

Saimaa University of Applied Sciences
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Supplier evaluation and selection process mapping in a company moving towards diversification: Case Company

Abstract

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The purpose of this research was to analyse the case company's decision for horizontal diversification. Besides this, the given research paper aimed to develop practically applicable tools to assist the company's procurement personnel in supplier evaluation and selection process.

Data for this study were collected from books, scholarly and news articles, annual reports and web sources. Adding to this, three interviews with the case company's managing director were conducted.

The results of the study show that the strategic decision of diversification is reasonable considering favourable factors of the external environment, availability of internal resources, as well as possession of required competencies by the company staff. Assisting the company in its decision implementation will be the two tools developed in this research paper.

Keywords: horizontal diversification, supplier evaluation, supplier selection

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1 Introduction

The given case company is a business owned by the family of one of the two researchers conducting this study. The company is a small B2B electrical engineering enterprise operating in Saint Petersburg, Russia. It provides a wide range of services in the given area of specialization, but its main sphere of operation is provision of installation, commissioning and maintenance services of high-voltage equipment. The major customer groups of the case company are shopping centers, small productions, and warehouses.

As of now, the company only provides the abovementioned services, and is not engaged into resale of products. Accordingly, client companies should purchase all the necessary equipment and component parts from a third-party supplier. Some competitors of the given case-company already offer turn-key projects on the market. As a measure to increase its profit and get a new competitive advantage, the enterprise is planning to undertake diversification of its operations by expanding its operations to the resale of various electrical equipment and component parts required for the execution of its major operations – installation, commissioning and maintenance services. For the long years of operations, the company has managed to build a customer base, and a reputation of a reliable engineering service-provider.

Facilitating the fulfillment of the company's plans is its extensive practical experience and knowledge background, as well as relevant technical product-wise competencies. However, there are doubts about the success of this idea implementation. The research aims to study this strategic decision of diversification in the context of the given company.

As it became known in the earlier stages of communication with the company's management, the personnel are lacking the required supplier evaluation and selection expertise. Such expertise, as we all know, is a crucial component of the procurement process, which determines the competitiveness of the final offering, and the success of the overall undertaking.

To assist the company in the execution of its plans, the given research paper aims to develop a supplier evaluation and selection plan, which will be tailored to

the case enterprise's needs and profile using the primary company analysis. Particularly, the primary analysis aims to assess strength, weaknesses, opportunities and threats relating to the decision for diversification.

1.1 Theoretical implications

This study will provide another example of diversification in a small business and how supplier evaluation and selection process can be tailored to a company profile. This research shall contribute to the knowledge body of procurement.

1.2 Objectives of the study

The purpose of this research is to analyze the case company management's decision and develop a practically applicable knowledge base for a more efficient execution of the procurement function in the case company. Specifically, a clear company-tailored supplier evaluation and selection action plan will be produced.

1.3 Research question

Primarily, this research aims to assess the reasonability of the strategic decision (decision to undergo diversification). As it became known in the early stages of communication with the company's management, its personnel are lacking purchasing and procurement expertise required to implement the abovementioned plans. Findings from this primary company analysis will further assist in the creation of supplier evaluation and selection plan tailored to the enterprise's profile. Overall, the given paper aims to answer the following questions:

Major research questions

1. Is the case company management's decision for horizontal diversification justified? Should the company get engaged into the resale of related products and materials in addition to the existing business of engineering services?
2. What principles and instruments can the company apply in its supplier evaluation and selection process?

1.4 Research method and delimitations

Research method utilized in this thesis is qualitative in nature. Use of books, scholarly and news articles, annual reports and other sources on strategic decision making, procurement process and diversification will help to analyze the reasonability of the diversification decision, and will allow to create effective supplier evaluation and selection process tailored to the company serving as a case for this study. More specifically, competitors' annual reports will be used to understand current competition situation on the market. Books and scholarly articles on supply chain management, strategic decision-making, and diversification will be used to build a theoretical base for the research. News articles from prominent news agencies will be used as a more up-to-date source of information on macroeconomic factors and industry-related issues.

Besides multiple short contacts, three comprehensive interviews were conducted with the managing director (owner) of the case company. These contact and interviews will provide a better understanding of the business environment the case company operates in, its readiness for the diversification decision, as well as assist in developing principles and instruments the company can use for a more effective supplier evaluation and selection process. To provide a wider and more detailed perspective, the case company analysis will be conducted.

This research is targeting a small B2B company located in Russia. Thus, the empirical delimitations are limited to the case company in question. As for theoretical delimitations, the research will first analyze the strategic decision of diversification using theories and models mentioned in the Suitable theories/models part of this study paper. Having analyzed the preconditions formed by the current business environment and company-specific factors, the paper will proceed to develop company-tailored supplier evaluation and selection process. It should be mentioned that supplier evaluation and selection process is just one stage of the procurement process. The study, therefore, does not research the whole procurement process, but limits itself to the study of only one of its stages. It can, however, if required or necessary, touch upon other stages of procurement for a more holistic view on the case.

2 Strategic Management in a small company

Strategic management plays a very important role for any company, and small enterprise is not an exception. No matter whether it is a simple strategic decision coming out from everyday activities, or a comprehensive one, every company needs a strategy – an outline of its future actions. As the number of new enterprises is increasing, more and more studies are being conducted about strategy in small businesses. (David 2011.)

There is, however, an ongoing debate on the necessity of formal planning in small businesses. In their article on strategic planning in growth-oriented small firms, Mazzarol, Reboud & Soutar (2009) claim that a well-developed formal strategic plan does not necessarily secure success, and that more effort and time should be devoted to the process of studying company's environment, modifying its mission and vision, as well as defining the factors that can contribute to the company's growth. Mazzarol et. al. strongly emphasize the importance of strategic thinking for a business-owner. Relationships with stakeholders should also take important place in company's culture. The key to success of a small business is, therefore, clear strategic vision, proper analysis of the operating environment and persevered adoption of it. (Mazzarol 2004.)

One of the aims of our research is to conduct an analysis of the strategic decision of diversification and provide the information to the managing director. Should the case company decide to take some actions based on the findings of the given research paper, the researchers will not be directly involved in such. However, the authors of this paper will give their assistance and support in translation and interpretation, if necessary. The study will be based on interviews with a business owner, research of external and internal factors influencing company, as well as various models and topic-related theoretical knowledge.

2.1 Growth strategies

There are four different ways for a company to grow: through new market entry, through market or product development, and through diversification. It should be said that a company can face many challenges in the process of diversification strategy implementation. It steps into an unknown path, which might affect its

well-established and time-tested rules and processes. The changes in a company are inevitable and constitute break with what the company was dealing before. To implement diversification, a company needs to possess a set of new skills, knowledge and methods, as well as additional resources. (Ansoff 1957.)

Presented in Figure 1 below is the graphical explanation of the four strategies.

EXHIBIT I. PRODUCT-MARKET STRATEGIES FOR BUSINESS GROWTH ALTERNATIVES

MARKETS PRODUCT LINE	μ_0	μ_1	$\mu_2 \dots \dots \dots$	μ_m
π_0	MARKET <i>Penetration</i>	MARKET	DEVELOPMENT	
π_1	PRODUCT DEVELOPMENT			
π_2		DIVERSIFICATION		
\vdots				
π_x				

Figure 1: Strategies for business growth alternatives (Ansoff 1957).

In his book on strategic management, Fred R. David gives a comprehensive outline of all major types of strategies (David 2011). They are presented in Figure 2 below.

Strategy	Definition	2009 Examples
Forward Integration	Gaining ownership or increased control over distributors or retailers	PepsiCo launched a hostile takeover of Pepsi Bottling Group after its \$4.2 billion offer was rejected
Backward Integration	Seeking ownership or increased control of a firm's suppliers	Chinese carmaker Geely Automobile Holdings Ltd. purchased Australian car-parts maker Drivetrain Systems International Pty. Ltd.
Horizontal Integration	Seeking ownership or increased control over competitors	Pfizer acquires Wyeth; both are huge drug companies
Market Penetration	Seeking increased market share for present products or services in present markets through greater marketing efforts	Coke spending millions on its new slogan "Open Happiness"
Market Development	Introducing present products or services into new geographic area	Time Warner purchased 31 percent of Central European Media Enterprises Ltd. in order to expand into Romania, Czech Republic, Ukraine, and Bulgaria
Product Development	Seeking increased sales by improving present products or services or developing new ones	News Corp.'s book publisher HarperCollins began producing audio books for download, such as Jeff Jarvis's "What Would Google Do?"
Related Diversification	Adding new but related products or services	Sprint Nextel Corp. diversified from the cell phone business by partnering with Garmin Ltd. to deliver wireless Internet services into GPS machines
Unrelated Diversification	Adding new, unrelated products or services	Cisco Systems Inc. entered the camcorder business by acquiring Pure Digital Technology
Retrenchment	Regrouping through cost and asset reduction to reverse declining sales and profit	The world's largest steelmaker, ArcelorMittal, shut down half of its plants and laid off thousands of employees even amid worker protests worldwide
Divestiture	Selling a division or part of an organization	The British airport firm BAA Ltd. divested three UK airports
Liquidation	Selling all of a company's assets, in parts, for their tangible worth	Michigan newspapers such as the <i>Ann Arbor News</i> , <i>Detroit Free Press</i> , and <i>Detroit News</i> liquidated hard-copy operations

Figure 2: Alternative growth strategies (David 2011).

2.1.1 Diversification

The term "diversification" presents much ambiguity because some sources of information contradict each other. In short, diversification is the difference between the businesses within one organization (Graham 2009). R. Lynch (2012) claims that diversification strategy is adopted "when a company moves away from a single product or dominant business area into other business areas, which may or may not related to the original business" (Lynch 2012). There are several sources of information, which provide information on typology of diversification in terms of relatedness. In his book on strategic management, R. Lynch (2012) distinguishes diversification types by how related they are to the main major line of business. Close-related diversification occurs when different businesses within one organization have something significant in common, e.g. consumers, suppliers etc. Distant-related diversification can be characterized by the common field of operation

(for example, technology field of business). Contrary to other types, unrelated diversification occurs when there are no similarities between company's existing and new businesses. (Lynch 2012.)

In this thesis, Fred R. David's categorization of diversification will be used. The author divides the term into two types: related and unrelated. The latter type means that company's businesses are very different, and that there is no competition between them. Related diversification means that businesses are similar or have some significant common features with the already existing business. (David 2011.) According to Fred R. David (2011), the main reasons for a company to adopt related diversification are as follows:

1. Possibility to share the existing experience, knowledge, skills and technology with another business (David 2011).
2. Possibility to lower expenses by consolidating similar activities of different businesses and reaching the economies of scale (David 2011).
3. Possibility to utilize the existing brand name (David 2011).
4. Possibility of cooperation between the related businesses contributing to creation of new company advantages (David 2011).

It often happens that a business only tries to predict changes and new trends, and fails to prepare for possible problems, which it can soon encounter. Adoption of a new strategy is often seen as a way to prevent possible negative events such as decline in sales. It is important to understand that strategic thinking can also help a company to avoid challenging situations in the future. (Ansoff 1957.)

Considering the constantly developing technologies and changing consumer needs, it is risky to be focused on only one business (David 2011). Diversification can be implemented as a way to invest into new developing niche on the market. It is a perfect match for the needs in flexibility, which is necessary for any modern organization. (Ansoff 1957).

In his article on diversification, Ansoff (1957) outlines three main diversification strategies:

- 1) Horizontal diversification - new product or service is not related to the existing product line (Ansoff 1957).
- 2) Lateral diversification – this can be referred to the case when a company diversifies into to any industry market, which is not connected to company's existing products. This kind of the diversification is the widest in terms of product options and it is not limited by any factors (Ansoff 1957).
- 3) Vertical diversification - the type is delimited by the field of interests. It is the case, for instance, when a company starts to produce parts, which it used to buy from some distributor (Ansoff 1957).

In our case company, horizontal diversification could be implemented, because the company will provide new products appealing to the customers. The products are related to the current business field, and will be sold to existing and new customers found through tenders, direct orders, and through various other channels.

In the article of Strategies for Diversification by Igor H. Ansoff, the objectives of diversification are clearly described. The strategy is divided into four groups of purposes: growth objectives, stability objectives and flexibility objectives. One diversification type can be a perfect match for some company, and totally useless for another. For example, in case of sales' decline, it does not make sense to implement vertical diversification and lateral diversification as a way out. Oppositely, the company showing good results should adopt these types of strategy. Apparently, the best decision of company foreseeing challenges and problems is lateral diversification. (Ansoff 1957.)

2.1.1.1 Implementation of diversification strategy

As a new product line appears, new challenges arise. For instance, it is essential for a business to know how to divide the lines and keep the common feature of all services and products (Ansoff 1957). To overcome the challenges, the company can act in several ways:

1. Develop product market policy. It means that all products are only related to one field (for example, engineering, pharmaceuticals etc.) (Ansoff 1957).

2. Develop long-term growth policy. This type of policy is applicable to any kind of diversification and involves company unifying all product lines (Ansoff 1957).
3. Put emphasis on financial characteristics. Only financial aspects are important in the case. There are no restrictions regarding product itself in terms of mission or any common field (Ansoff 1957).

2.2 Strategic process

According to Richard Lynch (2012), there are two approaches to strategy: the prescriptive approach, and the emergent strategic purpose (Lynch 2012). For this particular study, the prescriptive strategic purpose scheme will be used as a plan to analyze diversification strategy. The schematic representation of the chosen approach is shown in Figure 3 below.

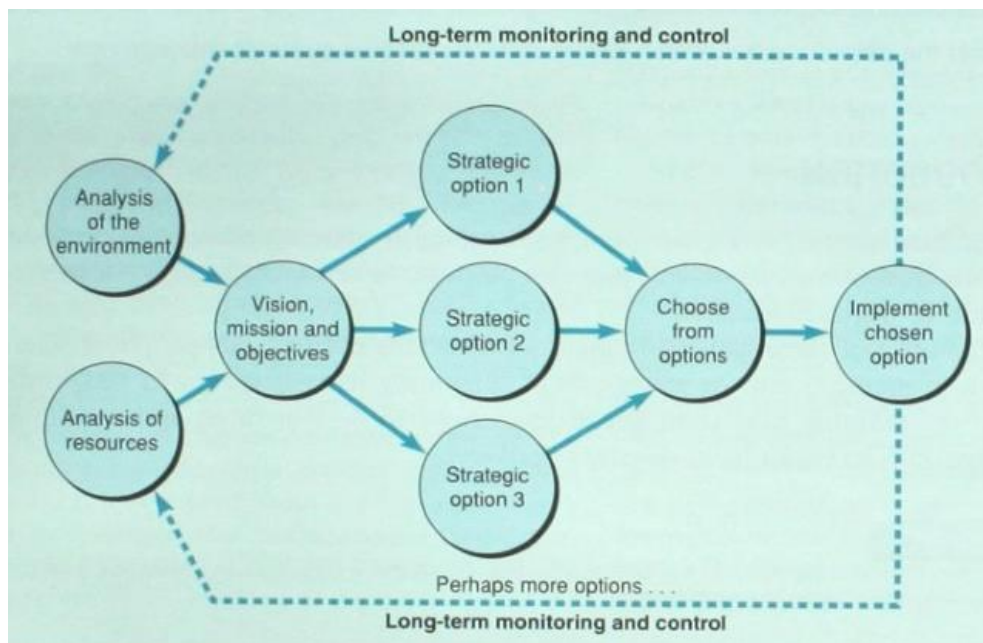


Figure 3: Prescriptive strategic purpose scheme (Lynch 2012).

According to Richard Lynch (2012), the degree of turbulence in the environment is the extent to which environment changes constantly. The main indicators are “changeability” and “predictability”. Changeability contains “complexity, novelty, rate of change and visibility for the future”. The factors influence on the likeliness of proper analysis of environment. In case of too turbulent environment, it is very difficult to utilize methods such as PESTEL. (Lynch 2012.)

The first step of the process is analysis of the environment - at this stage, research on market, customer and competitors will be conducted. The PESTEL model will assist in defining main characteristics of the operating environment. Five Forces model will help to define threats that the case company can face. SWOT technique will determine all weak and strong sides of the given case company.

The second step is analysis of the existing company resources. As for the third, objectives, mission and vision of the case company will be formulated. Finally, important, conclusion on the reasonability of the strategic decision will be made.

2.3 Analysis of the operating environment

Any organization's research usually begins with an analysis of threatening external factors that can influence its current or prospective business operations. The aim of any comprehensive analysis is to define competitive advantages for a company. (Lynch 2012.)

To evaluate external factors influencing the company's business, PESTEL model can be used. It helps to conduct a comprehensive analysis of political, environmental, socio-cultural, environmental and legal aspects.

The Five Forces model created by Michael Porter (1979) is a well-known technique used to analyze environmental threats. This model identifies general threats that a company can face. The five forces are threat of entry, threat of suppliers, threat of substitutes, threat of buyers and threat of rivalry. (Lynch 2012).

New entrant threat is also called "new competitors on the market", which have just appeared or are planning to enter the market soon (Barney 2012). One of the challenges that a company can face is being unable to implement the economy of scale. At the same time, the more experienced competitor companies are using this cost advantage, as their fixed costs are shared among the larger volumes of production. Due to this, market prices can be lower than that offered by the new market player. It makes it difficult a new business to compete, as they are unable to implement the economies of scale due to their relatively small size. Additional

advertising, marketing and understanding of customers' needs is required in case of product differentiation when entering a market. Company should spend a significant part of its internal resources to create a sound brand. Besides this, the implementation of the new strategy can span over a long period, which may lower its competitiveness and negatively influence profitability. Apparently, when starting a new company or implementing diversification, company management should make sure it has enough resources, and is prepared for all types of outcomes. If costs are very high, a business involves large risks. Perhaps, the market is saturated, which means that the already existing supply is more than sufficient, and customers are not so willing to change their preferences. That is why companies apply different mechanisms to attract new customers - lowering prices is one of well-functioning options. However, it requires switching cost, which in itself can be seen as a company threat. It is important to mention that distribution channels are probably limited because existent producers can constrain distributors to provide product to other companies. Cost disadvantages independent of scale identifies the threat of being far behind well-known existent companies. Government policy also might be an obstacle encountered by company as monopolies sometimes are under the protection of the state.

Any company is to some degree dependent on its suppliers. The threat of powerful suppliers can lead to the limited number of suppliers, lack of substitutes among other suppliers, and an increasing percent of COGS from company's total costs and its value-added process. (Lynch 2012.)

As the number of products and services is increasing, one more threat appears. Threat of substitutes is an important part of Five Forces analysis. Substitutes can serve the same purpose but still are different from a company's product. If substitute has more advantages and performs more functions, the threat is very serious and can result in bankruptcy. (Barney 2012.)

Threat of buyers reflects the dependence on the number of customers, their empowerment, abilities and knowledge. If there is a small number of buyers, a company should fight for their loyalty, because customer loss leads to the worst scenario. In addition, the product or service offered should possess competitive advantages; otherwise, customers will prefer another product. (Lynch 2012.)

The next threat is rivalry. Rivalry is the competition with company's direct competitors. It is often the case in the modern business world, when several companies of a relatively same size compete on the market, when some industry grows very slowly, or when there is a lack of product differentiation. (Barney 2012.)

The Five Forces model contributes to company's understanding of a proper strategy adjusted to company's opportunities and a need to cope with potential problems and threats. (Lynch 2012.)

Analysis of the main competitors had to take important place in the whole research. Sustainable competitive advantages of competitors should be found. The perfect way to summarize the data is SWOT analysis. (Lynch 2012.)

2.4 Analysis of resources and capabilities

The analysis of capabilities aims to answer the basic questions: Which resources are needed for the strategy? Why these resources are important? Answer to the second question is usually different for every particular company, but some common features can be found. Value added and competitive advantages are typically bought by existent resources. (Lynch 2012.)

According to Richard Lynch (2012), all resources are divided into groups of tangible, intangible resources and organizational capabilities. Tangible resources are physical resources utilized by the company for its value-added activities. Intangible resources are non-physical resources which are company's advantages, for example, technological competencies, high-quality service, brand name and so on. Organizational capabilities are knowledge and skills that company's employees have, as well as its management and leadership capabilities. (Lynch 2012.)

Moreover, capabilities such as architecture, reputation and innovation are essential for any organization. In his book on strategic management, Richard Lynch (2012) gives definitions of the terms. Architecture is a combination of relationships and contracts within organization and outside of it. Reputation is a well-known key to success that means image of company in the eyes of its customers

and business partners. Innovation is a company's innovative capabilities and the unique characteristics its product or service possesses. (Lynch 2012.)

Core competencies are also very important as they deliver value to customers. The set of intangible resources is essential for company's success and can lead the company to the right direction in any situation. There are very different core competencies but they can be divided into several groups in terms of the functions they perform. The first group is related to the fact that any competency should bring value to its customers, otherwise, the company has to review its business. Secondly, a competency should be unique and different from other competitors. The group is named as «competitor differentiation». The last group is extendable: core skills and capabilities can be applied to other spheres of business. (Lynch 2012.)

For more comprehensive analysis, VRIO framework can be used. The model helps to define competitive advantages based on company's capabilities. Apparently, there is a need for the company to utilize its capabilities to take an advantage from opportunities on the market and cope with obstacles. Value analysis should be implemented to make sure that the company uses its scarce resources effectively. The number of competitors with the same capabilities strongly influences company's operations. Therefore, rarity analysis is important to check whether intangible resources are unique or not. Imitability is an indicator that shows how easily other companies can adopt company's unique capability or resource. One more factor that has to be analyzed is the company's organization, which basically means its ability manage and allocate its resources. (Barney 2012.)

2.5 Formulating company mission, vision and goals

Mission reflects company's reasons to exist and has much in common with vision. The difference is that vision is basically for the employees of a company. Mission statement usually includes information about the field of operations, customers and competitive advantage of a company. All objectives and operations of business should be in line with the mission. (Ritson 2013.)

Vision is how a company sees the future. Company's vision shows which changes will possibly be undertaken. It identifies values and objectives of a company and assists the company in planning for the future (Ritson 2013). Besides this, the vision inspires, gives motivation, as well as provides a short and clear-cut explanation of the organization's purpose. Vision statement should aim to answer the following question: How do we see our organization in the future? It is important for vision's objectives to be sensible and attainable – it would not otherwise be seriously considered and applied in day-to-day operation (Jurevicius, O. 2013).

Setting goals is essential for any company's strategic planning. Goals provide a better understanding of a path a company wants to take. More specifically, goal must be:

1. clear
2. realistic
3. based on company's mission and vision (Ritson 2013).

3 Supply management

3.1 Definition of concept

There are numerous definitions of supply management. Robert J. Trent (2007) offers a particularly good one in his Strategic Supply Management book. He describes supply management as a proactive process spanning across various business functions, the aim of which is to ensure a timely, economical and sufficient supply of materials and services for the company. Crucial to this process are active management and early supplier involvement. (Trent 2007.)

3.2 Current business environment and its requirements

Today's highly industrialized world is as competitive as it has never been before. Such an environment poses new challenges for businesses, as they should constantly develop their current operations while seeking for new competitive advantages. Continuous development and improvement are, therefore, critical for

any business entity's survival. Not less important is the development in the sphere of supply management.

3.3 Importance of supply management

Aiming to improve company's internal performance, managers start to break down businesses into smaller functional units, processes and separates stages in order to look into them and find opportunities for improvement. As they do it, they can hardly fail to notice that supply management is an operation very critical to their businesses. In some cases, the cost of revenue might constitute a figure of up to 83% of their total sales (Trent 2007). Thus, the importance of selecting the right supplier cannot be underestimated, as in most cases it carries a direct impact on company's cost effectiveness (Ting & Cho 2008).

Supply management function is no longer a routine one, not a mere paperwork, as it used to be regarded in the past. Nowadays, it is regarded as a very crucial company process. How low or high the cost of revenue is - predominantly depends on the supply management function. Therefore, the importance of effective supply management can be hardly underestimated, as it largely determines the success and competitiveness of the final company's offering. (Trent 2007.)

3.4 Supply management process

As shown in Figure 4 below, supply management process - also called the purchasing cycle - has six main stages.

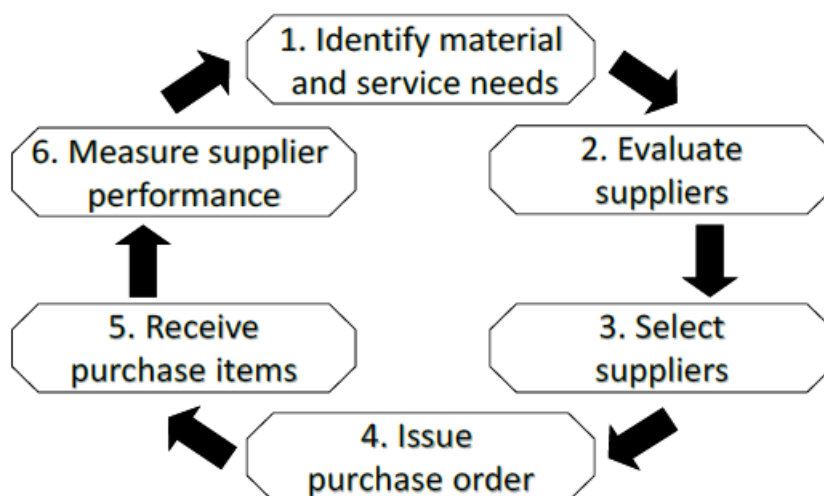


Figure 4: The Purchasing Cycle (Tan 2016).

3.4.1 Identification of material and service needs

Before any sourcing activity takes place, the need for the activity should be justified and clearly described (Tan 2016). Having failed to do it, the company runs the risk of using its scarce human, financial, physical and other resources irrationally, not to their best possible use. This is unacceptable in a modern highly-competitive business environment, where every unit of resource counts. In an incessant fight for clients and revenue, no company has the luxury of wasting resources, as it will inevitably affect the final price. It is especially so in a tender-like format of supplier selection, in which price is often a determining factor. Making this statement even more actual and relevant to the study is the fact that the case company mainly exercises tender-format as a mean of securing contracts for the supply of engineering services.

3.4.2 Supplier evaluation and selection

Following the first stage are the two stages of the purchase cycle that form its core. The two stages are supplier evaluation and supplier selection. These stages are often united under one supplier evaluation and selection process.

Supplier evaluation refers to the identification of appropriate criteria and methods to be used for finding an appropriate supplier (Tan 2016). Current suppliers are assessed based on their past performance record, whereas potential ones are mainly evaluated on their capabilities. Information on the capabilities can be received through “preliminary surveys, Request for Information, Request for Proposal, and Request for Quotation”. (Baily, Farmer, Jessop & Jones 1998.) If performed correctly, the process leads to a lower sourcing risk and higher value to the buying firm (Monczka, Trent & Handfield 2005).

Selection stage refers to the application of the predetermined criteria and methods to the preselected suppliers (Tan 2016).

As shown in Figure 5 below, supplier evaluation and selection process has seven major stages.

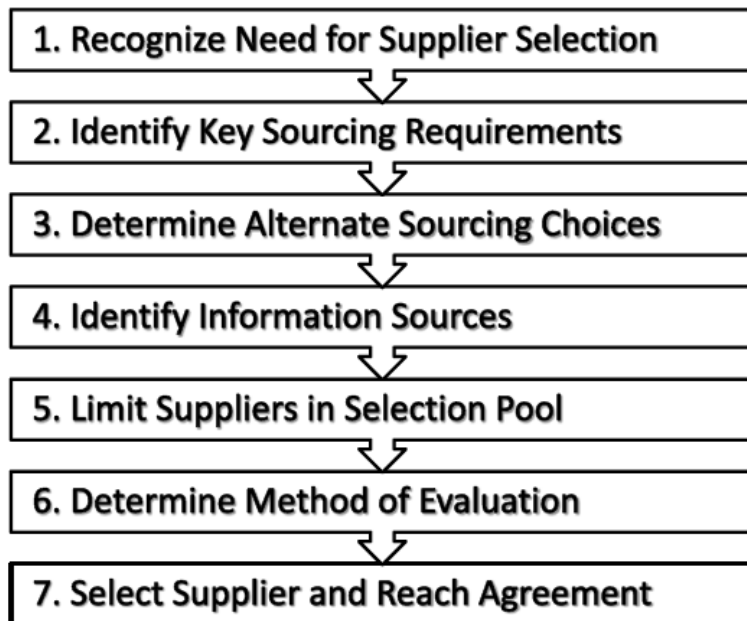


Figure 5: Supplier evaluation and selection process (Tan 2016).

As is the case with the whole supply management process, the supplier evaluation and selection implies recognition of the need for supplier selection. The need recognition is fully justified, and is not just a part of routine. For example, it might turn out during this stage that the sourcing company already has an appropriate supplier in its supplier base. If it so happens, the company does not need to run the whole purchase cycle, and can skip some of the stages, which will eventually result in reduced purchase cycle time and fewer costs incurred. This, in its turn, will contribute to the competitiveness of the company's final offering, as it has shorter time-to-market and potential to be less expensive, as some of the stages were omitted. Therefore, recognition of the need for supplier evaluation is an important step.

Once the company's management has analyzed its supplier base and realized the need for supplier evaluation, it should proceed to identify key sourcing requirements. Some of the common key sourcing requirements for any business are price, product quality, delivery performance, technical competence, management of own suppliers, and potential for innovation. The rank of importance of these factors to different businesses varies by industry, type of corporate goals, current economic environment and many other factors. Therefore, it is important

that each individual business take the time and resources to identify its own, company-specific, key sourcing requirements that will allow it to maximize supply management performance and achieve corporate goals. (Tan 2016.)

Not least important stage of the process is choosing between alternating sourcing choices. Management of a business is often faced with strategic procurement choice options opposite to each other e.g. single or multiple sourcing, short-term or long-term contracts, domestic or foreign supplier, and other. The choice can be determined by the current business environment, strategy chosen, type of supply required and various other factors. (Monczka, Trent & Handfield 2005.)

Once the management has chosen between alternating options, it can proceed to the search of information sources, from which it is going to obtain information about suppliers. Some of the critical areas that a procurement specialist should inquire on are price, product quality, delivery performance, manufacturing facilities and capacity, technical competence, and potential for innovation (Cavinato & Kauffman 2000). This is particularly important stage, as the reliability of the source of information largely determines the success of the supply management process overall. If possible, the management should take the time and resources to verify the information, as financial consequences of having an inappropriate supplier can be much higher than the cost of searching for reliable sources of information and verifying them.

The next stage of the process is limiting suppliers in selection pool, which is basically a preselection of suppliers based on their financial and performance-wise indicators (Tan 2016). Adequate, timely and sufficient supply is crucial to any company's operations. Therefore, it is important to verify the financial health and adherence to best practices in the supplier's company to lower the possibility of harmful supply disruption.

It should be mentioned, however, that limiting suppliers in the "potential pool" is not always sourcing company's responsibility, but rather a business of suppliers themselves, as they strive to qualify for specific technical, financial and other requirements set for a particular supply contract. For instance, it is often the case in the Bidding, Request for Quotation and Reverse Auction solicitation types, as

suppliers can only submit a bid or quotation if he/she has proved their compliance with the predetermined requirements. (Solish & Semanik 2011.)

In their Strategic Global Sourcing book, Solish & Semanik (2011) identify four main solicitation types:

- 1) Bidding – a process whereby suppliers (bidders) respond to an invitation for bid with a sealed bid, which is to be opened publicly at a stated date and time in the future (Solish et. al 2011). Predominantly, price is the most significant criteria in the solicitation of this type, and the lowest price will win. It is so because bidders have already been preselected based on quality, financial health and other criteria, and are now considered equal in that terms.
- 2) Request for Quotation (RFQ) – a process whereby sourcing company is requesting a quotation from supplier for price and delivery. It is typical for this type of solicitation that other terms are already specified, which is often the case when supplier and sourcing company have been working together for some time and have built trust. Another feature peculiar to this type of solicitation is that is usually used for purchases of relatively small value. (Solish et. al 2011.)
- 3) Reverse auction – a software-enabled process whereby suppliers bid against each other real-time. As is the case with Bidding solicitation type, the lowest price wins, because the supplier have already been preselected. (Solish et. al 2011.)
- 4) Negotiation – a process whereby two parties are seeking mutual agreement on the terms and conditions of a prospective supply contract and other related issues. This solicitation type is most often used for acquisitions of critical importance to the company and high value. (Solish et. al 2011.)

The decision on what solicitation type to choose depends on multiple different factors: value of the purchase and its importance to the company, whether supplier and sourcing company have been working before and know each other's terms, availability of technically qualified suppliers and existence of market com-

petition, complexity of the purchase, availability of resources to conduct a software-enabled bidding, and many other. The sourcing company cannot, for instance, organize reverse auction in a noncompetitive market. (Solish et. al 2011.)

Once the preselection of suppliers is done to form the so-called “potential pool”, the procurement personnel should proceed to decide on the method of evaluation to be used. There are two main methods differing in the type of information source a company is utilizing to conduct the evaluation. First method, also being the easiest and cheapest one, is to obtain information from suppliers themselves. This can be done through the means of supplier visits and by requesting information from business’s current preferred suppliers. Second method is to gain access to external and third-party information i.e. the one available to consultants and independent auditors working in the sphere of supply management. (Monczka et. al 2005.)

Last but not least important stage of the supplier evaluation and selection process is the supplier selection itself, whereby all the information and methods are applied on practice to narrow down the potential pool to just one or a few best-fitting candidates, and to reach agreement with them. (Monczka et. al 2005.)

Assisting the procurement personnel at the supplier evaluation and selection stage are various models and tools. One of such tools is supplier evaluation and selection survey, which helps to assess suppliers based on different performance categories, e.g. quality, delivery, financial conditions and many other. Depending on the needs, budget, and how detailed information a company possesses, procurement personnel chooses the most suitable measurement technique and uses it to assign scores or ratings to suppliers’ various performance categories. The main supplier measurement techniques used in such surveys are:

1. Categorical system – a technique whereby suppliers are rated using the ordinal scale e.g. excellent, good, fair, or poor. This system is most often used by small organizations, as it requires little amount of resources and is relatively easy to implement. Adding to this, it requires least amount of information on suppliers. However, the low cost cannot be realized without the quality of the outcome being compromised, and the system is thus

considered more subjective and least accurate of the three discussed in this thesis. The main focus of this system is one significant variance between subjective ratings. (Monczka et. al 2005.)

2. Weighted-point system – a technique whereby weights are assigned to different performance categories according to their importance. Once the weights are assigned to each category, the supplier's scores can be quantified. As a result, the sourcing company arrives at a Total Rating figure, which is basically a sum of all weighted scores. The system provides higher reliability, and is still relatively moderate in terms of implementation costs. Two other significant advantages of this approach are that it is flexible, allowing to change weights assigned to each performance category, and that it allows to compare different suppliers based on their Total Rating. (Monczka et. al 2005.)
3. Cost-based system – a technique whereby total costs of doing business with a particular supplier are used as performance indicators. The system is expensive and difficult to implement, but provides the most accurate result of the three systems discussed in this thesis. The major challenge associated with this system is that involves identifying and recording the costs associated with supplier's nonperformance. (Monczka et. al 2005.)

The choice of the measurement technique by organization is determined by various factors such as its size, budget, cost of revenue, level of the competition in the industry and many other. In a small company where the cost of revenue does not constitute a large portion of the total revenue, it might not be reasonable to implement the costly and complicated weighted-point and cost-based supplier measurement techniques, and is better to use the simpler one such as categorical.

Another useful tool that can be applied in the supplier evaluation and selection stage of the procurement process is process mapping. A process map can serve as a detailed outline of all stages, and add to the company advantages. First, it helps to analyze the process and identify stages or actions that are consuming company's scarce resources, but do not add any value to the final offering. Sec-

ondly, seeing the big picture with detailed description improves efficiency by helping to eliminate unnecessary/repetitive steps. Thirdly, process map assists in identifying potential bottlenecks and weak sides. Fourthly, it helps to identify process ownership and responsibilities. (Big Sky Associates 2017.)

As a part of this research, map of the supplier evaluation and selection process will be developed. This will be done with the use of IDEF0 methodology, which is one of fourteen methodologies for modelling objects, information systems, business processes and many other. Initially developed under the funding and for the use by U.S. Air Force in 1970s, these methodologies are now in the public domain, and are widely used for visualization of various processes (Wikipedia 2017).

3.4.3 Issuing purchase order

Once the supplier evaluation and selection stage of the purchase cycle is completed, and suppliers have been chosen, the personnel in charge of purchase function should proceed to issue a purchase order and write a legally binding contract. According to Tan (2016), some of the main components of purchase order are:

1. price
2. quality
3. quantity
4. delivery date
5. address and method of delivery
6. product specifications
7. buyers contact information

3.4.4 Receive purchase items

When the goods are delivered, they should be checked. Supplier should be notified of any shortages and breakages within the period of time specified in the contract. Otherwise, the purchasing company may lose the right for replacement and compensation of the faulty goods or inadequate level of services.

3.4.5 Measuring supplier performance

Once the mutual transaction has taken place, sourcing company should collect and analyze information on supplier's performance. This stage is very crucial, as it helps to define areas for supplier's future improvement. In most cases, similar or slightly adjusted evaluation metrics from the "supplier evaluation and selection stage" will do. Thus, the supplier evaluation and selection survey has a dual function, as it does not only allow to evaluate and compare potential sourcing options, but to "evaluate the supplier's ongoing "scorecard" performance". (Solish et. al 2011.)

If the areas of possible future improvements are timely and correctly communicated to the supplier, who takes necessary actions for such improvements, the result might be mutually beneficial, as they will result in higher competitiveness of both parties. Besides performance evaluation, the sourcing company should decide whether the supplier's performance is strong enough to qualify for future purchases. When deciding on this matter, the sourcing company's procurement staff should consider various aspects of this matter: current performance indicators, supplier's percentage share in company's total purchase volumes (in other words, its importance), supplier's capacity and willingness to work on performance improvement, availability of other technically qualified suppliers on the market place, costs associated with supplier search/evaluation/selection process and many other.

4 Interview results

There were three interviews in total. The first one was a preliminary interview regarding potential changes in a company. Our case company is a small B2B company specializing on engineering services. The company builds, maintains and fixes transformer substations. The main customer of the company are warehouses, shopping malls and small production plants.

Demand on the engineering services is high but competition is also tough. One of the companies on the market possess approximately 70% of the market. The business-owner expressed his interest in the diversification strategy but he did not know which products could be offered to its customers. After the discussion, the business-owner was contacted by researchers and informed about the idea of sales of engineering equipment. The advantages of such a strategic decision were discussed and the business-owner approved the idea and the content of the thesis.

After studying theory about models and methods used to analyze a company and strategic decision, the second interview was conducted. From the second interview, the researchers learnt more about the company. It became clear that the given case company has many competitive advantages on the market. It has approximately 50 % loyal customers appealed by company's reliability and high-quality services. The company has an extensive experience and expertise in the sphere of engineering and always strives for innovations. The business owner perfectly understands the needs of its customers and has an expertise in equipment. His knowledge can be utilized when selecting between different equipment for sale. The business-owner also informed the researchers that he has friends among equipment producers.

The potential threats for the company were discussed. The business-owner expressed concern regarding high competition and a need to switch the prices for attraction of new customers. He mentioned that the company had not any issues with customer satisfaction. The main objective is to attract new customers because the company has no problems with retention of clients.

On the third interview, the business owner was asked about the most important supplier performance categories. The answer was as follows

1. delivery performance
2. quality
3. price
4. financial conditions

Then he was asked to distribute one hundred points among these categories. The quality and delivery performance were on the first place in terms of score and each one got thirty points. Other two categories of price and financial conditions gained twenty points.

5 Analysis of diversification strategy

In this part of thesis, analysis of diversification strategy will be performed. More specifically, analysis of market, competitors and customers will be done. Assisting in this analysis will be the three models described in the theory part of this thesis: PESTLE, SWOT and Porter's Five Forces model. After that, the analysis of company's capabilities will be carried out. It will be done with the use of VRIO model. Finally, the company's vision and mission will be formulated based on the interviews with the managing director (owner), and the previously conducted analysis.

The analysis of diversification strategy is based on the above-mentioned theoretical framework, interviews with the business-owner, articles on industry and SME-related legislative amendments, as well as competitors' websites/annual reports and web resources on current economic situation in Russia.

5.1 Analysis of the market

As shown in Figure 6 below, volume of the engineering market was forty-nine billion rubles in 2011. Four years later, in 2015, when the data for the chart was collected and the chart was made, the total market volume constituted a figure of sixty-three billion rubles, which is an average yearly growth of 6.5%. According to the estimations made by the Ministry of Industry and Trade of the Russian

Federation in 2015, the electrical engineering market will continue to grow by 7.8% every year, and will constitute a figure of eighty-five billion rubles by 2019 (Enginrussia 2015). Such market growth is an extremely favorable factor for various forms of expansion within the industry, as the demand for electrical engineering will be growing.

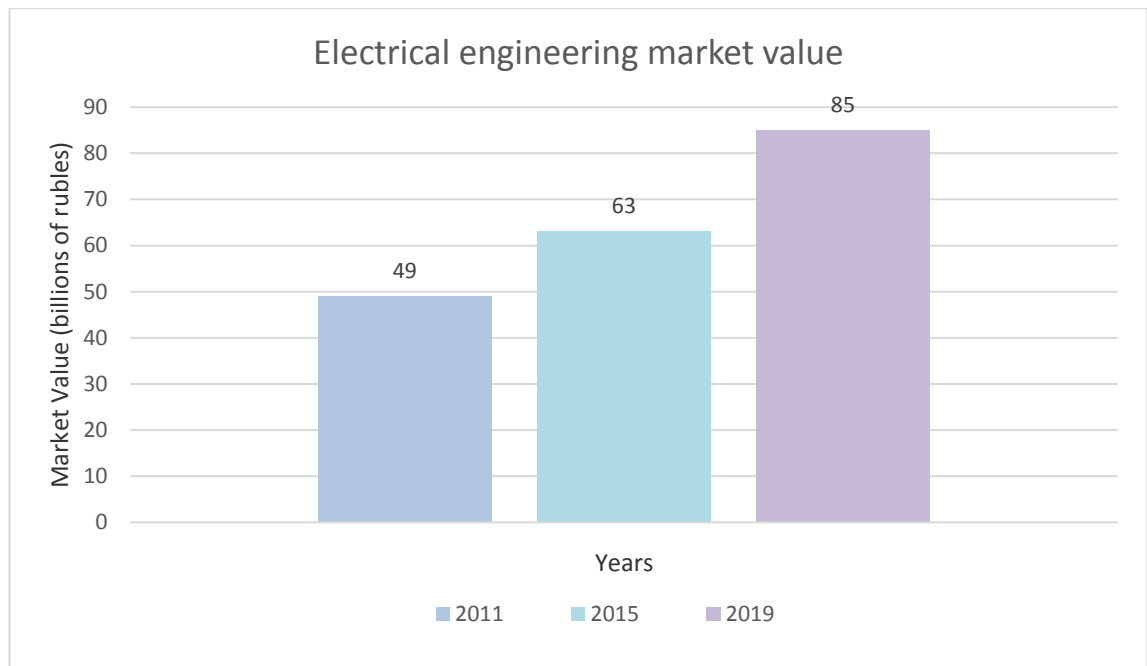


Figure 6: Electrical engineering market (Enginrussia 2015).

According to Regnum information agency (2016), the market of engineering services is on a rise, and Russian government sees it as one of the stimulus for the growth of the national economy. To sustain this growth, government ministries and agencies are working on the development of various supporting measures. (Regnum 2016.)

5.2 Analysis of competitors

According to the statistics acquired from a demo-version of SBIS network of business communication (2017), there are approximately five hundred forty-three companies operating in the field of electrical engineering in Saint Petersburg. Most of the companies provide a wide range of services, whereas our case company specializes on a narrow field of high-voltage engineering. It is important to emphasize that there are large competitors which take up a large share of the electrical engineering market in Saint Petersburg region.

One of such competitors is Lenenergo Company. It is the largest state-owned company in Saint-Petersburg, which has a huge number of customers. For the period of 2010-2014, the company had built sixteen thousand five hundred sixty-four transformer substations. The given company has a market share of 68,5%. Revenue of the company accounted to a figure of EUR 728 783 in 2015. Main customers of companies are shopping malls, houses, warehouses. (Lenenergo 2015.)

Apparently, Lenenergo is a very strong competitor considering its share. However, the company serving as a case for this study already has loyal customers and a reputation of quality service provider.

One more competitor of the case company is Energo-Konstanta. It provides various types of services related to transformer substations. The company has gained extensive expertise in the sphere of electrical engineering. It has approximately ten projects every month and is well-known for its high-quality services. The company does not only provide services, but also turnkey transformer substations and second-hand substations. (Energo-Konstanta 2017.)

N-Avtomatica is well-known service provider in the sphere of electrical engineering. The company has many awards for professionalism and new technological solutions. It has many customers in Saint-Petersburg and Moscow. The company also offers turnkey substations. (N-Avtomatica 2017)

From the analysis of the competitors, we can see that the proposed strategic decision is very crucial for our case company. The main competitors are already offering turn-key projects, and even sell second-hand transformer substations. As the number of companies is increasing, the need for changes in company becomes obvious. The owner of the given case company has gained a broad experience of twenty years in the sphere of electrical engineering, and has a very good knowledge of equipment the company is working with. This expertise will be of great help should he decide to engage into the resale of equipment.

5.3 Analysis of customers

Main customers of the case company are shopping malls, warehouses and small production plants. Customers expect its contractor to be reliable, because their cooperation does not usually end once the transformer substation is installed and commissioned, but continues for a much longer period, as the contractor usually takes the obligation to provide maintenance of the substation. It is a more secure form of cooperation for the main customers, as it protects itself from the risk of contractor's poor performance. Should there be any faults or breakages within the guarantee's validity period – the contractor will be fully responsible for repairs and the costs associated.

To choose a company, customers often hold tenders and take a decision based on price and quality. Another part of customers come to the given case company after talking with others. Word-of-mouth marketing works well in this case.

5.4 PESTLE

Shown in Figure 7 below is PESTLE analysis of the case company's operating environment.

	Factor	Business Impact
Political	<ol style="list-style-type: none">1) Government SME Support Program's 2017 budget cut from 12 to 7.5 billion rubles (Kommersant 2016)2) Regular government spending on development and maintenance of business-supporting infrastructure (Kommersant 2016)3) Introduction of government subsidies for banks	<ol style="list-style-type: none">1) Reduced support of SME's and slowed down development of business infrastructure2) More convenient environment and progressive elimination of bureaucracy3) Access to better lending conditions with lower rates4) Lobbying for more subsidies for SME's

	<p>providing more affordable lending for SMEs. In 2016, lending rates for medium- & small-size enterprises have decreased from 10-11 to 9.6-10.6%, respectively (Kommersant 2016)</p> <p>4) Strengthening and more legally empowered lobbying groups like Russian Association of Small and Medium Enterprise, and special government agencies such as Chamber of Commerce and Industry of the Russian Federation. In 2016, the State Duma passed a law on more serious criminal liability for the pressure on business and groundless prosecution (Kommersant 2016)</p> <p>5) Government programs aiming at corruption prosecution (Kremlin 2016)</p> <p>6) Introduction of new regulatory measures to</p> <p>7) support SMEs</p> <p>8) New political forces, which are for corporate tax reductions for SME's, may be elected in the next</p>	<p>5) Lowering levels of corruption and better conditions for doing business</p> <p>6) New SME's may get 2-year tax holidays, 3-year lower fixed-percentage pension contributions. Simplified procedure for starting a new business or venturing into new sphere of business</p> <p>7) Possibility of reduction of corporate taxes for SME's in future</p>
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	year's elections (Navalny2018 2017)	
Economical	<p>1) Central bank rate has decreased from 17.00% in 2014 to 9.75% in 2017 (Central Bank of Russian Federation 2017)</p> <p>2) Inflation has decreased from 12.9% in 2015 to 5.4% in 2016 (Statistical Bureau of the Russian Federation 2017)</p> <p>3) Lowering and more stable exchange rates. Currency pair EUR/RUB has lowered from an all-time-high 90rub/eur in February 2016 to 59.70rub/eur in April 2017. Currency pair USD/RUB has lowered from 82rub/usd in January 2016 to 56rub/usd in April 2017.</p> <p>4) "Natural level" of unemployment – 5.3% in 2016 (RBC 2016)</p> <p>5) GDP growth for 2017 is estimated to be as weak as 0.8% (Russia Today 2017)</p>	<p>1) More affordable government-subsidized lending and better incentives for long-term investment</p> <p>2) More stable pricing and improving purchasing power – both of the case company, its clients and suppliers.</p> <p>3) Strengthening ruble leads to cheaper imports of necessary overseas equipment and materials. It also contributes to the rising demand on the B2B electrical-engineering market.</p> <p>4) Availability of labor resources on the market</p>
Social	1) Real income has been decreasing 23 months in a	1) Being adjusted for inflation, real income is a cru-

	<p>row since August 2014 (RBC 2016)</p> <p>2) The rising trend of consumerism can be seen on the long-term perspective (Statistical Bureau of Russian Federation 2017)</p>	<p>cial indicator of real purchasing power. It shows that purchasing power of Russian citizens is deteriorating.</p> <p>2) Incentives for increase in derived demand for electrical engineering services</p>
Technological	<p>1) The level of basic infrastructure and the overall Logistics Performance Index figure have decreased since 2014 by 6.6 and 10.7%, respectively (The World Bank 2017)</p> <p>2) Reduction of budget expenditures on scientific and technological complex by 25 billion rubles (RBC 2014)</p>	<p>1) Worse conditions for doing businesses, and fewer incentives for starting a new one. This might lead to a smaller derived demand for electrical engineering services and products.</p> <p>2) Declining competitiveness of Russian equipment/materials with those from overseas. Higher possible cost of revenue for the case company and increased dependence on exchange rate.</p>
Legal	<p>1) Development of antitrust law: increase in the mandatory quota of government purchases from SME's. From 2018 onwards, the quota of spe-</p>	<p>1) More government contracts available for SME's.</p> <p>2) Fewer and more flexible tax audits allow businesses to focus its efforts</p>

	<p>cial auction direct purchases and gross percentage value (of total) will be raised from 10 and 18% to 15 and 25%, respectively (RBC 2017)</p> <p>2) Three times fewer tax-related case filing in 2016 compared to the year before (Vedomosti 2017)</p>	<p>and resources on operations, rather than formal proceedings related to some insignificant violations.</p>
Environmental	<p>1) Environment pollution regulations are moderately demanding</p> <p>2) The trend for renewable energy sources is only emerging</p> <p>3) Weak legislation in part of recycling</p> <p>Strange as it may sound, fewer and less demanding environmental regulations can be viewed as a measure to support/protect businesses in a developing economy.</p>	<p>1) Fewer and less demanding regulations are less expensive for a company to comply with.</p> <p>2) It does not present any threats for the sphere of electrical engineering services and products, but some new expertise may be required in the future.</p> <p>3) Stringent recycling regulations are costlier for a company to comply with.</p>

Figure 7: PESTLE analysis.

5.5 Five forces model

Shown in Figure 8 below is Porter's Five Forces model.

Threat of new entry	<p>The company would like to attract new customers; therefore, switching the costs can be seen as a threat. However, the case company is well-known and has its own customers' base. The company</p>
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	<p>has a broad access to suppliers and the entry does not require a big budget because all equipment will be purchased after securing on order.</p> <p>Conclusion: entry barriers are quite low and only one threat is identified</p>
Supplier power	<p>There is a big number of suppliers and there are enough substitutes of the equipment that the suppliers offer.</p> <p>The threat of value-added process by supplier exists but it is very unlikely.</p> <p>Conclusion: the supplier threats are not significant for the case company.</p>
Customer power	<p>The number of customers is limited by B2B business: shopping malls, warehouses and small plants. There are also some similar products on the market.</p> <p>Conclusion: the threats identified should be taken into account by the case company. Even though there are some risks regarding the same products offered by competitors on the market, company can benefit from existing customer base.</p>
Threat of substitutes	<p>There does not exist a substitute for the services and products discussed in this thesis.</p>
Threat of competitive rivalry	<p>Even though our case company has an extensive competence in electrical engineering, there are many competitors on the market. It is, therefore, difficult to differentiate the case company's offering. Besides this, there is a very big competitor on the market (Lenenergo) with 68,5% market share.</p>

	Conclusion: company faces many challenges in terms of competitive rivalry, but it already has customer base and sound reputation.
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Figure 8: Porter's Five Forces.

5.6 SWOT

Shown in Figure 9 below is SWOT analysis.

Strengths	Weaknesses
<p>1) Extensive base of loyal clients. According to the case company's management, approximately 50% of businesses served in 2016 are case company's longtime clients (more than 3 years of active history).</p> <p>2) Goodwill and reputation for high quality. There have been no serious quality issues and other contract-related litigation.</p> <p>3) Cost-free and efficient word-of-mouth marketing. Three out of five clients report that they have learned about the case company's services from some satisfied company's client.</p> <p>4) The company has gained high competence in the sphere of electrical engineering for the twelve years of its operation. Profound knowledge and experience of working with different equipment</p>	<p>1) Relatively small size of assets to qualify for contracts with larger potential profits.</p> <p>2) Lack of professional competence and experience in the sphere of procurement.</p>

<p>and materials is sure to give the company an edge over retailers.</p> <p>5) Flexibility and adaptability intrinsic to the small size. More specifically, the company does not need to keep large and costly inventories, rent out extra storage area, hire additional labor force. In case of changing economic, market and other factors that challenge business operation, the company may easily return to its previous strategy.</p> <p>6) No long-term liabilities (loans, deferred taxes, etc.)</p> <p>7) Working capital surplus.</p> <p>8) Good credit history.</p>	
Opportunities	Threats
<p>1) Thanks to its clean credit history, the company has the possibility to increase the financial leverage with the use of cheaper government-subsidized loans in order to implement the diversification strategy analyzed in this thesis.</p> <p>2) Opportunity to increase the case company's net income by establishing the resale of marked-up equipment and materials by utilizing the goodwill and existing word-of-mouth marketing.</p> <p>3) The case company can take advantage of the toughening anti-</p>	<p>1) The need to source equipment and materials from abroad increases company's exchange rate exposure, which the company is incapable to hedge against – neither in terms of necessary competencies, nor in the hedging capital requirements.</p> <p>2) Value added process by the customer</p> <p>3) The case company should compete with the companies already operating in the field and having their sourcing and resale finely tuned.</p>

trust law and potentially increase the number and value of contracts.	4) Switching the costs to attract new customers
4) The company can utilize its goodwill, existing customer base and new potential demand drawn by the word-of-mouth marketing to establish the resale of equipment and materials.	5) Many competitors, one of them has a share of approximately 67 %

Figure 9: SWOT analysis

5.7 Analysis of resources

The given case company possesses mostly intangible resources. The company has all special licenses to work with high-voltage engineering and conduct its own researches in the sphere. The business owner has more than twenty years of experience in electrical engineering and the company is well-known among its loyal customers. Expertise and good reputation are priceless intangible resources.

It should be mentioned, however, that there is a deficit of qualified labor resources in the case company's industry of operation. The company has grown up very professional employees who are a very important asset. At the moment, there is no threat of the case company losing its expertise due to ageing labor resources, as those are renewed in a timely manner.

Having worked long on the market, our case company's managing director has made connections with producers of equipment that can be used for new strategic decision. One more intangible resource is the company's strive for innovations. If talking about tangible resources, only equipment for laboratory is physical.

5.8 VRIO Framework

Shown in Figure 10 below is VRIO framework.

	Valuable	Rare	Difficult to imitate	Organized around
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All licenses needed	+		+	+
Equipment for laboratories	+			
Good customer experience	+	+	+	+
Expertise in electrical engineering	+	+	+	+
Good relationships with producers of equipment	+	+	+	+
Human resources	+	+	+	+
Innovations	+	+	+	+

Figure 10: VRIO framework

We can see from the VRIO analysis above that company's core competencies are high expertise in electrical engineering, relationships with producers of equipment, qualified human resources, innovations and good reputation.

5.9 Mission, vision and goals

The company has an extensive experience in electrical engineering and can position itself as one with a prominent expertise in the field of operation. It is important to mention that our case company strives for innovations and can make a transformer station work effectively. Even though the company is small, quality of services is very high and customers prefer the company to many other competitors. The company aims to provide competitively priced high-quality services. The mission of our case company can be formulated as follows:

“Our mission is to provide innovative high-voltage engineering services of high quality and at a reasonable price.”

One of the main aims of company is to change for the better and the strategic decision of diversification contributes to an expansion. The vision of company should reflect a business-owner plans and expectations

“Our vision is expansion in Saint-Petersburg region, sustainable profit growth and increase in the number of satisfied customers.”

Interviews conducted with business owner revealed clear objectives that the company aspires to reach. By adopting the strategic decision analyzed in this thesis, the case company expects to increase its profitability.

“Our objective is to reach 10% revenue growth by 2019”.

5.10 Summary of analysis of the strategic decision

Analysis of company’s external environment has indicated that there will be a decrease in government support of SME. Since the case company is self-sufficient, this factor will not affect company performance negatively. The study has also shown that there are some improvements in bureaucracy issue, which means that business can be more efficient and flexible, since interaction with the government takes less time and resources.

Besides this, there have been some improvements in lending conditions. Should the company decide to use financial leverage, it can do so at a lower cost than before.

New tax laws regarding SMEs can cause increasing number of new businesses and result into more customers for the given case company. Overall, economic situation in Russia is improving considering the decline in inflation rate and stabilizing exchange rates. It is now cheaper to purchase equipment from abroad. Purchasing power of Russian population is also improving, if compared to the last two years. However, social indicators reflect a decline in real income. Therefore, purchasing power is still lower than before the economic downturn of 2014. Ac-

According to PESTLE analysis, government investment in innovations are also decreasing, as well as investment in general state-infrastructure. If talking about legal conditions, accounting for external actors is becoming easier. Moreover, participation of SMEs in government contracts is planned to be increased by regulatory measures.

Overall conditions for the strategic decision of diversification are good. The demand on services in the field of electrical engineering is increasing, and government has incentives to support SMEs. Apparently, crisis in Russia has an influence on business, but there has not been too deep a dip.

One of the main threats challenging the company's business is the number of competitors and state-owned company with an approximate market share of 69%. Considering the fact, entrance on the market can be quite challenging but company already has its customer base, and some existing customer have shown interest in the provision of equipment by the case company. Perhaps, the case company should switch costs to attract new customers. It will increase company risks, but should later results in higher profitability.

One of the major advantages that the given case company has is its customer base and strong word-of-mouth marketing, which can later be used for the resale of electrical equipment and materials. The case company is just not big enough to qualify for high-value contracts, but it is not a very significant weakness, as there are still a lot of contracts that the case company qualifies for. Relatively small size of the case company is adding to the flexibility of its operations and adaptability. High expertise in the sphere and good reputation on the market will certainly appeal to new customers.

In conclusion (of the part), it is possible to say that the strategic decision of diversification is reasonable considering favorable environmental factors, presence of internal resources and core competencies as well as lack of consideration threatening survival of the business.

6 Supplier evaluation and selection survey analysis template

6.1 Introduction

Presented in Figure 11 below is the supplier evaluation and selection survey analysis template. It is a very useful tool that allows a procurement specialist to assess, compare, rank and choose suppliers based on a set of predetermined performance categories.

Performance category	Weight	Sub-weight	Score* (1-5)	Weighted score	Subtotal
Quality - Declared service life - Warranty length & coverage - Previous product-related experience	30	12 12 6			
Delivery performance - Delivery time - Completeness of order	30	15 15			
Financial conditions - Existence of past/current nonpayment cases/lawsuits - Check financial statements	20	15 5			
Price - Unit price - Order price	20	10 10			
Total weight	100			Total score	

Figure 11: Supplier evaluation and selection survey analysis template (Monczka et. al 2005).

6.2 Performance categories

Leftmost column of the template lists performance categories the case company considers most important for its operations. The case company's management identified four major performance categories each having from two to three sub-categories.

6.2.1 Quality

The case company studied in this thesis positions itself as a high-quality service provider, and is planning to maintain this position in the future, as good reputation and word-of-mouth marketing are accountable for a significant proportion of all

company's business. Therefore, the "Quality" performance category is assigned a weight of thirty points.

6.2.2 Delivery performance

Next in the list is the "Delivery performance" category. The case company considers this performance category crucial, as suppliers' late or incomplete deliveries are very likely to result in the case company's business operations being delayed, contract execution deadlines missed, penalties charged, and reputation affected. It was decided to assign thirty points to this performance category.

6.2.3 Financial conditions

Not least important to case company's business is the financial solvency of its suppliers. Being unable to ensure timely and sufficient sourcing of parts, materials or final products for resale, supplier can cause supply disruptions for the case company. This, in turn, will lead to longer time to market, lower competitiveness of offer, and lost customers. In a competitive environment, which electrical engineering is, such losses are unaffordable. To take this parameter into account, "Financial conditions" performance category is introduced. Due to the high importance of the performance category, it was decided to assign it a weight of twenty points.

6.2.4 Price

Last but not least important of the four performance categories is "Price". To a large extent, competitiveness of the case company's final offering depends on the price it quotes. It is, therefore, important that supplier's offers are reasonably priced, so that the case company had a capacity for a markup. This performance category accounts for twenty points.

6.3 Weights

Second column from the left shows how many points are assigned to each of the performance categories. Corresponding weights were determined and assigned

to each performance category and subcategory based on their relative importance to the case company. The total weight of all performance categories is one hundred points.

Third column from the left show how each performance category's points are distributed between its subcategories. Relative weights were identified in the process of interview with the company management.

6.4 Measurement scale

In this survey analysis, an ordinal measurement scale from 1 to 5 is used, with 1 being the lowest and 5 being the highest scores, correspondingly. In case qualified suppliers have different performance levels – let's say, prices of their offerings differ, the lowest price is given a score of five. Other offers are assigned scores based on how expensive they are relative to the cheapest option. For example, there are three qualified suppliers - A, B & C - which quoted prices of EUR 5000, 7000, and 10000, correspondingly. In this case, supplier A will be given a score of five. Price quoted by supplier B is $7000/5000=1.4$ times higher. Then, B-supplier's score will be $5 \text{ (highest score)}/1.4=3.57$. Price quoted by supplier C is $10000/5000=2$ times higher. Then, C-supplier's score will be $5 \text{ (highest score)}/2=2.5$. This method for assigning scores can be applied for all other performance categories.

As for the "Financial conditions" performance category, and specifically its "Existence of past/current nonpayment cases/lawsuits" subcategory, the more nonpayment cases/lawsuits a supplier has/has had, the lower score is assigned to its performance.

Great advantage of the given supplier evaluation and selection analysis survey template is that weights assigned to performance categories and their subsequent distribution between subcategories can be modified based on some individual contract requirements and conditions. For instance, some sourcing needs are not so stringent in terms of quality, or have a distant deadline. In such case, it might be reasonable to assign smaller weights to these performance categories.

6.5 Weighted scores

To arrive at a weighted score for each performance subcategory, the following formula should be used:

$$\text{Weighted score} = \text{Subweight} \times (\text{Score assigned} / \text{Total score})$$

We have already practiced how to assign scores to suppliers A, B & C who quoted different prices. Their scores were 5, 3.57 & 2.5, correspondingly. Let's continue this example and calculate relative weighted scores. According to the survey analysis template, "Order price" subcategory has a weight of twenty points.

$$\text{Weighted score (A)} = 20 \times (5/5) = 20$$

$$\text{Weighted score (B)} = 20 \times (3.57/5) = 14.28$$

$$\text{Weighted score (C)} = 20 \times (2.5/5) = 10$$

6.6 Subtotal and total scores

Subtotal is a sum of weighted scores of some performance category's subcategories. Total score is a sum of all subtotal scores. Using suppliers' total scores, sourcing company can rank suppliers, which very much assists in the selection process. Presented in Figure 12 below is an example of supplier evaluation survey template.

Performance category	Weight	Sub-weight	Score (1-5)	Weighted score	Subtotal
Quality	30				
- Declared service life		12	3	7.2	
- Warranty length & coverage		12	3	7.2	
- Previous product-related experience		6	4	4.8	
					19.2
Delivery performance	30				
- Delivery time		15	3	9	
- Completeness of order		15	3	9	
					18
Financial conditions	20				
- Existence of past/current nonpayment cases/lawsuits		15	4	12	
- Check financial statements		5	4	4	
					16
Price	20				

- Order price		20	3	12	
Total weight	100			Total score	65.2

Figure 12: Supplier evaluation and selection analysis survey example

7 Supplier evaluation and selection process mapping

The supplier evaluation and selection process starts when a direct purchase order is received, or a tender is secured by the case company. As a first step, the company procurement & technology staff should decide whether there is a need for supplier selection at all. To do that, they should analyze technical specifications of the direct order/tender, and check whether the company has any inventory that fits the requirements. If a company has a sufficient amount of necessary supplies in its inventory, the company staff should skip the procurement process and proceed to the actual provision of engineering services.

If there is no inventory that fits the technical requirements of the order/tender, or the size of inventory is insufficient for the order/tender, the company staff should review existing supply contracts and find out whether the company has technically qualified supplier in its supplier base. If there are technically qualified suppliers in company's supplier base, the procurement staff should skip supplier evaluation and selection process and proceed to issue purchase order.

If the company does not have qualified suppliers in its supplier base, the company staff should proceed to compose a technical assignment for purchase. This will later be used to identify key sourcing requirements. Once the key sourcing requirements have been identified, procurement specialist should determine the various sourcing options and choose the one that suits that order/tender most. Once the sourcing choice has been made, procurement staff should identify information sources, from which it is going to find potential suppliers. As an outcome, a list of potential suppliers is made. Then, with the use of information provided by suppliers in form of RFI/RFQ/RFP, suppliers are preselected. As a next step, procurement personnel should determine method of evaluation of suppliers. Once it is done, it should proceed to evaluate suppliers using supplier evaluation

and selection survey template. Finally, best supplier/suppliers are selected and reached agreement with.

Shown in Figure 13 below is a map of supplier evaluation and selection process. It depicts various stages of the process, regulatory aspects, labor and other external inputs, as well as intermediate results.

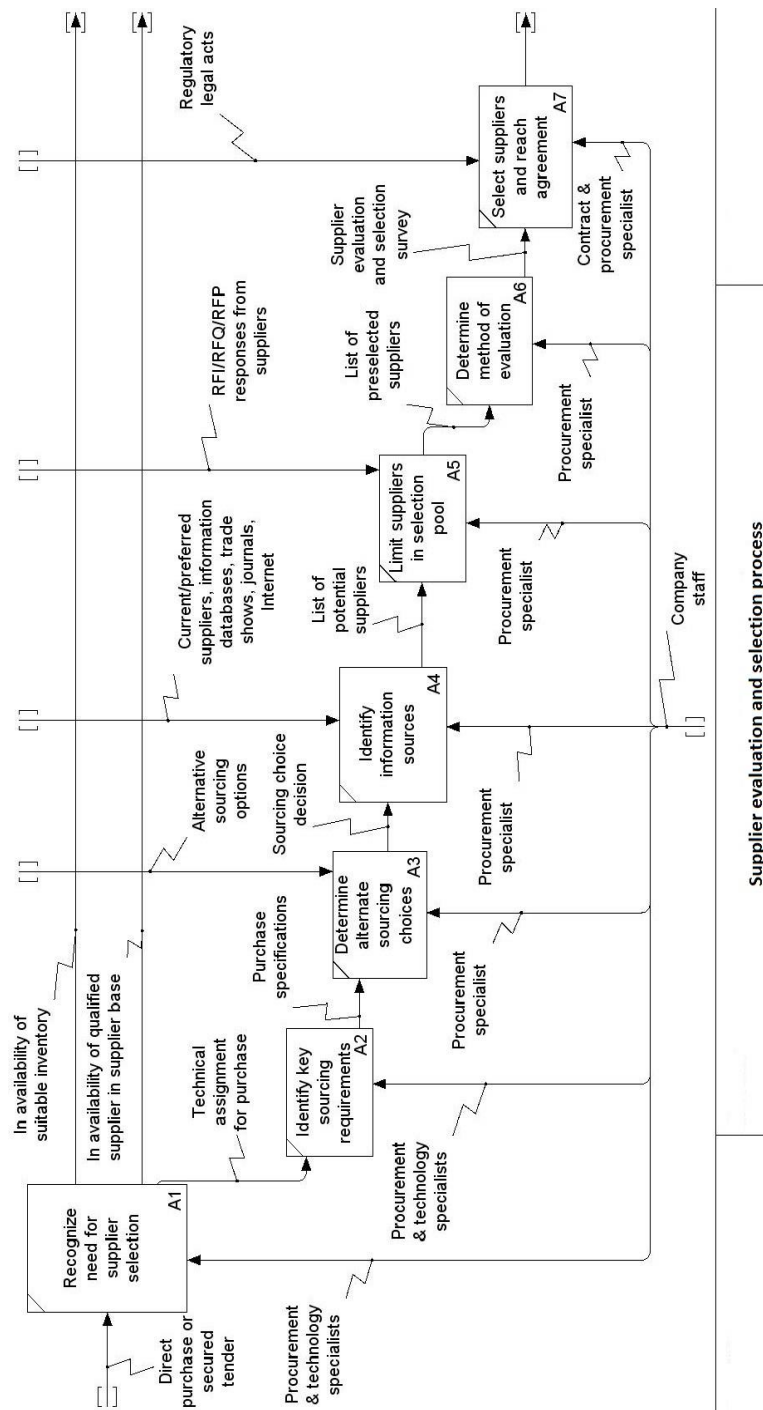


Figure 13: Map of supplier evaluation and selection process

Conclusion

The aim of the given research paper was to analyze the reasonability of horizontal diversification in a given case company, and to develop principles and instruments that the company can apply in its supplier evaluation and selection process. Using numerous books and scholarly articles, theoretical base for the study was developed: major growth strategies, including the one chosen by the case company, were described, main approaches to strategic planning were identified. Besides this, authors of this thesis developed a plan to analyse company's operating environment, resources and capabilities. Assisting the authors of this thesis was also a supply management theory base, which did not only present a general overview of the whole procurement cycle, but also a more detailed description of its supplier evaluation and selection stages, and tools that can assist the procurement personnel at these stages.

In the empirical part of the given study, analysis of the case company, proposed diversification strategy, and its external environment was conducted. It has shown that there are significant favorable preconditions pertaining to the proposed strategic decision. For instance, it has shown that the market of electrical engineering has shown strong growth in the last few years. Together with legislative measures to support SMEs and increase their participation in government contracts, market growth creates a lot of opportunities for growth. However, there are also factors that are against the proposed strategy. For example, there is a strong player on the market of electrical engineering in Saint Petersburg.

Besides the analysis, the authors of this thesis developed two tools to assist the company personnel in supplier evaluation and selection process: supplier evaluation and selection survey analysis template, and supplier evaluation and selection process map. Should the company decide to undergo horizontal diversification, these tools will help to conduct the process more efficiently.

Having conducted this study, the researchers have come to a conclusion that the strategic decision of diversification is reasonable considering the favorable factors of the operating environment, availability of resources and possession of core competencies.

Discussion

The given research paper has analyzed various factors affecting company's operation and the proposed strategic decision. Besides this, two tools for supplier evaluation and selection process were developed. As for further research suggestions, a more detailed study could be performed, which would aim to provide quantitative data related to the strategic decision.

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Appendices

Appendix 1

Interview questions

Could you characterize the electrical engineering market as stable?

Which changes occurred during last 10 years?

Is it hard to predict new market trends?

Which companies can enter the market soon?

Are there many new electrical-engineering companies offering the same services?

How the market of engineering is changing? What can you predict for the next few years?

Do you know your biggest competitors? Who are they? How they are different from your company?

Who are your customers? How do the customers take a decision to buy product or service? What do they expect from the service?

How does politics influence on the market? Are there any governmental incentives to support SMEs?

Have you noticed general decline in corruption? Do you see this issue as a factor that influence the business?

Do you think that taxes are high? Have you heard anything about governmental incentives to lower taxes for SMEs?

How does the crisis in Russia and exchange rate influence the company?

Do you purchase any equipment abroad?

Is the number of customers increasing or decreasing? Why is it so?

Are you satisfied with the quality of equipment produced in Russia? How the quality is changing? Have you noticed any improvements or deteriorations?

How often do the company get governmental contract? Do you know about new law that increases the quota of SMEs in governmental purchases?

Are there any environmental laws, which restrict operations of the company?

Do other companies decrease costs because of large volume of production?

Is company well - known already or it needs to build new customer base?

Which costs are associated with positioning on the market?

Are costs on materials and equipment high?

Is company ready to switch the costs for attraction of new customers?

What share from all customers is loyal and work with the company more than 2 years?

Are there many suppliers of such an equipment in Russian and abroad?

Is there a threat of value added process from supplier?

Are there any substitutes of the materials and equipment?

Are there any substitutes of the services and products on the market?

Does the company have many competitors? Is it hard to differentiate the service?

Were there any quality issues or other contract-related litigation for the period of existence of the company?

How are you planning to advertise your services and products?

Which feedbacks do you get from your customers? Do customers advise your service to others?

Does the company have any long-term liabilities?

Has the company ever taken loan? Has it repaid the loan?

Is the business profitable? What growth in revenue is expected after adoption of diversification strategy?

Which resources does the company have? Could you distribute the categories (valuable, rare, difficult to imitate and organized around) among all resources?

What are the most important supplier performance categories?

If you had a total weight of 100 points, how would you distribute these points between each of the performance categories?