situation

In order to get an overview on the current situation of the company, it is crucial to analyse its performance and ongoing strategy. On one hand, financial indicators help to shed light on how actually the business is going, whether the company incurs in losses, or generates profit, what is return on investment, and what are the firm’s needs and ability to cover its liabilities. On the other hand, strategic analysis clarifies company’s core postures, objectives, and means to achieve them.

3.1.1. Current Performance

Maxima Eesti OÜ annual report for the year 2017 states that retail business in Estonia grew by 3.5% compared to the previous period. Nevertheless, consumer price index in Estonia increased that year as well, reaching 3.4% (Eesti Pank, 2019), meaning that actually, retail industry, including Maxima chain, did not experience almost any growth. However, it seems that things have changed since Maxima’s last published annual report. Statistics Estonia reports that in February 2019 compared to 2018, the turnover of retail trade enterprises increased by 5% at constant prices and general tendency is continuous growth.

3.1.1.1. Revenues

Maxima Eesti OÜ’s fiscal year 2017 resulted in profit, unlike in 2016, when the net loss amounted to over 6 million euros. Author estimates that the reason why the costs in 2016 by far exceeded the revenues is because of the vast investment into the new logistics centre made that year.

As per company’s annual report, revenues from sales for the year 2017 reached 464,358,000 euros and net profit was 8,230,000 euros. For instance, Maxima’s main competitor Coop generated revenues for 347,010,808 euros, which is less than Maxima Eesti did, but its net profit amounted to 23,083,305 euros, which is more than earned by Maxima, regardless its higher sales revenues. This fact is the core issue of the current study and next chapters reveal more exact figures on the company’s profit margin, as well as on other profitability indicators.
3.1.1.2. Profitability Ratios

Net profit margin in retail industry is generally low, however, it is one of the basic profitability indicators, since it shows how much net profit is generated as a percentage of all revenues. Net profit margin for Maxima Eesti OÜ, based on the results for the fiscal year 2017, was 1.77%, being almost 50% below industry’s average of 2.5%. Among Maxima Eesti’s main competitors, the highest result belongs to Coop chain, reaching 6.65% and the lowest to Rimi Eesti Food, being 0.36% (Table 1.).

Table 1. Performance Indicators for the Fiscal Year 2017 of Estonia’s Biggest Retail Chains

<table>
<thead>
<tr>
<th></th>
<th>Maxima Eesti OÜ</th>
<th>COOP Eesti Keskühistu</th>
<th>Rimi Eesti Food AS</th>
<th>Selver AS</th>
<th>AS Prisma Peremarket</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues from sales</td>
<td>464.358.000,00 €</td>
<td>347.010.808,00 €</td>
<td>377.622.000,00 €</td>
<td>431.495.000,00 €</td>
<td>182.216.000,00 €</td>
<td>360.540.361,60 €</td>
</tr>
<tr>
<td>Net profit</td>
<td>8.230.000,00 €</td>
<td>23.083.305,00 €</td>
<td>1.347.000,00 €</td>
<td>13.228.000,00 €</td>
<td>1.228.000,00 €</td>
<td>9.423.261,00 €</td>
</tr>
<tr>
<td>Profitability</td>
<td>1,77%</td>
<td>6,65%</td>
<td>0,36%</td>
<td>3,07%</td>
<td>0,67%</td>
<td>2,50%</td>
</tr>
<tr>
<td>ROA</td>
<td>7,00%</td>
<td>11,00%</td>
<td>2,16%</td>
<td>2,02%</td>
<td>14,30%</td>
<td>7,53%</td>
</tr>
<tr>
<td>ROE</td>
<td>35,00%</td>
<td>59,00%</td>
<td>17,31%</td>
<td>20,10%</td>
<td>37,90%</td>
<td>33,28%</td>
</tr>
<tr>
<td>Ability to cover</td>
<td>0,68</td>
<td>0,80</td>
<td>0,68</td>
<td>0,60</td>
<td>0,60</td>
<td>0,87</td>
</tr>
<tr>
<td>short-term liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leverage</td>
<td>671,07%</td>
<td>352,37%</td>
<td>700,55%</td>
<td>245,23%</td>
<td>116,33%</td>
<td>417,11%</td>
</tr>
<tr>
<td>Equity</td>
<td>15.813.000,00 €</td>
<td>23.298.034,00 €</td>
<td>7.780.000,00 €</td>
<td>27.006.000,00 €</td>
<td>17.772.000,00 €</td>
<td>18.333.806,80 €</td>
</tr>
<tr>
<td>Liabilities</td>
<td>106.117.000,00 €</td>
<td>82.096.272,00 €</td>
<td>54.503.000,00 €</td>
<td>66.227.000,00 €</td>
<td>20.674.000,00 €</td>
<td>65.923.454,40 €</td>
</tr>
<tr>
<td>Total equity</td>
<td>121.930.000,00 €</td>
<td>105.394.306,00 €</td>
<td>62.283.000,00 €</td>
<td>93.233.000,00 €</td>
<td>38.466.000,00 €</td>
<td>84.257.261,20 €</td>
</tr>
<tr>
<td>Stores</td>
<td>76</td>
<td>267</td>
<td>82</td>
<td>52</td>
<td>8</td>
<td>97</td>
</tr>
</tbody>
</table>

Source: author’s calculations based on annual reports, 2019

Another profitability indicator, which is worth considering is return on assets (ROA). This ratio shows how profitable a company is in relation to the capital invested in its assets, or, in other words, how efficient the management is at using these assets to generate earnings. Maxima Eesti’s ROA in 2017 was 7%, which is situated around industry’s average (Table 1.). Financial performance indicator that tells investors how big is Maxima Eesti’s return on equity (ROE), reached 35% in 2017, being just 2% above industry’s average (Table 1.).
3.1.1.3. Liabilities
According to the annual report, Maxima Eesti did not have any long-term loans as of 31.12.2017, which is a good tendency, taking into account that in previous year, there was a remaining long-term loan of over 13 million euros. Short-term liabilities resulted mostly from suppliers’ invoices, amounting to 105,953,000 euros. Company’s ability to cover short-term liabilities, or liquidity ratio, for the fiscal year 2017 was 68%. With the industry’s average of 0.87, Maxima Eesti OÜ’s possibilities to convert its assets in cash were slightly lower (Table 1.).

Maxima Eesti OÜ’s leverage rate, or total liabilities to the equity ratio, for the end of the fiscal year 2017 reached 671%. Despite such shocking number, since company’s liabilities resulted almost exclusively from suppliers’ invoices, author assumes that they are being paid in the beginning of the new fiscal year 2018. Maxima’s main competitors were facing similar situation, with the average leverage ratio of 417% (Table 1.).

3.1.1.4. Market Share
Currently, Maxima is continuously on its secure second place in terms of the market share in Estonia. Now, the strategy is not to grow in terms of commercial space anymore, like it was done in previous years, but to capture new market segments by using different sales channels. (Interview with the management, 2019) Another crucial aspect in a highly competitive retail industry is to keep loyal customers.

Table 2. Market Shares of Leading Retail Chains in Estonia in 2017

<table>
<thead>
<tr>
<th>Market share</th>
<th>COOP Eesti Keskühistu</th>
<th>Maxima Eesti OÜ</th>
<th>Selver AS</th>
<th>Rimi Eesti Food AS</th>
<th>AS Prisma Peremarket</th>
<th>AS OG Elektra (Grossi)</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>22,0%</td>
<td>18,5%</td>
<td>17%</td>
<td>15%</td>
<td>7%</td>
<td>4,8%</td>
<td>15,1%</td>
</tr>
</tbody>
</table>

Source: Äripäe, 2018

As per Estonian business media channel Äripäe, according to the financial results of 2017, the market leader was Coop, with 22% of the grocery retail market, followed by Maxima Eesti, with 18,5% of the market share was. Third place belonged to Selver, fourth to Rimi, fifth to Prisma,
sixth to Grossi, and the remaining 15% of the market share was divided by smaller firms (Table 2.).

3.1.2. Strategic Posture
Maxima chain is a retail business leader in Lithuania and one of the main players in Latvia and Estonia. The company calls itself a „success story“, justifying it with the fact that no other company has gained such financial success, awareness in the society, and appreciation by the buyers from the time of declaration of independence in the Baltic States (Maxima LT, 2019). Since its arrival on Estonian retail market, Maxima’s strategy continues to be a competition through the best price, as well as convenient store location. Further subchapters deepen into the company’s mission, vision, values, objectives and strategy on different levels.

3.1.2.1. Mission, Vision and Values
Undoubtedly, a company’s mission is the reason for its existence. Often, mission and vision are used as separate concepts, where mission refers to the current posture of an organization, and vision is the expression of what it would like to achieve in future. The present study handles both concepts in one - a mission statement. Maxima Grupe defines its mission as follows: “We create value responsibly, ensuring the best prices, assortment and services for our customers” (Maxima Grupe, 2019).

Andrew Campbell proposes means for evaluating a mission statement, arguing that mission statements can be more than just an expression of a company’s purpose and ambition, he suggests that they can also be a company flag to rally around, a signpost for all stakeholders, a guide to behaviour, and a celebration of a company’s culture (Wheelen & Hunger, 2012, 18). Campbell suggested to evaluate company’s mission statement by going through a ten-question test, where score over 15 is considered exceptional, and results below 10 mean that there is still work to be done in order to formulate a good statement. As per author’s calculations, Maxima’s mission statement scored 15 points, meaning that it is excellent. Test questions and results are brought in Appendix 3. Besides a well formulated mission statement, Maxima describes its philosophy of doing business in a values statement, including the following elements: working for the client, everyone is important, being a responsible member of the public united team, and getting things done (Maxima LT, 2019).
Company’s Chief Executive Officer (CEO) Marko Põder comments in one of the interviews that for him, Maxima’s vision in Estonia is to be a trustworthy, open and interesting merchant who is continuously a price leader, and who provides sufficient and secure offer to its customers, employees and partners (Kaubandus.ee, 2019). Maxima values listed previously confirm its focus on the well-being of its customers and employees.

3.1.2.2. Goals and Objectives
It was highlighted by the company’s management that the main focus for the year 2019 is to stay stable. The company is not planning to grow, like it was previously, but to increase service quality, diversify sales channels and reach new segments. Another focus is on the HR management. Maxima plans to fill its personnel gaps and keep its employees by providing not only competitive salary, but also good working environment, possibility to learn, and other extras. For instance, Maxima Eesti’s employees already have possibility to take language or software courses in frame of their working time. (Interview with the management, 2019)

Additionally, as the company’s CEO commented in one of the interviews with local media, current goals of Maxima Eesti include sustainable growth, open and trustful customer relationship and improvement of the company's internal culture. (Kaubandus.ee, 2019) While present goals of Maxima Eesti are understandable, firm’s exact objectives are not clear. Objectives are the end results of planned activity and should clearly define what a company wants to achieve and by when (Wheelen & Hunger, 2012, 18). Author concludes that objectives are not set on operational level with enough precision and timeframe, but rather taken as general directions.

3.1.2.3. Strategy
A strategy of a corporation forms a comprehensive master plan that states how the corporation will achieve its mission and objectives. It maximizes competitive advantage and minimizes competitive disadvantage. The typical business firm usually considers three types of strategy: corporate, business and functional. Corporate strategy describes a company’s overall direction in terms of its general attitude toward growth and typically fit within the three main categories of stability, growth, and retrenchment. Business strategy usually occurs at the business unit and emphasizes improvement of the competitive position of a corporation’s products or services in the specific
market segment served by that business unit. Business strategies may fit within the two overall categories, competitive or cooperative strategies. Functional strategy is the approach taken by a functional area to achieve corporate and business unit objectives and strategies by maximizing resource productivity. It is concerned with developing and nurturing a distinctive competence to provide a company or business unit with a competitive advantage. (Wheelen & Hunger, 2012, 19)

Maxima Eesti’s corporate strategy has changed from growth to stability. The company’s business strategy remains competition through price (Online questionnaire, 2019), which is traditional approach of the retail industry. Maxima Eesti’s functional strategy is mainly concentrated on maximization of resource productivity, in other words, on decreasing non-value-adding operations, that can be automated. For example, developments like self-service cashiers, digital price tags, and electronic invoices allow to save workers resources and channel them to more valuable tasks. (Interview with management, 2019) Other directions of Maxima Eesti’s functional strategy are profitability growth, market share maintenance, product and service quality increase and personnel retention (Online questionnaire, 2019).

Although Maxima’s core strategy is to be a price leader, since the beginning of 2019, the chain went losing its positions. As per Estonian media channel Delfi, consumer basket comparison in April 2019 revealed that the cheapest option was Grossi, second Prisma, third Coop, and Maxima was only the fourth cheapest (Rebane, 2019).

### 3.2. Corporate Governance

A corporation is a mechanism established to allow different parties to contribute capital, expertise, and labour for their mutual benefit (Wheelen & Hunger, 2012, 45). The following subchapters review Maxima Eesti’s board of directors and top management to provide a snapshot of its governance.

#### 3.2.1. Board of Directors

Board of directors of Maxima Eesti OÜ’s mother company Maxima Grupe consists of six internal employees: Chairman of the Board, CEO of Maxima Grupe and five Board Members, who are CEO of Maxima Grupe and its subsidiaries: Maxima LT, UAB (Lithuania), Maxima Latvija, SIA
(Latvia), Emperia Holding S.A. and Strokrotka Z.O.O (Poland) and UAB Vilniaus Prekyba (Lithuania).

Wheelen & Hunger point out the following five Board of Directors responsibilities, lined up in order of importance: setting corporate strategy, overall direction, mission, or vision; hiring and firing the CEO and top management; controlling, monitoring, or supervising top management; reviewing and approving the use of resources; caring for shareholder interests (Wheelen & Hunger, 2012, 45).

Since Maxima Eesti’s Board of Directors is actually the one of the mother company, where Estonian members are not represented, there are clear limitations in local management’s power to decide on strategic directions. For instance, Maxima Eesti shares Maxima’s global mission and strategy, approved by the board of Maxima Grupe. However, degree of Estonian board of directors’ involvement in company’s strategic management is limited, aimed mostly at reviewing key decisions, key performance indicators and reporting to the Board of Directors of Maxima Grupe.

3.2.2. Top Management

Top management responsibilities, especially those of the CEO, involve getting things accomplished through and with others in order to meet the corporate objectives. Top management’s job is thus multidimensional and is oriented toward the welfare of the total organization. (Wheelen & Hunger, 2012, 58). In big companies like Maxima, tasks are divided between the members of top management. Given the fact that each manager is responsible for fulfilling tasks of his or her field, the top management of Maxima Eesti consists heads of company’s departments: Supply Chain director, Logistics Director, Store Chain Director, Production Director, Accounting Director, Financial Director, Marketing Director, Sales Director, IT Director, Legal Director, HR Director. The organigram below represents Maxima Eesti’s management hierarchy (Figure 2.).
This kind of hierarchy is effective due to the fact that strategic initiatives can come from any part of an organization. As per Wheelen & Hunger, in two-thirds of the firms, strategies were first proposed in the business units and sent to headquarters for approval. However, unless top management encourages and supports the planning process, strategic management is not likely to result. In most corporations, top management must initiate and manage the strategic planning process. (Wheelen & Hunger, 2012, 61)

Since Maxima first started its operations in Estonia in 2004, there have been several CEO, and all of them came from the Lithuanian headquarters. This tendency also supported Lithuanian top managers, who were hired directly from Vilnius in order to fill vacant positions in Maxima Eesti. In January 2019, new CEO was named local Estonian manager, coming from COO position, counting with wide experience of company’s operational level in Estonia. Furthermore, the current management is constituted by all Estonian managers, except one, who was hired from Lithuania several years ago.
Top management comes together once per month in order to review results, find solutions and take decisions on the ongoing topics, as well as to establish further tasks. Additionally, top management of the three Baltic States periodically meet in Vilnius in order to share good practices and discuss joint strategic and business objectives.

### 3.3. External Environment

To achieve a competitive advantage, it is crucial for a company to scan the changing environment in order to adapt to it. Depending on a firm’s ability to identify strategic factors, it will be more or less flexible than its competitors on the market.

Environmental scanning is the monitoring, evaluation, and dissemination of information from the external and internal environments to key people within the corporation. A corporation uses this tool to avoid strategic surprise and to ensure its long-term health. Research has found a positive relationship between environmental scanning and profits. (Wheelen & Hunger, 2012, 98) Within the frame of strategic audit, the paper analyses relevant external factors consisting of natural, societal and task environment dimensions.

#### 3.3.1. Natural Environment

Natural physical environment of the Estonian market is mainly influenced by stable seasonal weather change, with no catastrophic impacts, making sales forecasts quite precise due to availability of historical data. According to the research published in the International Journal of Retail & Distribution Management, rain and snowfall have a significant effect on the store traffic and the sales in both food and fashion retail stores (Arunraj & Ahrens, 2016). Thus, Estonia’s seasonal stability offers retailers great opportunities of further development of their forecasting methods, making them more and more exact.

However, future trends are likely to bring unexpected severe weather fluctuations caused by the global warming. NASA informs that temperatures will continue to rise, frost-free growing seasons will lengthen, precipitation patterns will change, heat waves and storms will be more often and intense (Earth Science Communications Team at NASA’s Jet Propulsion Laboratory, 2019). Unsurprisingly, knowledgeable buyers tend to become more and more sensitive to environmental
issues. This factor can thus present differentiation opportunity to the retailers and attract these clusters.

3.3.2. Societal Environment
Since each country is unique in terms of its societal environment, there can be enormous variety of strategic factors. For instance, Maxima chain operates in three Baltic States, which are neighbouring countries, however, their socioeconomic conditions may be quite different. The following chapters describe the most relevant components of societal environment that affect Maxima chain in Estonia.

3.3.2.1. Economy
Economic forces affect all industries because they regulate the exchange of materials, money, energy, and information (Wheelen & Hunger, 2012, 99). Since European economies recovered from the crisis of 2009, Estonian GDP had stable growth. Despite labour shortage and wage pressure Estonian GDP grew, reaching 25 656.9 million euros in 2018 (Statistics Estonia, 2019). Compared to other Maxima’s Baltic markets Lithuania and Latvia, Estonia’s GDP per capita is continuously the highest for the same period.

Inflation is an increase in the general price level of goods and services. When there is inflation in an economy, the value of money decreases because a given amount will buy fewer goods and services than before. As per Eurostat, inflation rate in Estonia was Europe’s second highest in 2018, followed only by Romania. It is important to keep it in mind when, for example, estimating company’s turnover increase, since inflation rate directly contributes to a higher figure. Thus, in order to see the real growth, the inflation percent must be deducted. Among main Maxima chain’s markets, inflation for the year 2018 reached 3,4% in Estonia, 2,6% in Latvia and 2,5% in Lithuania. The European average inflation rate situated at 1,9%. (Eurostat, 2019)

3.3.2.2. Labour
Another important aspect of industry’s external environment is availability of workforce. According to Statistics Estonia, employment rate in 2018 was 68,1% and the unemployment rate was 5,4%. Additionally, statistics reveal that the number of long-term unemployed is the lowest in the last 20 years. (Statistics Estonia, 2018, 18). Due to such low unemployment rates, like many
other businesses, Maxima chain is experiencing lack of workforce in Estonia, as well as high staff turnover.

Regarding salary rated for the local pool of workers, Statistics Estonia reports that in the period from 2009 to 2017, the annual relative increase in average monthly gross wages and salaries was in the range of 1.1–7.6%. In 2017, the average monthly gross wages and salaries increased by 6.5% to 1,221 euros. In other words, an employee received an additional 75 euros per month in 2017. Since the growing tendency continues, Estonian employers have to count with slight but regular workforce cost increase. (Statistics Estonia, 2018, 18).

3.3.2.3. Technology

Next important aspect that affects all industries, including retail chains is technological progress. Businesses that operate in Estonia have all the benefits of the e-country, however, there is one element that author would like to highlight as one of the most useful for the retail chain. Electronic document interchange (EDI) helps supply chain to be much faster and cheaper, by eliminating human interventions from issuing, controlling, receiving and editing delivery invoices.

Estonia has several EDI service providers and businesses actively use their cost-saving services. As per EDI operator Telema, as of July 2018, Maxima Eesti and Stockmann were the only retailers not using EDI. For instance, Maxima’s competitors have already gone as far as using reverse auction for fruits over EDI.

3.3.2.4. Legislation

Political-legal forces influence industries because they define constraining and protecting laws and regulations (Wheelen & Hunger, 2012, 99). Estonian government for is parliamentary republic, based on the constitution, describing fundamental rights and duties of the state and its citizens. The current government continues to pursue its predecessors’ free-market, pro-business economic agenda and sound fiscal policies, which have led to balanced budgets, low public debt, and greater economic freedom. The rule of law is strongly buttressed and enforced by an independent and efficient judicial system, but a massive money-laundering scheme has eroded confidence in the banking sector. A simplified tax system with flat rates and low indirect taxation, openness to
foreign investment, and a liberal trade regime support a resilient and well-functioning economy. (Index of Economic Freedom, 2019)

Estonia’s economic freedom score is 76.6, making its economy the 15th freest in the world. Moreover, Estonia is ranked 7th among 44 countries in the Europe region, and its overall score is above the regional and world averages. (Index of Economic Freedom, 2019) The rule of law in Estonia has mostly positive characteristics: commercial codes are applied consistently, the judiciary is independent and well insulated from political influence, mechanisms to investigate and punish corruption are effective (Index of Economic Freedom, 2019).

Nevertheless, some of the decisions taken by the government have resulted counterproductive for retail businesses like Maxima. One of such verdicts was new alcohol excise regulation, which entered in force in 2017 and raised alcohol tax 10%. The regulation has two main goals: to decrease alcohol consumption and to increase governmental revenues from this tax. Nevertheless, the result for the local businesses was negative. Alcohol price increase lead to sales decrease, thus, contributing less money to the tax budget than expected. Maxima Eesti’s CEO reported that since the beginning of the increase in alcohol excise, Maxima has lost up to 30% of its alcohol sales revenue (Liiva, 2019). Moreover, there was consumption shift to the Latvian border stores, which contributed more to Latvian tax revenues. As a result, both government and private sector rather lost with the new alcohol excise law.

3.3.3. Task Environment: Industry Analysis

Michael Porter, an authority on competitive strategy, contends that a corporation is most concerned with the intensity of competition within its industry (Wheelen & Hunger, 2012, 110). Task environment analyses these basic elements of retail industry on Estonian market as follows. The following sub-chapters offer descriptions of different aspects of the intra-industry competition on Estonian grocery retail market that affect Maxima chain.

3.3.3.1. Competition

Competition among retail chains on Estonian market is very tight. Since the firms mainly offer products from the same vendors, and services and facilities are also very resembling, the main
competition happens in price. For instance, as per Estonian media channel Delfi, consumer basket in April 2019 in different chains had minimal price difference (Delfi, 2019).

The possibility of new players on Estonian grocery retail market is rather low, since the industry needs large investments in assets, administration, logistics, and other fundamental parts. Another reason is that the competition is already very tight and commercial space per capita is very high, reaching 0.75 m2 per person in 2016, which was already almost twice as much as in the neighbouring Latvia (Koovit, Savickas, & Gleizde, 2016).

Large international discount retailer Lidl confirmed its plan to enter Estonia and currently is hiring personnel and acquiring real estate. These are good news for the consumers, because the stronger is the competition, the better are their conditions, including price decrease. However, local chains are worried regarding their market shares, which, in some degree, will be taken by the newcomer. Business media channel Äripäev estimates that Lidl is a very serious rival for the retailers operating in Estonia, since none of them has even close scope to the one that Lidl has (Äripäev, 2018). "Lidl is a very strong international player, acting on a completely different level than us", admitted Maxima Grupe’s CEO Dalius Misiūnas in one of the recent interviews (Liiva, 2019). Mr. Misiūnas added that Lidl's purchasing power is several times higher than of any other retail chain operating in the Baltic States.

Maxima Grupe’s CEO reported that Lidl has managed to achieve 8% of Lithuanian market share since its entry in 2016 and keeps growing (Liiva, 2019). However, as per Standard & Poor’s, one of the world’s leading credit-rating agencies, Maxima has maintained its leading position in the Baltics despite the pressures caused by Lidl arrival. The agency considers that this is due to Maxima's competitive price positioning and high brand awareness. (Standard & Poor's, 2018)

3.3.3.2. Suppliers
Given the fact that chains compete in price, their abilities to negotiate the best prices from the suppliers are crucial for ensuring competitive advantage. Thus, retailers engage in negotiating a series of issues with their vendors, such as markdown money, slotting fees, advertising allowances, terms of purchase, exclusivity and transportation costs (Levy, Weitz, & Grewal, 2014, 383).
The situation on Estonian market is such that, on one hand, vendors need to sell their products, and on the other hand, supermarkets need to have articles available for sale. Thus, it is crucial for both parties to build up a strategic partnership that would allow mutual trust, common goals, open communication and credible commitments (Levy, Weitz, & Grewal, 2014, 376). Maxima chain is not an exception, because both price and availability of the product are crucial in its business model. Credit rating agency Standard & Poor’s reports that geographic concentration (the Baltics represent over 75% of revenues) is a limiting factor to the group's bargaining power with suppliers.

Product price is not the only subject to bargain with suppliers. There are many details that shape costs. In retail business, logistics is, perhaps, one of the most expensive operations. For this reason, company can adjust logistics costs by agreeing optimal collaboration conditions with its vendors. Some examples of delivery good practice are correct freight size, correct documents, correct electronic invoices, timely delivery. EDI & Yard management!

3.3.3.3. Customers

Like in other developed economies, consumers on Estonian market are getting more and more conscious not only about what products contain or what it the price, but also about their packaging and origins. As per research agency Kantar Emor, the latest study revealed that at least 52% of customers read information on the package (Kantar Emor, 2019). Customer awareness regarding environmental issues is rising and seriously affects purchase preferences. One of the relevant examples of such influence is the end of the free plastic bags era in the most of European supermarkets, including Estonia. In fact, some of Maxima’s big competitors have been real visionaries in this field. For instance, Rimi is the first supermarket chain to offer prepared food, which can be packed in client’s container instead of standard plastic bags or boxes. Yet, the initiative is still at its very early stage and still not enough developed to gain enough followers. Thus, author considers it as a chance for Maxima to create competitive advantage and increase sales by differentiating its service and adding “green” value to the brand.

Besides the importance of product quality itself, consumer trends keep shifting towards e-commerce. Kantar Emor states that in 2018 at least 70% of Estonian consumers purchased online, which exceeds European average (57%) (Kantar Emor, 2018).
3.3.4. Summary of External Factors

External factor analysis summary (EFAS) (Table 3.) highlights the most important external opportunities and threats identified in this section. The weight column shows the importance of each factor, where 1 means most important and 0 not important. Rating score corresponds to the company's response to each factor, being 5 outstanding and 1 poor. Weighted score is obtained by multiplying each factor's weight times its rating. Comments describe rationale used for each factor, in other words, why a particular factor was selected and how its weight and rating were estimated. Individual weighted scores sum the total that tells how well the company is responding to the factors in its external environment. The total weighted score for an average firm in an industry is always 3.0. (Wheelen & Hunger, 2012, 126)

Table 3. External Factor Analysis Summary (EFAS) of Maxima Eesti

<table>
<thead>
<tr>
<th>External Factors</th>
<th>Weight</th>
<th>Rating</th>
<th>Weighted Score</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Opportunities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Electronic Document Interchange (EDI)</td>
<td>0,10</td>
<td>2</td>
<td>0,20</td>
<td>Cost-saving opportunity; suppliers and competitors use it. Not implemented with most of partners.</td>
</tr>
<tr>
<td>2. Yard Management System (YMS)</td>
<td>0,10</td>
<td>1</td>
<td>0,10</td>
<td>Cost-saving opportunity; suppliers and competitors use it. Not implemented.</td>
</tr>
<tr>
<td>3. Rising environmental awareness of customers</td>
<td>0,15</td>
<td>1</td>
<td>0,15</td>
<td>Can be used to attract environmentally sensitive clusters. Environmentally friendly position lacking.</td>
</tr>
<tr>
<td>4. E-commerce Growth</td>
<td>0,10</td>
<td>3</td>
<td><strong>0,30</strong></td>
<td>Barbora just launched, but its brand awareness is still low, and SEO and SEM are weak.</td>
</tr>
<tr>
<td><strong>Threats</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Entry of Lidl</td>
<td>0,25</td>
<td>3</td>
<td><strong>0,75</strong></td>
<td>Lidl will try to get Maxima’s market share; competition in price, which is Maxima’s strategy.</td>
</tr>
<tr>
<td>2. High inflation</td>
<td>0,05</td>
<td>3</td>
<td>0,15</td>
<td>Growing inflation increases prices of goods, more difficult to maintain competitive price.</td>
</tr>
<tr>
<td>3. Lack of workforce</td>
<td>0,20</td>
<td>4</td>
<td><strong>0,80</strong></td>
<td>Personnel gaps, increased HR costs, staff turnover.</td>
</tr>
<tr>
<td>4. Alcohol tax increase</td>
<td>0,05</td>
<td>3</td>
<td>0,15</td>
<td>Price increase leads to sales loss.</td>
</tr>
<tr>
<td><strong>Total Scores</strong></td>
<td>1</td>
<td>3</td>
<td><strong>2,60</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: author’s calculations based on external environment analysis, 2019
Taking into account individual weighted scores of the external factors analysed in the EFAS table above, it can be concluded that the main opportunities for Maxima Eesti currently are EDI and YMS implementation, which are still not in used compared to the company’s main competitors and suppliers. Author considers this circumstance a competitive disadvantage.

Other opportunities are growing environmental awareness of Estonian customers and increasing use of online supermarkets. While Maxima’s environmental posture is practically blank, online platform was launched several years ago, although due to the recent rebranding, combined with low search engine results, its position is still weak.

Regarding the main threats that Maxima Eesti has to face, the most relevant is an upcoming Lidl’s entry to the market, which is forecasted to take over a part of the market share of every retail chain in Estonia. Apparently, Maxima’s position will be especially affected since both companies’ strategy is to provide the most attractive price offer.

Another important challenge that the firm is going through is constant lack of workforce. However, this factor received a relatively high ranking due to the activities that Maxima is undertaking to hire young and elderly people, as well as to bring workers from other regions. Macroeconomic risks, such as increased alcohol tax and growing inflation are quite harmful for the company, since they directly influence Maxima’s strategic competitive advantage – the price. To conclude, the weighted score of 2.60 reveal that Maxima Eesti’s general response to its external environment is below average.

3.4. Internal Environment

The internal environment of a corporation consists of variables that are within the organization itself and are not usually within the short-run control of top management. These variables form the context in which work is done. They include the corporation’s structure, culture, and resources. Key strengths form a set of core competencies that the corporation can use to gain competitive advantage. (Wheelen & Hunger, 2012, 17) Within the frame of strategic audit, the current chapter opens with analysis of corporate structure and culture. Further, corporate resources, such as
marketing, finance, logistics, personnel and information technologies are considered for defining Maxima’s core competences.

3.4.1. Corporate Structure

Maxima Grupe is a daughter corporation of Lithuanian Vilniaus Prekyba (owned by Lincoln Land Erste B.V.) and owns several companies engaged in retail business and related activities. There are five supermarket chains in different countries: Maxima LT UAB in Lithuania, Maxima Latvija SIA in Latvia, Maxima Eesti OÜ in Estonia, Maxima Bulgaria EOOD in Bulgaria and Stokrotka SP ZOO in Poland (Figure 3.). Barbora UAB is Maxima’s e-commerce platform operating in the Baltic countries. Franmax UAB provides franchise and support services for Maxima Grupe companies in the areas of supply chain, marketing and customer loyalty, store concepts, IT and other (Maxima Grupe, 2019). The most significant influence of Franmax UAB on Maxima in Estonia is the fact that Franmax develops and controls all software solutions for stores, warehouses and offices. In general, Franmax is responsible for the following Maxima group’s activities: store format creation and development, supply chain and warehouse system development, corporate and private label brand development, IT systems and software maintenance and development, oversight of strategic marketing initiatives, data analytics and control, and project and process management. (Franmax, 2019)

Maxima Grupe is a centralized decision-making authority, however, given the fact that Franmax coordinates essential activities of all the countries, it is strongly involved in strategic decision making. The limitations of countries’ dependency on Franmax are mostly reflected in their inability to quickly solve some operational issues, such as minor software bugs, on national level.
Maxima Corporation is one of the biggest among its competitors on the Estonian market. For instance, Rimi and Prisma chains have similar structure with Maxima, being also an international corporation. Rimi belongs to Swedish ICA group and operates under ICA brand in Sweden and under Rimi brand in the Baltic States (Rimi Baltic, 2019; ICA Gruppen, 2019). Prisma chain belongs to Finnish SOK Corporation, which additionally operates Sokos hotels in Estonia. Other competitors – Selver, Coop and Grossi – are Estonian corporations. Selver is a daughter company of Tallinna Kaubamaja, Coop unites Estonian cooperatives, and OG Elektra (Grossi) is a family business. From resource advantage perspective, it is easier to achieve for large international companies, given their scope and capacity.

Last but not least, author finds remarkable the fact that Maxima Eesti, compared to its main competitors, is the only private limited liability company (OÜ) – a firm with shared capital. For instance, Selver, Rimi and Prisma are joint-stock companies (AS), meaning that their shareholders can buy and sell companies’ shares. Coop is a cooperative (Keskühistu), not owned by any businessman or corporation, but by Estonian consumers, currently amounting to nearly 80,000
client-owners. The greatest difference between cooperatives and private businesses is that profit is not the only purpose for cooperative; its goal is to keep shops running and contributing to the development of local communities (Coop, 2019).

Annual report for the fiscal year 2017 confirms that Maxima Eesti’s capital is not divided and has only one shareholder – a Netherlands based Lincoln Land Erste B.V. In fact, shareholders’ equity in 2017 amounted to 12,674,000 euros. Given the fact that Lincoln Land Erste B.V. is a parent company of Vilniaus Prekyba, which in the turn is a mother company of Maxima Eesti, author raises a suspicion of possible illegal practices in the corporation. In other words, when the only shareholder of a company obtains all its shares, it can lead to tunnelling – a situation in which shareholder pursues personal gain.

3.4.2. Corporate Culture

John Kotter and James Heskett define corporate culture as values that are shared by the people in a group and that tend to persist over time even when group members change (Kotter & Heskett, 1992, 4). Rather than sharing values, workers of Maxima Eesti follow common behaviour norms. Author’s observations during two year of employment confirm that here are certain ways of acting, to which new members have to fit, otherwise, they will be either feeling uncomfortable, or even sanctioned. Another observation is that the change of top management did influence Maxima Eesti’s culture on divisional level.

In order to describe consistency of Maxima’s corporate culture with its goals, it is important to differentiate between different hierarchical levels. While employees on operational level live for today and only care about getting their tasks done, no matter what the consequences for the customers are, strategic level managers do take company’s overall goals into account for their decision making. Thus, customers might not perceive company’s true culture and values if dealing with personal result-oriented staff.

Regarding other aspects of corporate culture, Maxima’s position on environmental sustainability is practically blank. Besides legal requirements, such as, for example, prohibition of free plastic bags distribution to customers or waste regulation, the company does not seem to do any efforts in “green” direction.
Maxima Eesti’s position on other important issues, such as productivity, quality of performance, adaptability to changing conditions, and internationalization, mostly depend on those set by Maxima Grupe. With reference to performance quality, author would like to emphasize the fact that quality department of Maxima Eesti has been eliminated in 2017 and its tasks passed on to different departments.

One of Maxima’s corporate values is “everyone is important”, and from author’s experience and point of view it does take into consideration the values of the culture of each country in which it operates. Besides different nationalities involved in corporate business, different functional groupings (store staff, warehouse workers, office employees) present multiple cultures as well. Since the condition for culture creation is common place, even within relatively small subunit, there may be multiple and even conflicting cultures.

Corporate culture shapes behaviour of company’s members on all levels, thus, author finds it reasonable that one of the current goals of Maxima Eesti is improvement of the company's internal culture.

3.4.3. Corporate Resources

Resource analysis examines different functional areas of the company for potential strengths and weaknesses (Wheelen & Hunger, 2012, 147). The current chapter analyses the following internal factors: marketing, finance, logistics, human resources (HR) and information technology (IT). These resources are considered on both international level of Maxima Grupe and national level of Maxima Eesti.

3.4.3.1. Marketing

Despite the recent increase of its market basket, Maxima achieved to be a price leader for years, securing its competitive price positioning. Maxima chain counts with high brand awareness in the Baltic countries, which means that the brand is strongly established and well-known.

However, not only brand awareness contributes towards positive purchase intentions, but so does brand loyalty. For instance, the cost of attracting new customer is higher than that of maintaining the customer loyalty. It means that less cost will be incurred on the product with higher brand
loyalty. (Malik, et al., 2013) Maxima’s loyalty program called “Aitäh” card consists in offering better prices for some products during selected period of time, as well collecting 1% of purchase amount to the card account. The card is not personal, unlike Coop’s “Säästu” card, Rimi’s “Rimi” card or Selver’s “Partner” card. As a result, Maxima lacks personalized approach to its loyal customers, such as keeping track of purchasing behaviour and offering the most suitable deals to every client. While low brand attachment is equivalent to liking, at a higher level it transforms into passion (Sarkar 2014 used by Riivits-Arkonsuo, 2015). For this reason, Maxima should aspire at increasing its brand attachment level to guarantee its loyal customers’ retention by the entry of Lidl.

In order to increase brand image, Maxima arranges social campaigns, being the most popular Christmas action “Inglipuu”, during which children from underprivileged families receive desired presents from customers.

Similar to its competitors, Maxima Eesti uses main marketing channels: traditional media (television, radio, newspapers, posters), search engine optimization (SEO) and social media. However, even by typing “product delivery” in Google.ee search, there are no results for company’s online supermarket Barbora. Furthermore, search engine marketing (SEM) or paid results do neither appear. Product delivery search only resulted effective for Coop (first, second and third positions) and Selver (fourth position) (Appendix 4.). Paid results did not belong to any retail chain. Given these results, author finds that Maxima’s SEO and SEM are weak and need development in order to reach customers through these channels and boost Barbora’s e-commerce. Last, but not least, Barbora was launched few months ago, and still lacks brand awareness, which sums to its low online presence.

3.4.3.2. Finance

Despite the fact that the Baltics region is less competitive than other European retail markets due to its relatively limited size, Maxima Grupe achieved leading position and was granted the BB+ rating by Standard & Poor’s, one of the so called Big Three credit rating agencies in the world (Maxima Grupe, 2018; Wikipedia, 2019). This score means that as obligor, Maxima Grupe currently has the capacity to meet its financial commitments on the obligation, thus, the obligation is less vulnerable to non-payment (Standard & Poor's, 2018).
Maxima chain is the group's most important asset, expecting to represent about 75% of the group's overall earnings (EBITDA) in 2018. As per Standard & Poor’s report, due to relative predictability of the food retail industry, as well as the group's modest exposure to foreign exchange risk, in particular in comparison with other Eastern European countries, because of the Baltics' adoption of the Euro, provides the group with some visibility on revenues and earnings. (Standard & Poor's, 2018).

In its report, Standard & Poor's predict a moderate increase in Maxima Grupe's EBITDA margins, notably due to the integration of the high earning margins of Franmax, and to synergies from the recent Emperia Holding (Polish retail chain Stokrotka) acquisition. The agency reports that Maxima's adjusted EBITDA margin is somewhat higher than that of larger Western European peers and is forecasted to continue increasing. Finally, Standard & Poor's experts conclude that Maxima’s cash flow generation will remain positive, enabling the group to comply with its leverage ratio under the current financial policy.

3.4.3.3. Logistics

Since the role of retailer is to deliver goods from manufacturers to final consumers, supply chain and logistics form key operations in the chain. Another crucial value-providing activity performed by retailers is holding inventory so that products would be available when customers want them (Levy, Weitz, & Grewal, 2014, 7). This means that the company needs to operate warehouses where these product stocks are kept and managed. The current subchapter goes through Maxima Eesti’s process from receiving goods from suppliers to making them available in stores.

3.4.3.3.1. Supply chain

Maxima Eesti’s supply chain department is in charge of planning product quantities needed for warehouses’ stocks and stores’ deliveries. For this purpose, the company relies on enterprise resource planning (ERP) German software SAP, one of the world's largest software and programming companies. This solution integrates the most important parts of the business process: purchase of goods, their delivery approval, stock keeping operations, deliveries to stores, accounting. Additionally, SAP ERP allows adding EDI and YMS, cost-saving solutions that Maxima is still lacking.
SAP ERP calculates necessary product quantities to be ordered from suppliers and delivered to warehouses and stores based on historical data and complex demand forecast algorithms. Employees of Supply Chain department monitor the process and support warehouses and stores with information.

Given the fact that different parts of the company may have different goals and performance indicators, internal communication can be affected. For example, one of supply chain department’s main objectives is to decrease out-of-stock, which happens when stores or warehouses run out of certain product, while purchasing department’s objective is to receive the best price from suppliers. As a result, purchasing department may order too much and cause product leftovers. Alternatively, sales campaigns can be set without increasing availability of products in stores at the same time, which can lead to empty store shelves. Thus, information flow and collaboration between departments a sensitive element of a business, which can cause losses if not well coordinated.

3.4.3.3.2. Warehouses
To manage its warehouses in Estonia, Maxima used to have contract with outsourcing company Nordnet. Everything changed in 2016, when Maxima opened its own logistics centre, the biggest in the country at that time. The facility serves as warehouse and distribution centre. The main operations of Maxima’s logistics centre are to receive goods from suppliers, enter them into ERP system, store them, and when needed, pick items according to orders and ship them to stores across the country. Besides local and international suppliers, distribution centre receives freights from Lithuanian warehouses. Although the centre meant huge investment for the company, it is estimated to pay off in long term, which is advantage, since all the operations are in Maxima’s own hands and future dependency on outsourcing company is avoided. Moreover, warehouses in Lithuania and Latvia are also company’s own.

“The decision to build the new logistics centre was dictated by business logic and business development conducted in Estonia over the recent years. The new centre will allow development of activity in a significantly more efficient scope. It will ensure efficient commodities supply chain and will facilitate more rapid delivery of goods to the stores. Thus, we will achieve even greater freshness and quality of the goods. I can boldly state that the benefit of the newly arranged supply
chain processes will be felt both by our customers in Estonia and, first of all, by our employees”, stated General Manager of Maxima Grupe on the 8th of February 2016. (Maxima Grupe, 2016) Maxima Grupe’s warehouse management software (WMS) is developed by its daughter company Franmax. The advantage if such scheme is availability of own experts, as well as revenues reinvestment within the corporation. Despite the fact that Maxima’s WMS is under its own control, a cost-saving solution of yard management system (YMS) is still at its very early age and not integrated with the majority of Maxima Eesti’s suppliers. YMS systems are software products that support vehicle management in the territory (yard) of a company and help simplifying decision-making related to the optimal use of available vehicles and their cargo area. For example, yard management system allows precise planning of time intervals in loading and unloading operations, as well as preserving the continuity of personnel’s work and improving the quality of goods acceptance and shipment. (Bogdanova, Luckins, & Nežerenko, 2018, 4) In other words, YMS is a sort of a booking system for incoming trucks that would notably improve Maxima’s warehouse processes.

Transport between Maxima units is outsourced by logistics company, while suppliers have to deliver their goods by themselves or by outsourcing logistics.

3.4.3.3. Stores
Currently, there are 55 X type stores, which are conventional supermarkets offering grocery and cosmetics. In addition, there are 21 XX and 3 XXX format hypermarkets with larger assortment, including delicatessen, household goods and clothes. While X format’s assortment is around 15,000 items, XX stores count with 33,000 and XXX with around 38,000 different articles from over 600 domestic and foreign suppliers.

Given the fact that population of Estonia is mostly divided between the biggest cities, 53 of 79 Maxima stores are situated in these areas as well: 32 in Tallinn region (40%), 9 in Tartu (11%), 6 in Jõhvi (8%) and 6 in Narva (8%). Remaining stores is located throughout the country’s smaller cities (Figure 4).
In addition to physical stores, in 2015 Maxima launched its e-commerce platform e-Maxima, which in October 2018 was replaced by Barbora in order to reach Maxima-reluctant customers (Interview with the management, 2019). Currently, online sales still represent a very small part of the group's revenues, being less than 1%. Nevertheless, credit rating agency Standard & Poor's considers that Maxima Grupe is well positioned in that space, since it faces little competition and already has an online offer through the Barbora website (Standard & Poor's, 2018).

3.4.3.4. Human Resources Management
As per annual report, by the end of 2017, Maxima Eesti OÜ had over 3690 full time employees. Such scope requires the most of the company’s attention, since human resource is the most valuable and sensible asset of any business. Maxima Eesti’s human resource management has two traditional levels: recruitment department and personnel department. Company’s CEO Marko Põder, a coaching activist and a member of International Coach Federation (ICF), has strong support for continuous learning of the company’s staff, as well as for teambuilding activities, aimed at improving internal communication and teamwork.
Generally, Maxima’s image as employer never was excellent in terms of Estonian market. CEO of Maxima Grupe, Dalius Misiūnas, during his recent interview with Estonian business media Ärileht, agreed that given the low unemployment, Maxima chain has to work hard to increase its attractiveness as an employer. Maxima Eesti’s CEO adds that on average the company has 2,5% of positions uncovered, and the chain uses all the possibilities to find employees. (Liiva, 2019)

One of the initiatives to fulfil personnel gaps applied by Maxima is the use of young seasonal workers during holiday period, which has already become a tradition and gained social awareness. Other hiring practices include bringing Ida-Viru County workers to Tallinn region, becoming more flexible in work schedule planning, and allowing part-time work for students, mothers, elderly employees, and people with special needs.

3.4.3.5. Information Technology

Similar to its competitors, Maxima Eesti is taking advantage of available technological solutions, such as electronic documents, digital signatures, enterprise resource planning software, online commerce platform, self-service cashiers, and other. However, there are several disadvantages that author would like to point out in respect of usage of IT possibilities.

First and main issue is Maxima Eesti’s limitation caused by its IT department’s dependency on Franmax. This matter is mostly reflected in Maxima Eesti’s inability to solve operational issues, such as minor software bugs or tailor-made adjustments on a national level without involving Lithuanian experts. Maxima Its internal processes are shaped in a way that every request has to pass by Franmax specialists who will then give green light to the solution or provide necessary instructions. This centralized model makes easy cases long and resource consuming. Furthermore, some custom-made solution request can be rejected due to their low benefit for the rest of the corporation.

Also, as previously mentioned in the chapter dedicated to logistics topics, EDI and YMS are still not implemented. For instance, Maxima is the only chain on the Estonian market still not using cost-saving electronic document solution that does not require manual intervention.
3.4.4. Summary of Internal Factors

Internal factor analysis summary (IFAS) (Table 4.) highlights the company’s most important internal competences, as well as the biggest weaknesses identified in this section. The scores are obtained in the same way as for the external factors: weight column shows the importance of each factor, rating score corresponds to the company's reaction to each factor, and weighted score is obtained by multiplying each factor's weight times its rating.

Table 4. Internal Factor Analysis Summary (IFAS) of Maxima Eesti

<table>
<thead>
<tr>
<th>Internal Factors</th>
<th>Weight</th>
<th>Rating</th>
<th>Weighted Score</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Weaknesses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Environmental sustainability</td>
<td>0,10</td>
<td>1</td>
<td>0,10</td>
<td>Maxima’s posture on environmental sustainability is practically blank.</td>
</tr>
<tr>
<td>2 Impersonal loyalty program</td>
<td>0,10</td>
<td>3</td>
<td><strong>0,30</strong></td>
<td>Loyalty program provides special offers; however, they are not personal, unlike the ones of the competitors.</td>
</tr>
<tr>
<td>3 Inefficient SEO and SEM</td>
<td>0,10</td>
<td>2</td>
<td>0,20</td>
<td>Online platform rebranded (Barbora), but its presence in searching engine is low. Paid ads do not appear.</td>
</tr>
<tr>
<td>4 Low employer attractiveness</td>
<td>0,15</td>
<td>3</td>
<td><strong>0,45</strong></td>
<td>The company admits the importance of working on improving its image.</td>
</tr>
<tr>
<td>5 IT dept.’s dependency</td>
<td>0,20</td>
<td>2</td>
<td><strong>0,40</strong></td>
<td>Slows down implementations; centralized system does not allow custom-made solutions.</td>
</tr>
<tr>
<td><strong>Strengths</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Financial power</td>
<td>0,05</td>
<td>5</td>
<td><strong>0,25</strong></td>
<td>Great corporate financial possibilities help necessary investments and support projects’ budgets.</td>
</tr>
<tr>
<td>2 Corporation size</td>
<td>0,05</td>
<td>5</td>
<td><strong>0,25</strong></td>
<td>Size of the corporation allows to share costs and resources between countries.</td>
</tr>
<tr>
<td>3 High brand awareness</td>
<td>0,10</td>
<td>5</td>
<td><strong>0,50</strong></td>
<td>Well-known brand supports purchase decisions.</td>
</tr>
<tr>
<td>4 Competitive price positioning</td>
<td>0,10</td>
<td>4</td>
<td><strong>0,40</strong></td>
<td>Following its strategy, Maxima is among price leaders, although lost positions in recent months.</td>
</tr>
<tr>
<td>5 Own logistics centre</td>
<td>0,05</td>
<td>5</td>
<td>0,25</td>
<td>Eliminated outsourcing conditions, increased warehouse capacity and delivery speed.</td>
</tr>
<tr>
<td><strong>Total Scores</strong></td>
<td>1</td>
<td></td>
<td><strong>3,10</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: author’s calculations based on internal environment analysis, 2019
Taking into account weighted scores of the main strengths, company’s core competencies can be considered its well-known brand, competitive price and financial power of Maxima Grupe. In fact, price is one of the crucial factors, given the industry’s focus on this competitive advantage.

In addition, distinctive competence of Maxima Eesti is its brand new, huge and modern logistics centre, which allowed the company to get rid of outsourcing contracts and increased control and efficiency of logistics operations.

The main weaknesses, that Maxima Eesti has to cope with, are its unsettled position on environmental sustainability, incomplete loyalty program, low online presence of the e-commerce platform, limited IT department, and unfavourable employer image. The last issue, however, was taken into consideration by the board.

Author considers that in future, it will be especially important to promote company’s environmental responsibility in order to attract increasingly conscious customers. Another dangerous bottleneck is Maxima’s weak employer image, which can cause negative outcomes for hiring activities, and intensify personnel gaps. To conclude, the weighted score of 3,10 indicates that Maxima Eesti’s response to its internal environment is on average level, being just 0,10 points above it.

### 3.5. Analysis of Strategic Factors

The factors which resulted to have the most weight among elements of external environment, and which consequently have the strongest impact on performance of Maxima Eesti, are both threats that the company is facing lack of workforce and upcoming entry of German discounter Lidl. Online commerce and electronic document interchange are the biggest opportunities; however, Maxima’s reactions still have not covered them completely.

Among the factors of company’s internal environment, the biggest weight is attributed to the high Maxima brand awareness and competitive price in the whole Baltics, but at the same time, to its low attractiveness as employer on the Estonian market. Additionally, dependency of Maxima
Eesti’s IT on Lithuanian experts from Franmax is another obstacle to achieving faster progress in EDI, YMS and online commerce.

Given the company’s business strategy of being a price leader, and functional strategy of ensuring stability and well-being of its employees, all of the aforementioned factors have impacts on its performance. For instance, while high brand awareness is beneficial for customers’ purchase decision and workers’ willingness to enter the company, entry of Lidl, uncovered vacancies, and low employer attractiveness downplay many of Maxima’s strengths.

Table 5. Strategic Factor Analysis Summary (SFAS) matrix of Maxima Eesti

<table>
<thead>
<tr>
<th>Strategic Factors</th>
<th>Weight</th>
<th>Rating</th>
<th>Weighted Score</th>
<th>Duration</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>(T) Entry of Lidl</td>
<td>0,20</td>
<td>3</td>
<td>0,60</td>
<td>X</td>
<td>Lidl will try to get Maxima’s market share; competition in price, which is Maxima’s strategy.</td>
</tr>
<tr>
<td>(T) Lack of workforce</td>
<td>0,15</td>
<td>4</td>
<td>0,60</td>
<td>X</td>
<td>Personnel gaps, increased HR costs, staff turnover.</td>
</tr>
<tr>
<td>(O) E-commerce</td>
<td>0,10</td>
<td>3</td>
<td>0,30</td>
<td>X</td>
<td>Barbora just launched, but its brand awareness is still low, and SEO and SEM are weak.</td>
</tr>
<tr>
<td>(W) Low employer attractiveness</td>
<td>0,05</td>
<td>4</td>
<td>0,20</td>
<td>X</td>
<td>The company admits the importance of working on improving its image.</td>
</tr>
<tr>
<td>(W) IT’s dependency on Franmax</td>
<td>0,10</td>
<td>2</td>
<td>0,20</td>
<td>X</td>
<td>Centralized system does not allow fast bug fixes or custom-made solutions.</td>
</tr>
<tr>
<td>(W) Impersonal loyalty program</td>
<td>0,20</td>
<td>3</td>
<td>0,60</td>
<td>X</td>
<td>Loyalty program provides special offers; however, they are not personal, unlike the ones of the competitors.</td>
</tr>
<tr>
<td>(S) High brand awareness</td>
<td>0,10</td>
<td>5</td>
<td>0,50</td>
<td>X</td>
<td>Well-known brand supports purchase decisions.</td>
</tr>
<tr>
<td>(S) Competitive price</td>
<td>0,10</td>
<td>4</td>
<td>0,40</td>
<td>X</td>
<td>Maxima is among price leaders, although lost positions recently.</td>
</tr>
<tr>
<td><strong>Total Scores</strong></td>
<td>1</td>
<td><strong>3,4</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: author’s calculations based on EFAS and IFAS, 2019

Strategic Factor Analysis Summary (SFAS) matrix (Table 5.) includes the highest-weighted external and internal factors gathered from environmental scanning and provides information that
is essential for strategy formulation (Wheelen & Hunger, 2012, 177). Similarly, to EFAS (Table 3.) and IFAS (Table 4.) calculations, weight column shows the importance of each factor, rating score corresponds to the company's reaction to each factor, and weighted score is obtained by multiplying each factor's weight times its rating. Duration is considered short for less than one year, medium for three to five years, and long for more than five years.

The highest-weighted environmental factors affecting Maxima Eesti resulted into one strength (brand awareness), one weakness (impersonal loyalty program), and two threats (upcoming entry of Lidl and current lack of workforce). In frame of the present strategic audit, these elements will be essential for the formulation of improved competitive strategy for Maxima Eesti. The total weighted score or company’s response to the strategic factors of its external and internal environments is 3.4, being slightly above industry’s average. Compared to EFAS and IFAS weighted scores, where the total scores were lower, it is a positive result, meaning that Maxima’s response is better to the most important environmental factors.

3.6. Strategy Formulation

Having identified the most important factors that Maxima Eesti faces in its external and internal environments, the present part offers strategic alternatives to properly react to these factors. The most suitable strategy will be chosen by taking into account the highest-weighted strategic factors obtained in SFAS matrix (Table 5.).

Taking into account the findings of the environmental scanning identified within the frame of the current strategic audit, the present part works out strategic alternatives for Maxima Eesti. Threats, opportunities, weaknesses and strengths (TOWS) matrix (Table 6.) illustrates how the external opportunities and threats can be matched with the company’s internal strengths and weaknesses to result in four sets of possible strategic alternatives (Wheelen & Hunger, 2012, 182).
Table 6. Threats, opportunities, weaknesses and strengths (TOWS) matrix of Maxima Eesti

<table>
<thead>
<tr>
<th><strong>External Factors (EFAS) (Table 3.)</strong></th>
<th><strong>Internal Factors (IFAS) (Table 4.)</strong></th>
<th><strong>SO Strategies</strong></th>
<th><strong>WO Strategies</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Opportunities (O)</strong></td>
<td><strong>Strengths (S)</strong></td>
<td>(S1O4) Increase promotion budget of e-platform Barbora to enhance e-commerce.</td>
<td>(W2O4) Loyalty program’s improvement aimed at attracting loyal customers to e-platform Barbora.</td>
</tr>
<tr>
<td>1. EDI</td>
<td>1. Financial power</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. YMS</td>
<td>2. Corporation size</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. E-commerce</td>
<td>4. Competitive price</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>5. Own logistics centre</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Weaknesses (W)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Environmental sustainability</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Impersonal loyalty program</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Inefficient SEO and SEM</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Low employer attractiveness</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. IT dept.’s dependency on Franmax</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Threats (T)</strong></td>
<td><strong>ST Strategies</strong></td>
<td>(S3T1) Take advantage of high brand awareness to increase success on the labour market.</td>
<td>(W2T1) Improve loyalty program to strengthen customer retention and decrease or avoid their transition to Lidl upon its entry.</td>
</tr>
<tr>
<td>1. Entry of Lidl</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. High inflation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Lack of workforce</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Alcohol tax increase</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: author’s calculations based on EFAS and IFAS, 2019

SO strategies are generated by thinking of ways in which Maxima Eesti could use its strengths to take advantage of opportunities (Wheelen & Hunger, 2012, 183). Maxima can use its financial power to increase promotion budget for online supermarket Barbora in order to direct more customers to this channel and boost its sales. Online sales can be boosted, for example, by strengthening the following means of digital marketing: social media campaigns based on behavioural data, influencer marketing, and remarketing.

WO strategies attempt to take advantage of opportunities by overcoming the firm’s weaknesses (Wheelen & Hunger, 2012, 183). Loyalty program can be improved in a way that it would engage loyal customers to Maxima’s e-platform Barbora. Some of the possibilities to online engagement are, for example, customer exclusivity or extra value for online orders.
ST strategies consider the company’s strengths as a way to avoid threats (Wheelen & Hunger, 2012, 183). To do this, Maxima Eesti should take advantage of its high brand awareness and position itself as a prestigious employer to increase the success of hiring new talents. In relation to this, the company can work out an attractive package of extras for its employees, so it can compete is something more than a salary. For instance, besides competitive payments, big employers in Estonia also start offering flexible schedule and home office possibility for employees with higher education (Ärileht, 2018), which is not implemented in Maxima at all.

In order to select the most suitable strategy from all the alternatives proposed, it is necessary to take into account the most relevant influencers identified in strategic factors matrix (SFAS) (Table 5.). According to the highest-weighted strategic factors – weakness of not having personalized loyalty program and threat of losing the market share due to the entry of a discounter Lidl –, the optimal strategy for Maxima Eesti is a WT, which is basically defensive and primarily acts to minimize weaknesses and avoid threats (Wheelen & Hunger, 2012, 183).

Based on this, WT option results the most preferable. In this strategic alternative, the solution for the heaviest weakness (impersonal loyalty program) is its personalization and providing attractive offers and programs for loyal customers to strengthen their satisfaction. Consequently, customer retention should increase, and their interaction will Lidl – the biggest threat – decrease. Ideally, satisfied Maxima’s loyal customers would always prefer it to Lidl.

The crucial issue to be solved by the current strategic audit is improvement of Maxima Eesti’s profit margin, which is currently below its competitors’ performance. The study relies on Porter’s cost leadership strategy, a model predicting higher profits through lower costs. Author considers that given the scope and the business model of Lidl, Maxima will not achieve to challenge German discounter by having lower costs. Nevertheless, the analysis revealed several possibilities to optimize expenses, for example, by implementing electronic document interchange in Maxima Eesti’s supply chain, or yard management system in the logistics centre.

All in all, the chosen WT strategy is suitable, given that Porter’s theory not only stresses the need for cost reduction to achieve competitive advantage, but also draws attention to adding value to products and services provided by the company. Value creation is the basic intention of value
management thus becomes the fundamental core of the organization’s strategy (Miller, 2016, 19). Strong loyalty program consisting of customers familiar with Maxima brand is an undoubtable advantage in front of Lidl, who will need time to build it up. Another possibility for value creation, identified in the frame of this research, is promotion of environmental sustainability.

In order to improve its competitive strategy, the company must set up a clear and detailed implementation plan, subject to rigorous feasibility and profitability assessment by the board and top managers responsible for different areas of expertise. Objectives on different levels must be established to support the new strategy. It is also important to ensure that the new strategy is in harmony with corporate mission, that its objectives are achievable, and that policies and guidelines are adequate to reach them. Once the new strategy is implemented, the firm’s management should carry out regular evaluation and control activities in order to monitor performance, analyse results, and solve problems if they appear.
CONCLUSIONS

Maxima is the largest Lithuanian capital company in the world and the biggest employer in Estonia. The reason for carrying out a strategic audit of its Estonian branch Maxima Eesti raised due to the fact that its revenues from sales in 2017 were the highest among its main competitors, but the company’s profit margin was half below the industry’s average, which is already low in general. Currently, the main strategy for ensuring advantage on highly competitive Estonian grocery retail market is the price. This means that to increase earnings, given the average profit margin of the industry, chains must continuously compete for their market shares.

Strategic audit of Maxima Eesti OÜ was carried out in order to identify the most important environmental factors that influence company’s performance. In order to formulate a strategy, that would be based on these strategic factors and would be able to sustain the company’s competitive position, author relied on theories predicting performance improvement through strategic management, including Porter’s competitive strategy approach of cost leadership and added value.

Strategic management determines the long-run performance of a corporation and is essential for achieving competitive advantage on the market. Thus, strategic audit is extremely useful to help developing an improved strategy to enable the company’s management to have more control over the goals, and consequently, achieve better performance. Michael Porter suggests that to be successful, a company must achieve one of the generic competitive strategies, either cost leadership or differentiation. In case of Maxima Eesti, and given industry characteristics, lower costs allow the chain to charge lower prices than the competitors and still make a satisfactory profit. Additionally, a lower-cost position gives a company a defence against rivals. Nevertheless, considering the upcoming arrival of German discounter Lidl, author estimates that Maxima Eesti will not be able overcome it in costs. However, Porter’s competitive strategy approach predicts that adding value to company’s products and services will generate competitive advantage too.

Strategic audit on Maxima Eesti was conducted through three main dimensions: company’s current situation, its external and internal environment scanning. The first one revealed that Maxima is on second place in terms of its market share in Estonia. Since its entry in Estonia over 15 years ago, the chain sustains its competitive price, although experienced slight loss of positions in recent
months. Another aspect worth mentioning is the fact that the current mission of Maxima Eesti scored “excellent”, while the company’s general objectives are not clearly defined. Nevertheless, the most important issue in the frame of the company’s current situation is its underperformance in terms of the profit margin, which is the main research problem and the reason for business strategy fine-tuning through strategic audit.

Environmental analysis identified eight external factors, that affect Maxima Eesti in different ways. While growing use of e-commerce resulted to be the most promising opportunity, projected entry of Lidl is considered the biggest threat faced by Maxima. Additionally, creation of positive environmental posture is seen as a chance to differentiate from competitors in something more than just price.

Besides the biggest opportunities and threats, the study identified the most important internal elements of Maxima Eesti. The heaviest-weighted strengths of the company resulted to be its high brand awareness in the whole Baltic region. However, the firm also possesses a considerable weakness by having impersonal loyalty program, unlike its main competitors Coop, Selver and Rimi. This means that the loyalty program has rather low weight in creating brand attachment.

In order to work out an improved strategy proposal, strategic audit considered the most important of the aforementioned strategic factors. In addition, Porter’s cost leadership and added value theory was taking into account to ensure that the new strategy would support improvement of Maxima’s performance. As a result of these measures, the new competitive strategy for Maxima Eesti was formulated as improvement of loyalty program to strengthen customer retention and decrease or avoid their transition to Lidl upon its entry.

Since the present work is limited to formulation of an improved competitive strategy for Maxima Eesti based on strategic audit, author’s suggestion for future studies is to develop its implementation, evaluation and control plans.
List of References


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Appendices

Appendix 1. Summary of the Interview with Maxima Eesti OÜ Top Management

Date of the interview: 29.03.2019
Place of the interview: Headquarters of Maxima Eesti, Peterburi tee 47, Tallinn
Respondents: Maxima Eesti OÜ top managers (anonymized)
Interviewer: Margarita Haritonova

Question 1. What is Maxima Eesti’s goal for 2019?
Responses:

- The plan is not to grow in terms of commercial space anymore, like it was done in previous years, when every year we opened one or more stores.
- It is important to capture new market segments by using different sales channels. For example, there are clients reluctant to Maxima brand, so they will be reached through online supermarket Barbora.
- Maxima plans to fill vacant positions and keep its employees by providing not only competitive salary, but also good working environment, possibility to learn (there are training like Excel and Estonian and English language courses) and other extras.

Question 2. What cost-cutting initiatives are currently used by Maxima Eesti?
Responses:

- Self-service cashiers help to cope with customer traffic. It is planned to implement self-service cashiers in every Maxima store.
Digital price tags are planned to implement in near future. It will release store workers from changing them.

• Electronic invoices are currently being implemented with our suppliers.
• Sales forecasts are calculated by the software.

Question 3. Why e-Maxima was rebranded to Barbora?
Responses:

• e-Maxima was replaced by Barbora because of working conditions and agreements.
• They are doing good job in Lithuania and Latvia.
• In order to reach Maxima-reluctant customers.

Question 4. Express grocery store format is gaining popularity. Even gas stations transform into express grocery shops. Does Maxima plan to open this format?
Responses:

• Yes, during 2019 we will test our first express store. In case if everything goes well, we will think of opening some more, in convenient locations.

Question 5. In summer 2018 Maxima got an offer from Telema to launch EDI with them. Is EDI implemented now?
Responses:

• We started supplier onboarding from Eesti Pagar. At the moment we can say that EDI is not fully implemented with majority of suppliers and stores, but the project is moving forward.
• Please take into account, that it does not only depend on Maxima, but also on suppliers’ possibilities and willingness to change established processes.
• EDI is launched with Maxima’s Lithuanian warehouses since several years.

Additional information from the meeting:
• We want our employees to be satisfied at their positions, as well as to use their skills and talents in the most convenient way. For this purpose, there were two big activities:
Survey on employees’ satisfaction. The results were communicated to the workers and plans how to react to them were introduced.

Belbin’s employee assessment system was introduced in order to find out whether the teams are built up to be “winner teams” or need modifications. This method also helps to apply worker’s skills for the existing tasks that are proper for him or her, and not vice-versa, like it is done traditionally.
Appendix 2. Summary of the Online Questionnaire Responded by Maxima Eesti OÜ Top Management

Online questionnaire was created and provided by the author through Google Forms and was active from 16.04.2019 to 23.04.2019. The questionnaire was originally provided to 5 top management members. Questionnaire was filled by 2 respondents (anonymized).

Question 1. Does Maxima EE share same mission statement as Maxima LT?: “We create value responsibly, ensuring the best prices, assortment and services for our customers”; yes / no / other. Responses:
   • yes

Question 2. Maxima Eesti’s current corporate strategy is: stability / growth / retrenchment / other. Responses:
   • stability

Question 3. Maxima Eesti’s current business strategy is: competitive / cooperative / other. Responses:
   • competitive

Question 4. Maxima Eesti’s current functional strategy is: profitability / market share / product and service quality / personnel retention / social responsibility / innovation / cutting costs / other. Responses:
   • profitability
   • market share
   • product and service quality
   • personnel retention

Question 5. Maxima Eesti’s objectives for the year 2019 (what is planned to achieve by the end of the year):
Responses:
• Price leadership, best offer for clients, good partnership with suppliers, improvement of internal communication and culture. It is planned to renovate some stores, as well as test express store format. No further expansion is planned in Estonia.
• Good price, good service, good working environment.

Question 6. What are Maxima Eesti’s policies for decision making?
Responses:
• Possible solutions are discussed by the stakeholders and decisions are taken according to the best projected outcomes.
• In accordance with Maxima Grupe's policies.
Appendix 3. Assessment of Maxima’s Mission Statement

Maxima’s mission statement: “We create value responsibly, ensuring the best prices, assortment and services for our customers”.

As per Campbell, each question scores 0 for no, 1 for somewhat, 2 for yes (Wheelen & Hunger, 2012):

1. Does the statement describe an inspiring purpose that avoids playing to the selfish interests of the stakeholders?
   Author’s response: yes (2 points)

2. Does the statement describe the company’s responsibility to its stakeholders?
   Author’s response: yes (2 points)

3. Does the statement define a business domain and explain why it is attractive?
   Author’s response: yes (2 points)

4. Does the statement describe the strategic positioning that the company prefers in a way that helps to identify the sort of competitive advantage it will look for?
   Author’s response: yes (2 points)

5. Does the statement identify values that link with the organization’s purpose and act as beliefs with which employees can feel proud?
   Author’s response: somewhat (1 point)

6. Do the values resonate with and reinforce the organization’s strategy?
   Author’s response: yes (2 points)

7. Does the statement describe important behavior standards that serve as beacons of the strategy and the values?
   Author’s response: somewhat (1 point)

8. Are the behavior standards described in a way that enables individual employees to judge whether they are behaving correctly?
   Author’s response: somewhat (1 point)

9. Does the statement give a portrait of the company, capturing the culture of the organization?
   Author’s response: somewhat (1 point)

10. Is the statement easy to read?
    Author’s response: somewhat (1 point)

Summary: 15 points.
Appendix 4. Google Search Results for Grocery Product Delivery

Figure 1. Google Search Results for Grocery Product Delivery

Source: Google.ee, 03.05.2019