

National Technical University of Ukraine
«Igor Sikorsky Kyiv Polytechnic Institute»
Faculty of Management and Marketing
Department of Management of Enterprises

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Supporting lecture notes

*Recommended by the Methodical Council of Igor Sikorsky Kyiv Polytechnic Institute
study guide for master's students, specialty 073 "Management",
educational program "Management and Business Administration"*

Igor Sikorsky Kyiv Polytechnic Institute
Kyiv-2022

BUSINESS MANAGEMENT AND ADMINISTRATION

Business management and administration: Supporting lecture notes [Electronic resource]: study guide for students of the specialty 073 "Management" / Igor Sikorsky Kyiv Polytechnic Institute; comp. K.O. Boiarynova, M.O. Kravchenko, K.O. Kopishynska – Electronic text data (1 file: 24 MB). – Kyiv : Igor Sikorsky Kyiv Polytechnic Institute, 2022. – 367 p.

*Approved by the Methodical Council of the Igor Sikorsky Kyiv Polytechnic Institute
(Protocol № 5 dated 26.05.2022)
on the proposal of the Academic Council of the Faculty of Management and Marketing
(Protocol № 9 dated 25.04.2022)*

Electronic online educational publication **BUSINESS MANAGEMENT AND ADMINISTRATION** *Supporting lecture notes*

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The study guide covers the main provisions of business operation, management and administration, in particular the operation and management of the financial and marketing structure of the business, business administration, formation and selection of a business model, determination of operational efficiency of the business, building relations with stakeholders and improvement of commercial activity. The manual will contribute to students' assimilation of knowledge and practical skills in business management and administration, mastery of methods and tools for their improvement, and assessment of business efficiency.

Intended for master's degree holders in the "Management and Business Administration" educational program, specialty 073 "Management".

BUSINESS MANAGEMENT AND ADMINISTRATION

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CONTENT AND FIELD OF APPLICATION OF BUSINESS MANAGEMENT



- 1.1.** The content and elements of business management
- 1.2.** Features of business management
- 1.3.** Business system of the enterprise

THE CONTENT OF BUSINESS MANAGEMENT¹

DEFINITION

Management - management of human activities, management of business processes and direct business entities¹

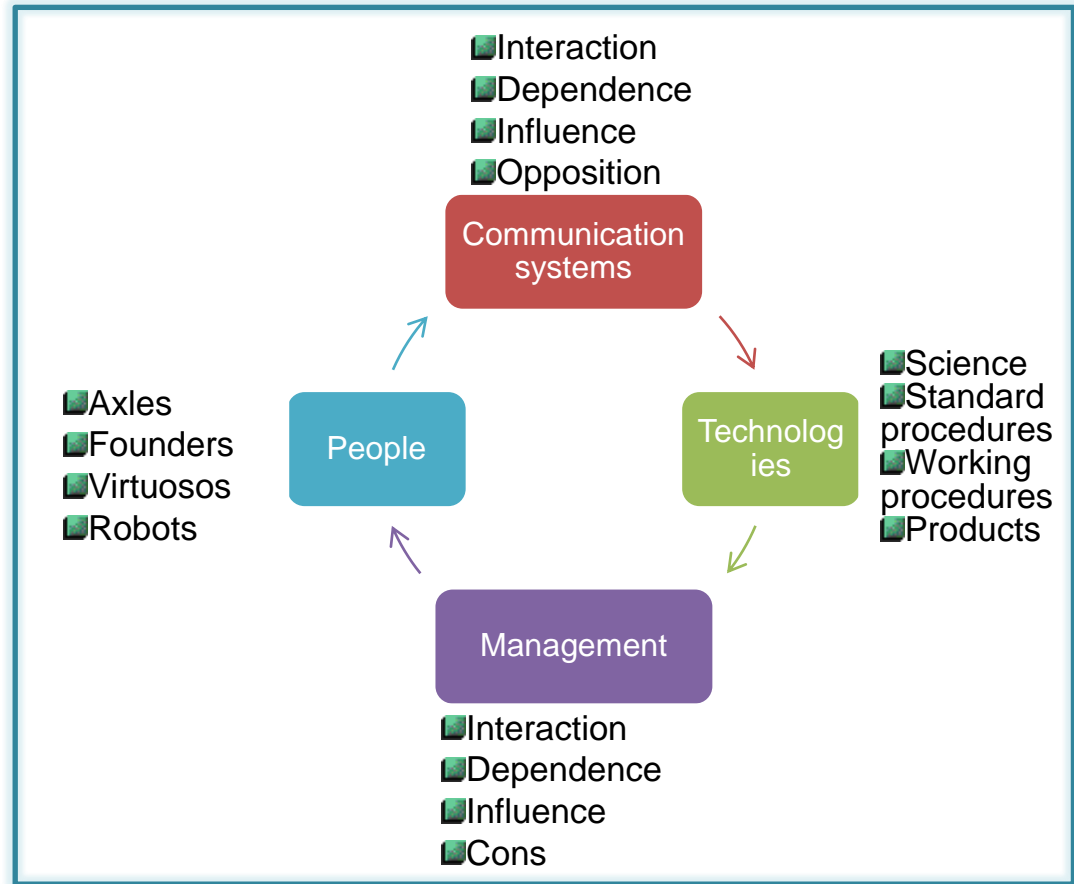
DEFINITION

Business - any commercial activity that brings profit¹

DEFINITION

Business management - a set of measures for planning, analytics and organization of business activities in order to achieve a positive financial result¹

Business working system²



ELEMENTS OF BUSINESS MANAGEMENT SYSTEM¹



① Objectives of management actions ^{1; 2}

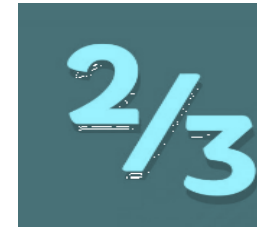
The goal of business is to simplify life, not complicate it. And it is the business that makes life as easy as possible, allows you to earn the most money.

Robert T. Kiosaki

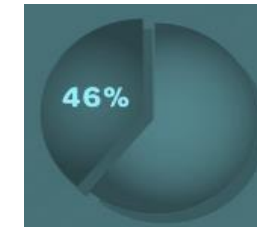
Business management is based on the gradual overcoming of the company's goals. In their absence, the whole system loses stability ¹

CATEGORIES OF GOALS ¹

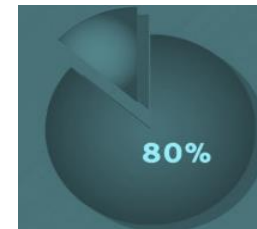
Categories	Essence
Main goals	Laid in the "foundation" of an organized enterprise management system
Minor goals	Implementation is not always real, but they accompany the production process and can be developed together with the main objectives of the enterprise



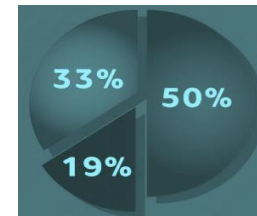
³
2/3 of top managers cannot name the main priorities of their business development



46% of companies review their goals and make changes to them during the year



More than 80% of small business owners do not track the achievement of goals



50% of senior executives, 33% of managers and 19% of employees update their goals during the year as business needs change

1. Business management as a single system: the history of the emergence of concepts, elements, goals, planning and control. UFC Expert: website. URL: <http://ufk-invest.ru/2586.htm>

2. Business management. Utmagazine website. URL: <https://utmagazine.ru/posts/9140-biznes-menedzhment>

3. Goals in business: 7 fatal mistakes that cannot be made. S 2 business tools: website. URL: <https://salesap.ru/blog/ceci-v-biznese/>

INCOMPATIBILITIES OF GOALS IN A BUSINESS ORGANIZATION (start) ¹

Subject	Goals	Subject
Goals of the owners	Different strategies. Disagreements about status or profit orientations. Difference in priorities: current or strategic profitability. Differences in the distribution of profits for different purposes. Different groups of owners.	Goals of the owners
Goals of the owners	Disagreements over the distribution of profits on new equipment or dividends to shareholders. Difference in priorities: capitalization or business development. Owners strain the business by saving on it. The owners do not know the business, make unrealistic demands on the business. The owner is interested in a certain client, which is unprofitable for the business. The owner closes the business.	Goals of business
Goals of the owners	The costs of management technology are not clear to the owners. Different ways of business development. The profit center is mine, the cost center is yours. Owners send their people to the leadership.	Goals of managers
Goals of the owners	Spend profits on dividends or salaries. Owners want great employees with low salaries. Working conditions and economy. Staff - stability, owner - change, reorganization	Goals of personnel

1. Dyatlov A.N., Plotnikov M.V. Business goals. ESM Economy. Sociology. Management: website. URL: <http://ecsocman.hse.ru/text/19158323/>

**INCOMPATIBILITIES OF GOALS IN A BUSINESS ORGANIZATION
(continue)¹**

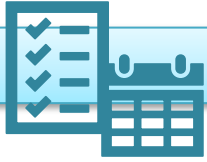
Subject	Goals	Subject
Goals of business	Deferred sales to some customers and profitability. Conflict between areas of business (through resources, customers). Wholesale trade competes with its own retail. Either growth or development of the customer base.	Goals of business
Goals of business	Business needs dynamics, and the leader is focused on stability. Business needs to be reorganized, but for managers it is an additional strain. Closure of some industries for the sake of profitability of the business as a whole. Managers divert resources from business for their own needs (increase in management staff, entertainment expenses, new office equipment). Career focus and business opportunities.	Goals of managers
Goals of business	Business requires skills, technological discipline, some workers resist. Personality lessness of staff as a brake on business development. Incompatibility of personality and function. Business requires funds for development, and staff - for social programs. Profitability of business implies layoffs.	Goals of personnel

1. Dyatlov A.N., Plotnikov M.V. Business goals. ESM Economy. Sociology. Management: website. URL: <http://ecsocman.hse.ru/text/19158323/>

INCOMPATIBILITIES OF GOALS IN A BUSINESS ORGANIZATION
(finish) ¹

Subject	Goals	Subject
Goals of managers	The struggle of the heads of various services for resources, statuses, powers. In-house competition for customers	Goals of managers
Goals of the owners	Managers seek to provide owners with profitability, subordinates demand higher wages. Spontaneous management and order requirement. Managers demand full commitment, staff work at a minimum	Goals of personnel
Goals of personnel	Private interest groups at the expense of others. Conflicts of interest between: earn and provide purchasing and trading units, innovators and conservatives	Goals of personnel

1. Dyatlov A.N., Plotnikov M.V. Business goals. ESM Economy. Sociology. Management: website. URL: <http://ecsocman.hse.ru/text/19158323/>



② Activity and results planning

Business development roadmap ¹

Like a business plan, a roadmap is a long look at where an organization is heading and how it will achieve its goals.

It differs from the typical business plan - visualization of the overall picture of business at the highest level ².

Business planning ²

Business planning at the enterprise - the process of developing a comprehensive plan of activities at the strategic or tactical level with a systematic description of the business as a purposeful activity to earn a profit.

This type of planning activity is based on the company's development strategy, covers all or part of the business, is the design of the business "from scratch" or its reorganization.

Production program ¹

What products should be produced?
To what extent to produce it?
How much manpower does it take?
How long does it take to produce?
What equipment will be used?
How much raw material will be spent?
What are the possible losses? ¹

Budget ¹

This is a financial program. It is important to understand what resources the organization has, from what sources it attracts them, and can meet its obligations ¹.

1. Business management. Utmagazine: website. URL: <https://utmagazine.ru/posts/9140-biznes-menedzhment>

2. The place of business planning in business activity. Pojectimo: website. URL: <http://projectimo.ru/biznes-planirovanie/osnovy-biznes-planirovaniya.html>



③ Organization of the business management process

DEFINITION

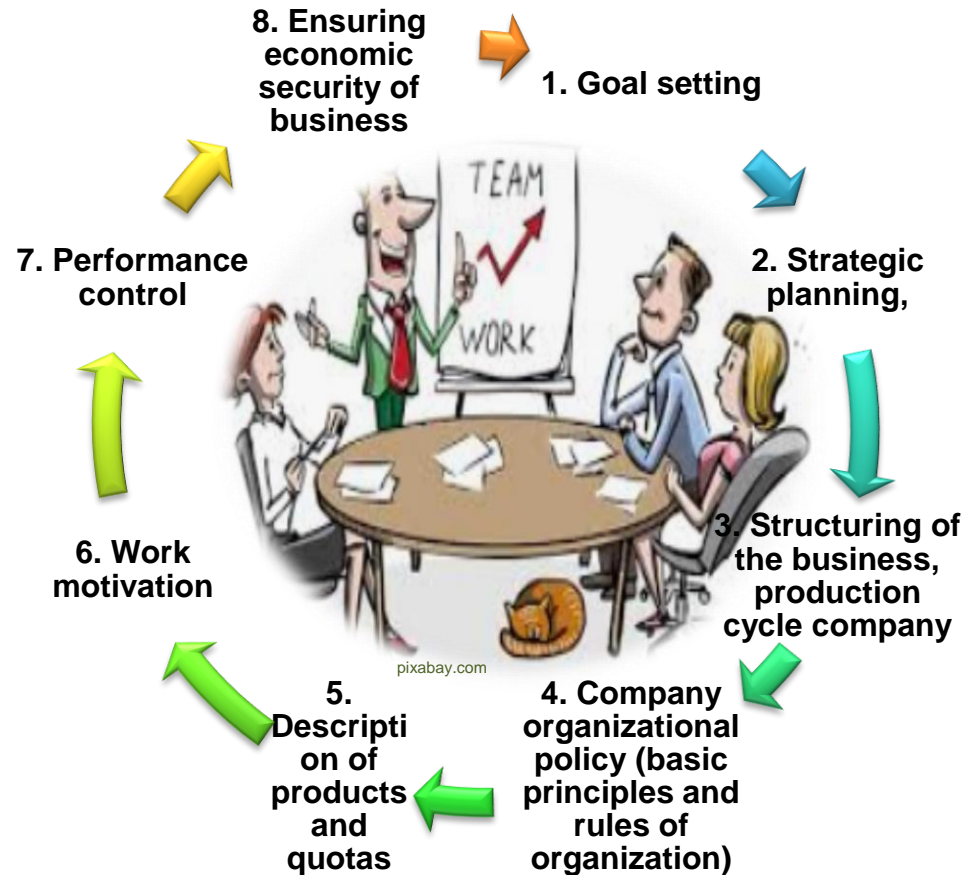
Organization of the business management process - implementation, building elements of regular management in business¹

Includes only those functions and actions that are related to the coordination and establishment of interaction within the organization, with the motivation to carry out production and other activities, with their target orientation¹

Factors influencing the organization business management process¹

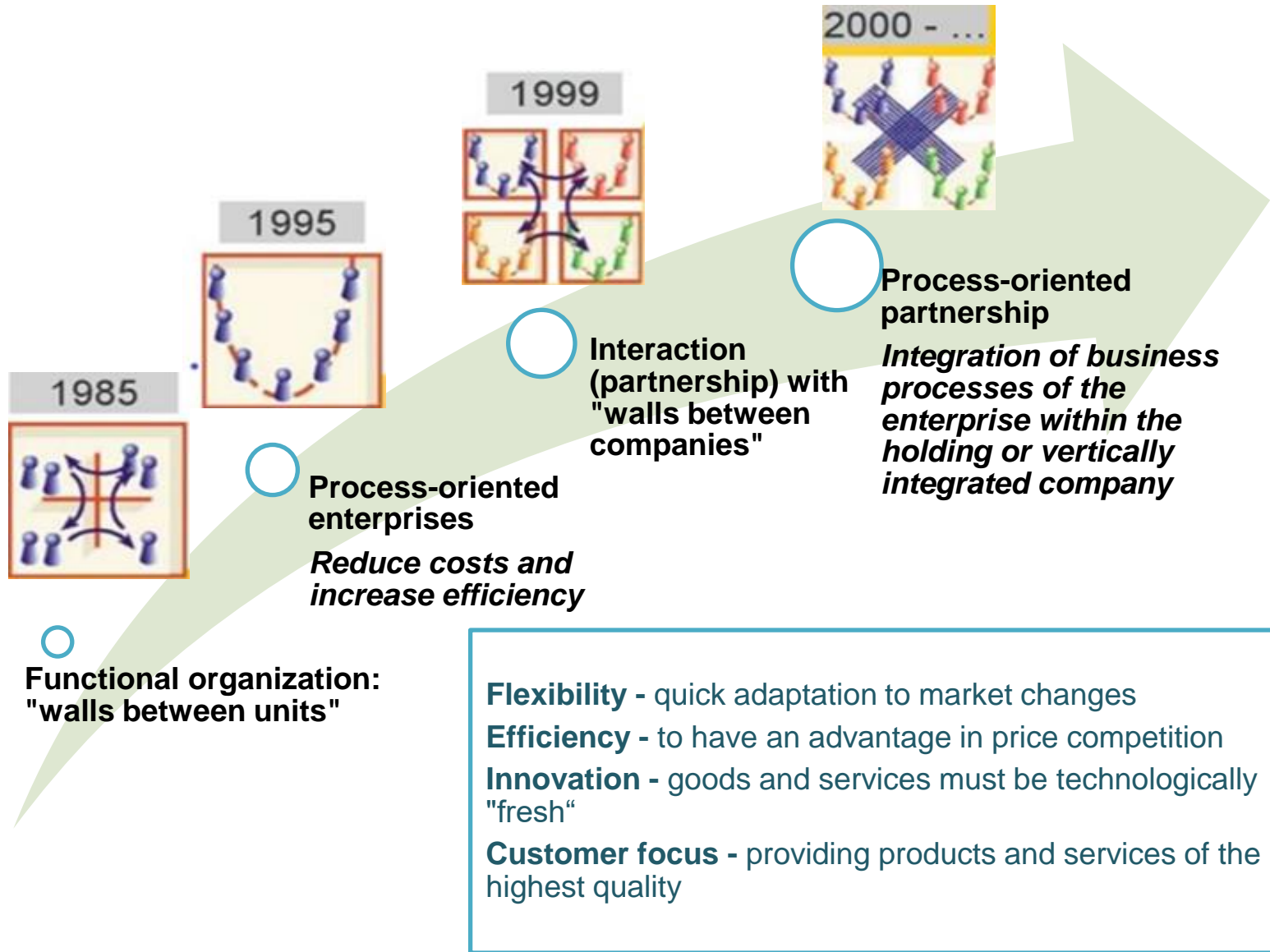
Factor	Example
Type of the business	Trade, construction or services
The size of the organization	Large, medium and small enterprises
The level of management hierarchy	Higher, medium or low level of management
A division within a business organization	Production, marketing, personnel, finance

Types of management activities for the organization of business management¹



1. Organization of the business management process. Business assessment, business diagnostics, anti-crisis management. URL: <http://ufk-invest.ru/2574.htm>

Evolution of business organization¹



1. A functional and process approach to enterprise management. Buh24 URL: <https://www.buh24.com.ua/funkczionalnyj-i-procenessnyj-podhod-k-upravleniyu-predpriyatiem/>



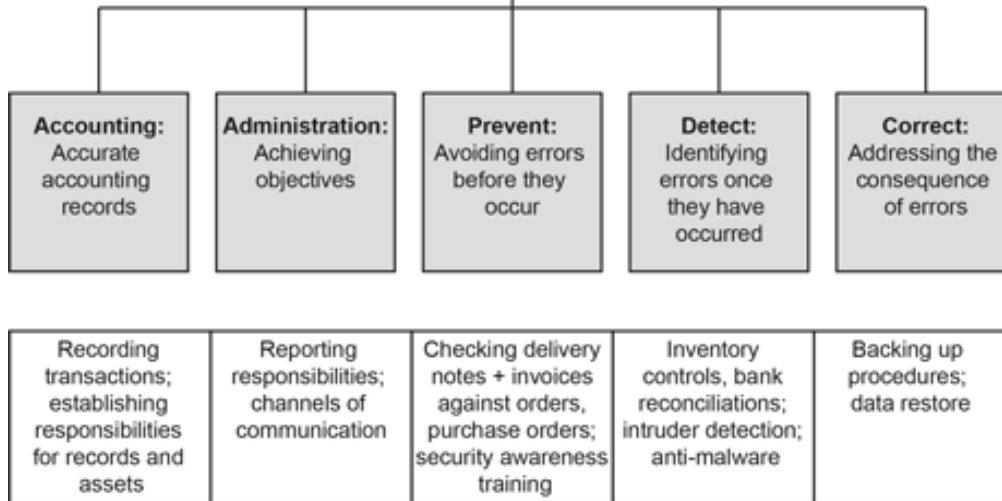
④ Control over the conduct of activities

Areas of control system¹

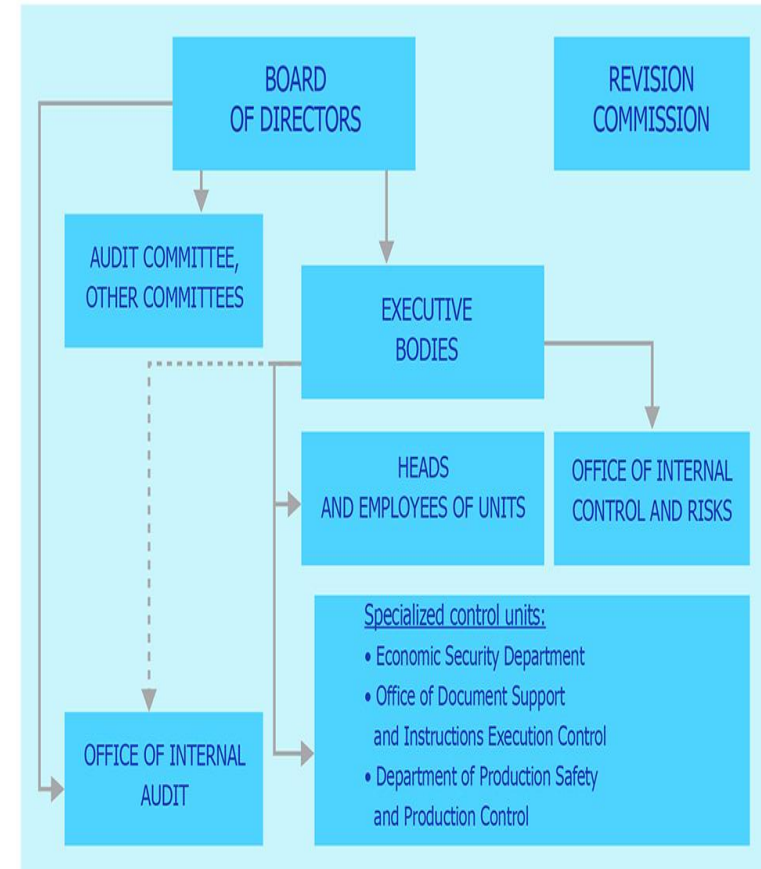
- Production process
- Marketing
- Costs and expenses
- Work with staff

Categories of controls³

Controls



Entities of internal control of the enterprise²



1. Business management as a single system: the history of the emergence of concepts, elements, goals, planning and control. UFC Expert: website. URL: <http://ufk-invest.ru/2586.htm>
 2. System of the Company's Internal Control. URL: <https://go2015.kubanenergo.ru/en/2016-05-26-16-09-16/sistema-vnutrennego-kontrolya.html>
 3. Internal controls. URL: <https://www.accaglobal.com/ca/en/student/exam-support-resources/fundamentals-exams-study-resources/f1/technical-articles/internal-controls.html>

Areas of control of business owners¹

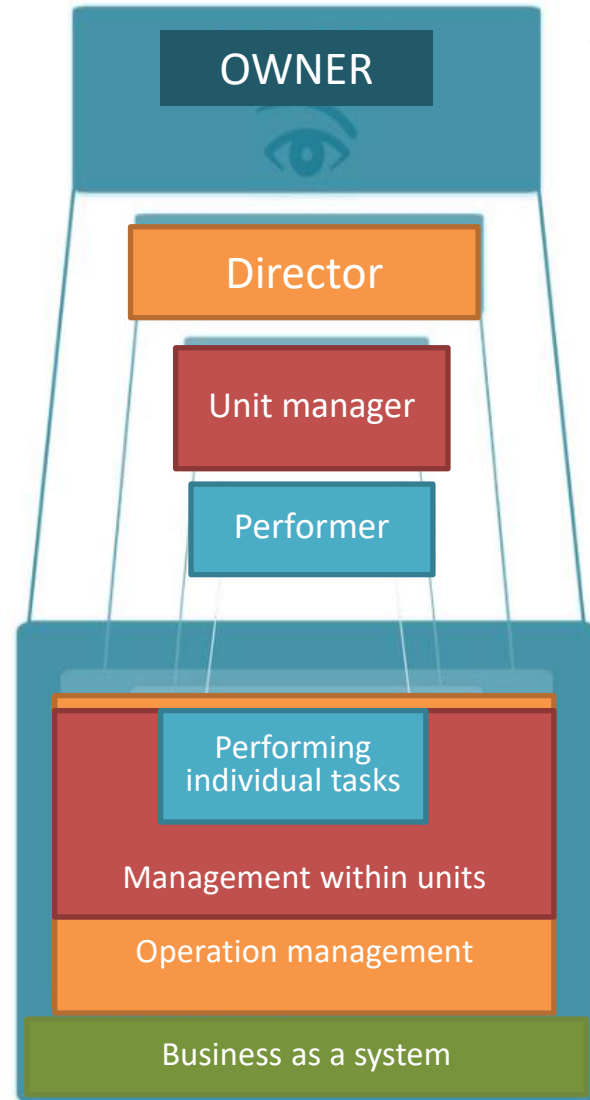
Control of the current state of the business

When the processes, procedures, actions of the business mechanism (or its separate directions) are adjusted, and results are stably forecasted (positive forecasts of business growth), the owner has an opportunity to transfer to the executive director "power" and to put on it responsibility for achievement of results. control function only ¹.

Control of the project status of the business

When it comes to project work that requires strategic decisions of the owner, as well as resources, budget and possibly a new conceptual approach, the business owner has neither the right nor the ability to transfer responsibility (and, consequently, risks) to someone for performance and results of such works. ¹.

Strategic goals



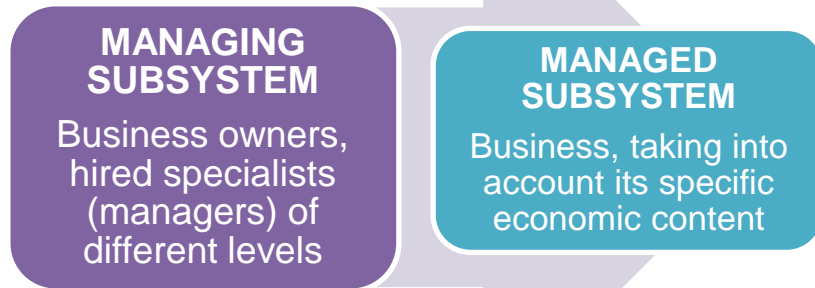
Key performance indicators at each level of the hierarchy

1. What and how the owner should control in his business. Ciab.expert: website. URL: <https://ciab.expert/ua/articles/chto-i-kak-vladelec-dolzhen-kontrolyrovat-v-svoem-biznese/>

DEFINITION

Business management - is the process of ensuring the purposeful influence of management entities on the activities and the system of relationships with the components of the external **environment** in order to achieve the goals¹

Components of the business management system¹



Systematic business management is management in accordance with the developed long-term strategy of continuous improvement, which includes a deep understanding of the company's goals, its place **in the market and response to external factors** ².

Operational business management - solving everyday management issues, meetings with management, subordinates and customers ².

Functional components of business management²

Component	Characteristics
Business management strategies	The highest level of management, dedicated to the identification and planning of general areas of business management aimed at achieving the mission and key strategic goals of the enterprise
Business management tactics	Functional group that identifies tactical approaches and techniques for implementing plans related to the implementation of business strategies
Implementation of business management	Functional group of the general business management system, which includes instructions (practical directions and solutions) and processes necessary for the implementation of tactical measures for business management

1. Orlova K.E. Theoretical foundations of business management. Global and national problems of the economy. 2017. Issue 17. P. 392-396.
 2. Lewinson M. Business management system – definition and functional groups. *MyManagementGuide*. URL: <http://www.mymanagementguide.com/businessmanagement-system-bms-definition-and-functional-groups>.
 3. Business management. Business school: website. URL: <https://www.u-b-s.ru/publikacii/upravlenie-biznesom.html>

ELEMENTS OF EFFECTIVE BUSINESS MANAGEMENT ¹

① Effective communication

Communication is necessary to achieve the best results, so you should make sure that all employees receive the same messages. Direct communication is the most effective way, which not only makes the message clear, but also creates a sense of trust, responsibility and belonging to the employee, which allows him to achieve better results.

② Timely brainstorming

In large companies, with a hierarchical management system, brainstorming is done at different levels in the form of mini-teams, and then ideas are discussed with senior management.

In a small business, an entrepreneur can arrange a meeting with all employees and get an idea of the specific situation.

③ Dynamic environment

Any business that is at rest in an ever-changing environment cannot count on developing or maintaining the same market position it originally had, because adapting to the latest trends helps it move forward and cope with customer or end-user requirements.

Businesses need to adapt to change.

④ Power and Responsibility

Business can only be effective if there is an appropriate delegation of authority and responsibility.

A balance or balance between "power" and "responsibility" must be maintained.

1. Orlova K.E. Theoretical foundations of business management. Global and national problems of the economy. 2017. Issue 17. P. 392-396.
2. Lewinson M. Business management system – definition and functional groups. *MyManagementGuide*. URL: <http://www.mymanagementguide.com/businessmanagement-system-bms-definition-and-functional-groups>.
3. Business management. Business school: website. URL: <https://www.u-b-s.ru/publikacii/upravlenie-biznesom.html>

ELEMENTS OF EFFECTIVE BUSINESS MANAGEMENT ¹

⑤ Effective planning

The best way to run a business efficiently is to plan effectively. You can easily do this by planning a specific business strategy.

Planning processes can lead to increased productivity, quality and efficiency of important business tasks.

⑥ Teamwork

Business efficiency is determined by the actions of employees and managers.

All team members work together to achieve one goal. This is possible only with cooperation, absolute understanding, fruitful communication and a positive atmosphere in the team.

⑦ Resource management

There are four main resources in business - people, materials, money and equipment. These are the most important resources that any organization should not only own, but also make optimal use of. Business starts with the proper use and allocation of finances and cost management.

⑧ Equipment or technology

For any business to survive in the long run, an important factor is to upgrade equipment and production technology by training employees in the light of changing market trends. It is important to be a pioneer, as this will help the business to take a leading position in the market and create a benchmark for other organizations in the industry.

DEFINITION

A business management system is a set of tools for planning and implementing policies, practices, manuals, processes and procedures used in the development, deployment and implementation of business plans and strategies, as well as all related management activities.¹

Angle «Goals»

Determines the long-term direction of the company ("Where are we going?") Current state of business ("Where do we plan to come?") Desired business status ("Why" do we need there?)

- *If the goals of employees coincide with the goals of the company, they will work to achieve the goals without additional incentives*
- *If the goals are unknown to the employees, the employees will not work effectively for the unknown*
- *If goals are not defined, then building processes will be premature²*

Angle «Processes»

It is necessary to focus on long-term goals. Determined by the questions:

- *"What" do you need to do to achieve your goals?*
- *"How" you need to solve the tasks?²*

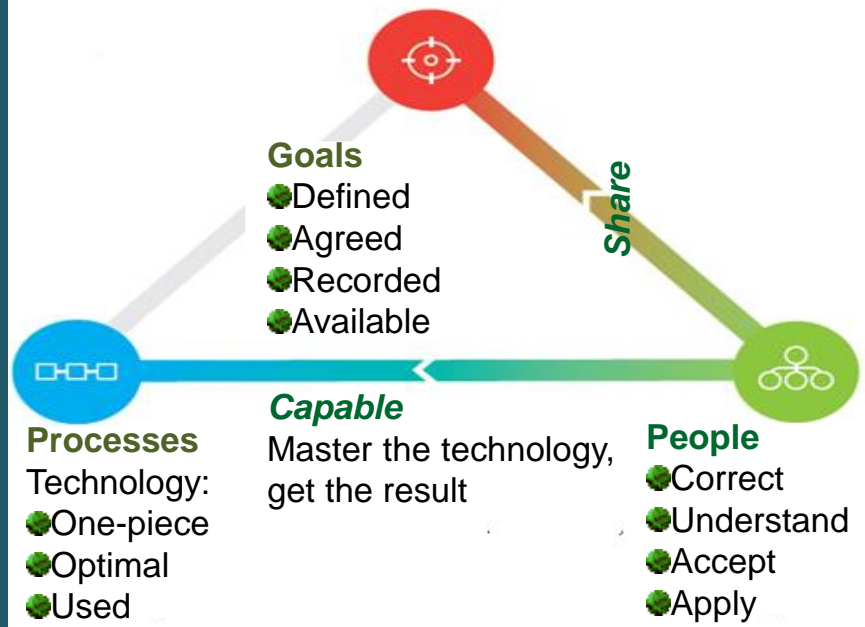
Angle «People»

Focus on the main issue –

- *"Who" are those people who are able to move towards common goals?*
- *"Who" will be able to use the given standard processes to regularly achieve the set goals?²*

TOPIC 1

Business management system model²



The business management system model has three equivalent angles.

The skew at any of the corners makes the system unstable and requires management action to align².

1. Black's Law Dictionary, 2nd ed. — St. Paul: «West Publishing Co.», 1910. 1314 p.
 2. Luchkov V. Business management system. Viktor Luchkov School of Systemic Approach. URL: <https://victorluchkov.ru/articles/sistema-upravleniya-biznesom/>

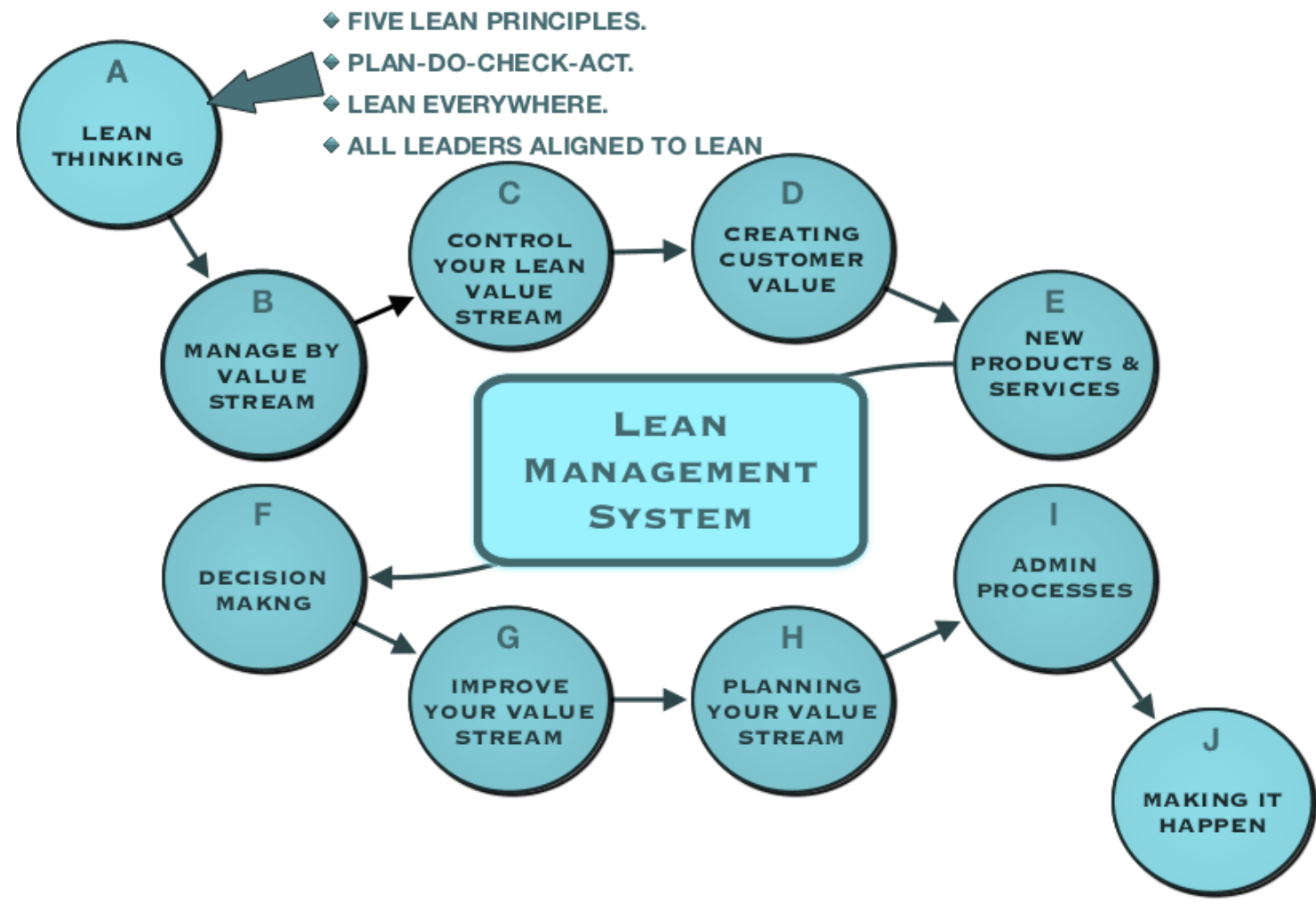
Levels of development of the business management system¹

Levels of development	Management method	Criteria
0	Absent	The business process is absent or chaotic on a residual basis
1	Response method	Management is carried out on the principle of "reacting to the problem". There is no performance standard. There are no performance criteria or key performance indicators. There are no improvement goals
2	System management	There is a documented approved standard for doing business processes. There are key performance indicators. The results of business processes are regularly analyzed. Based on the results of the performance analysis or periodic improvement tasks are set, usually in the form of corrective measures aimed at eliminating inconsistencies
3	Continuous improvement	There is a documented approved standard for doing business processes. There are key performance indicators, they are documented. The results of business processes are regularly analyzed by key indicators. Goals are set systematically. Work is underway to improve business processes.
4	Best practice	Processes are performed in accordance with industry best practices and standards. As evidenced by the relevant certificates

1. Maturity levels of the business management system. Active System: website. URL: <https://aktiv-sistema.com/blog/2016/02/urovni-zrelosti-sistemy-upravleniya-biznesom/>

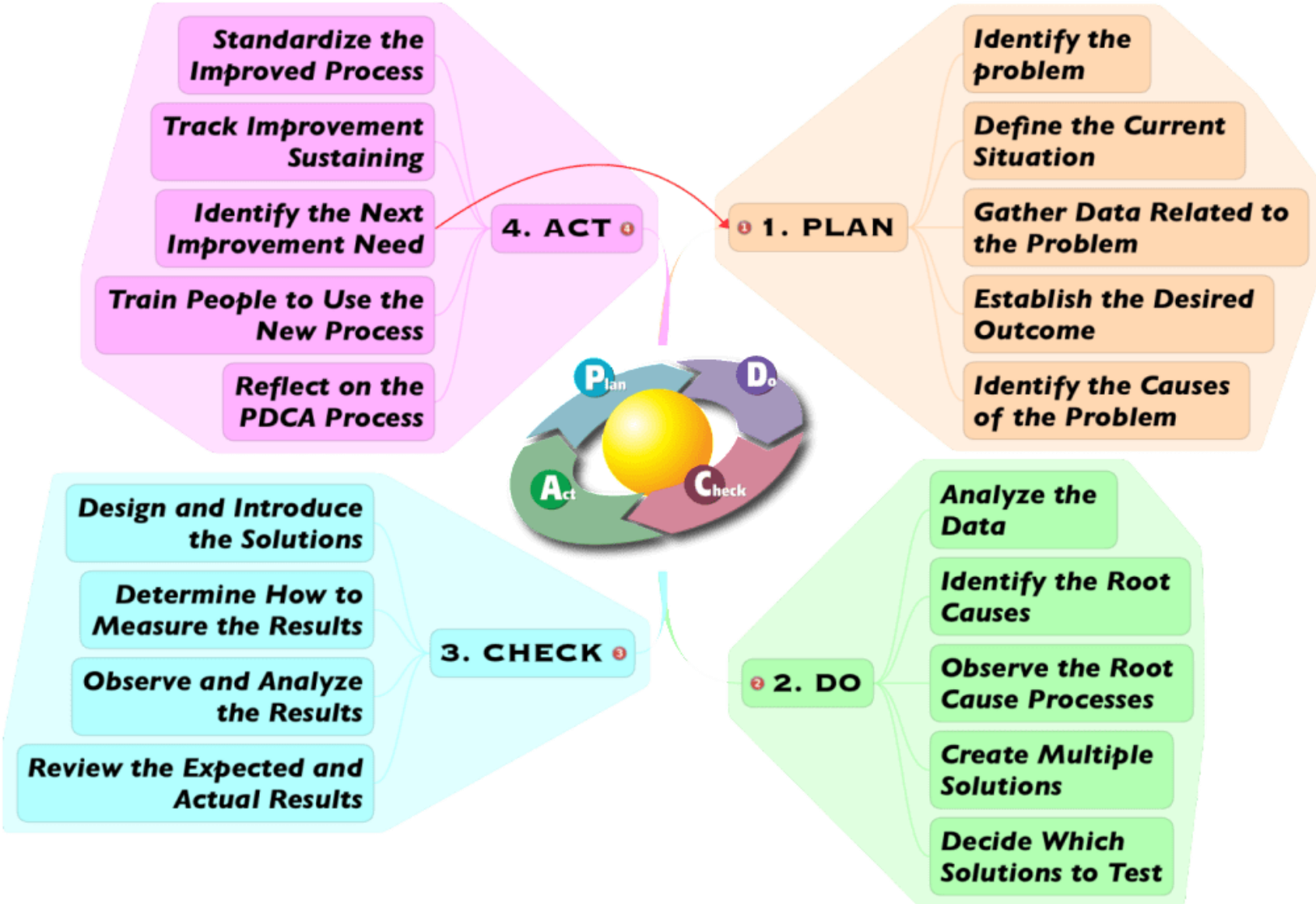
BUSINESS MANAGEMENT SYSTEMS ¹

Lean Management System¹



1. Succeeding With Lean When You Don't Know Nothin'. URL: <https://opexsociety.org/body-of-knowledge/succeeding-with-lean-when-you-dont-know-nothin/>

Lean Management System ¹



1. Succeeding With Lean When You Don't Know Nothin'. URL: <https://opexsociety.org/body-of-knowledge/succeeding-with-lean-when-you-dont-know-nothin/>

Total quality management (TQM)

Total quality management (TQM) refers to the managerial and technological methods to achieve quality requirements and business objectives throughout an entire organization¹.

Benefits of TQM

- Reduce risk and mitigate risk when designing new products and processes
- Resolve problems before they occur
- Resolve problems that occur during operations
- Improve supplier performance
- Control processes to avoid risk even when scaling up
- Increase productivity of all employees
- Reduce the total cost of quality not just the costs of poor quality of products¹.



1. What Is Total Quality Management?. URL: <https://www.juran.com/blog/what-is-total-quality-management/>

Six Sigma

Business management system, which aims to minimize the likelihood of deviations (defects) in their activities ¹.

Six Sigma is divided into two main methodologies ² :

- DMAIC — Define, Measure, Analyze, Improve, Control. This method is used to improve existing processes that currently fall below quality standards and need to be corrected.
- DMADV — Define, Measure, Analyze, Design, Verify.



<https://www.softexpert.com/ru/solucao/six-sigma/>

1. Business management. Business school: website. URL: <https://www.u-b-s.ru/publikacii/upravlenie-biznesom.html>
2. Soroko V. M. Functioning and development of the quality management system: teaching method. Materials. K.: NADU, 2013. 80 p.

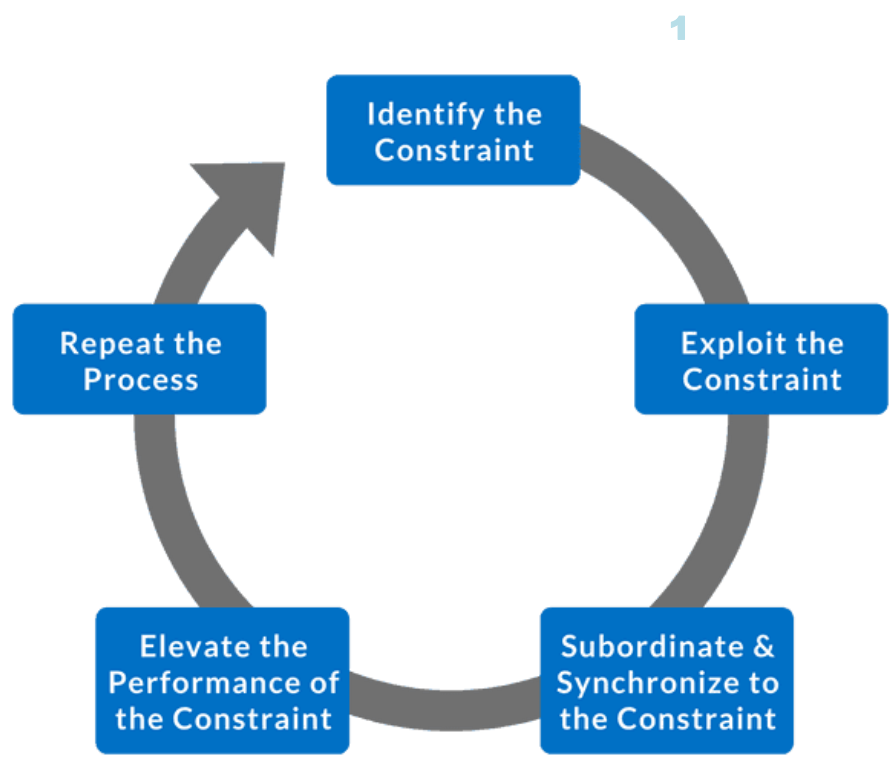
DMAIC cycle, Six Sigma Project Management Roadmap¹



1. Six Sigma In Project Management – Definition, Cycle, Success Factors. URL: <https://mymanagementguide.com/basics/six-sigma-project-management-definition-cycle-success-factors/>

Theory of Constraints (TOC)

The Theory of Constraints is a methodology for identifying the most important limiting factor (i.e., constraint) that stands in the way of achieving a goal and then systematically improving that constraint until it is no longer the limiting factor. In manufacturing, the constraint is often referred to as a bottleneck. ¹



The Five Focusing Steps ¹

Step	Objective
Identify	Identify the current constraint (the single part of the process that limits the rate at which the goal is achieved).
Exploit	Make quick improvements to the throughput of the constraint using existing resources (i.e., make the most of what you have).
Subordinate	Review all other activities in the process to ensure that they are aligned with and truly support the needs of the constraint.
Elevate	If the constraint still exists (i.e., it has not moved), consider what further actions can be taken to eliminate it from being the constraint. Normally, actions are continued at this step until the constraint has been "broken" (until it has moved somewhere else). In some cases, capital investment may be required.
Repeat	The Five Focusing Steps are a continuous improvement cycle. Therefore, once a constraint is resolved the next constraint should immediately be addressed. This step is a reminder to never become complacent – aggressively improve the current constraint...and then immediately move on to the next constraint.

TOPIC ② 1

1. Theory Of Constraints (Toc). URL: <https://www.leanproduction.com/theory-of-constraints/>

DEFINITION

A **business system** is a whole set of business processes implemented by an organizational unit to achieve its strategic goals¹



Designed to harmoniously combine all the components of the organization and the interrelated stages of joint work to achieve business strategy¹



In a broad sense: any economic, administrative, organizational and other system that operates in market conditions in order to obtain the maximum possible benefit¹



Covers¹:

- The whole organization (in this case we are talking about the organizational model)

- A separate part of the organization (for example, the personnel system for finding, selecting and hiring new employees)

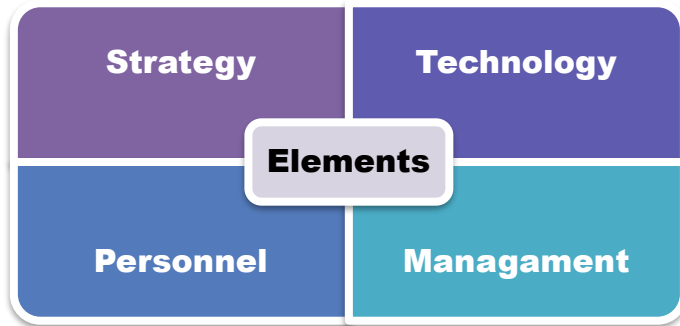


Factors of business system implementation¹

Component	Characteristics
Increase productivity	Part of the business system is the development and implementation of strategies, business processes and strategic planning in the organization. These elements allow not only to clearly define goals, but also to optimize the tools to achieve them
Satisfaction of customer expectations	If the company uses a systems approach, it will be able to measure, compare and analyze all customer needs. The business system is the key to improving the brand that an organization designs, including customers, employees and suppliers
Consistent results	The business system is designed to provide efficient, effective and regular results, eliminating duplicate, conflicting and unnecessary transactions
Employee involvement	The purpose of the business system is to provide training, opportunities for the implementation of creative ideas to increase the personal interest of staff. Its presence allows you to quickly integrate new employees
Reduce costs and increase profits	The business system allows you to reduce costs without "cutting" costs, which usually occur to the detriment of product quality or service level

1. What is a business system and why is it needed? Discovered. About finances and not only. URL: <https://discovered.com.ua/business/chto-takoe-biznes-sistema-i-dlya-chego-ona-nuzhna/>

KEY ELEMENTS OF A BUSINESS SYSTEM ¹



Technology

Technology - a set of different methods and processes in a particular area of the system to achieve the projected result ¹.

In fact, technology turns available resources (entry point) into acceptable results (exit point) ¹

It should be taken into account¹ :

- 1 Factors of external and internal environment of the organization
- 2 Available resources
- 3 Adjustments for maximum efficiency

Personnel

The staff of the organization launches the technology of the business system ¹.

It is important not only that competent staff selection is carried out, but also that appropriate work is carried out with employees ¹.

Management

Management is designed to ensure the correct functioning of technology at the business system level ¹

Strategy

The business system should be built on strategy, not the other way around. The attempt to build a business system based on "curved" business processes ends in failure ¹.

The strategy is a sound program of business improvement in four key areas ¹ :

- 1 Competitive advantages
- 2 Organizational transformations
- 3 Financial optimization
- 4 Operational improvements

1. What is a business system and why is it needed? Discovered. About finances and not only. URL: <https://discovered.com.ua/business/chto-takoe-biznes-sistema-i-dlya-chego-ona-nuzhna/>

ADVANCED ELEMENTS OF BUSINESS SYSTEM ¹



3
TOPIC
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1. Nemirovskiy I. Efficient Business System: code of profitable growth. NEMIROVSKY&STAROZHUKOVA. Strategy consulting: website. URL: <http://beleader.com.ua>

TYPES OF BUSINESS SYSTEMS ¹

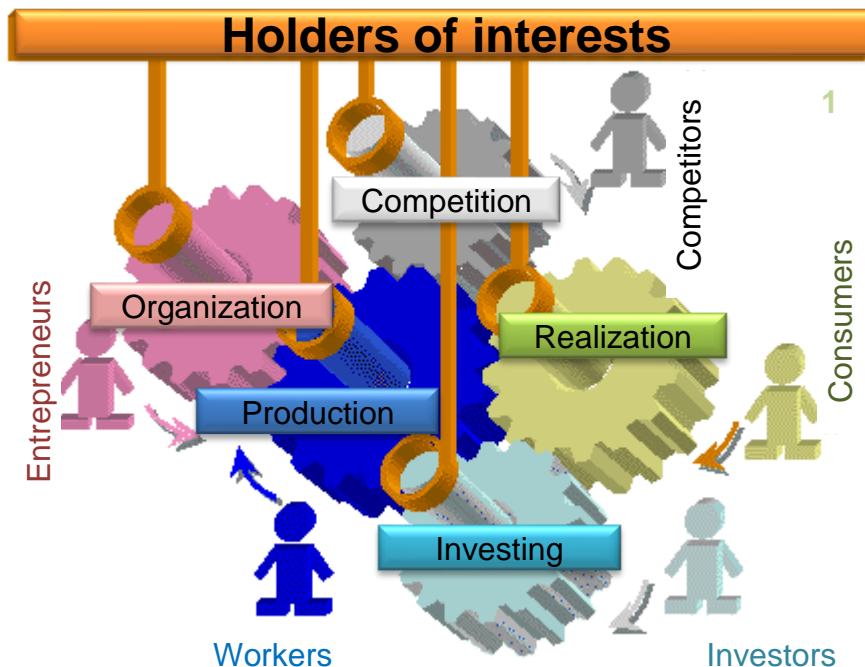
The business system must be considered as a system of relations between entrepreneurs, employees, investors, competitors, consumers of products of a commercial enterprise and third parties. ¹

In mutual relations, the participants of the business system determine the price of their participation in the activity of a commercial enterprise. A commercial enterprise can take place only if an agreement is reached. ¹

Stakeholders - owners of interests who have sufficient opportunities to influence the conditions of operation of a commercial enterprise ¹.

Their interest in one way or another is manifested in the desire to participate in the distribution of his profit. ¹

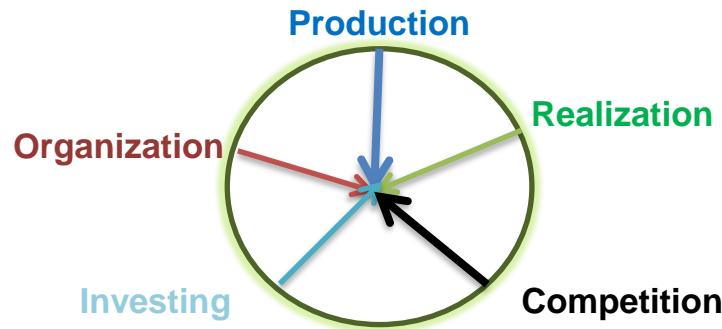
Participation of stakeholders in the distribution of the company's profit ¹



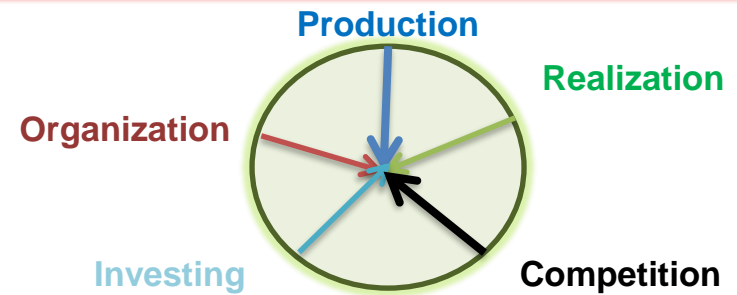
Component	Characteristic
State	Influences business conditions in order to increase revenues to the budget
Trade unions	Taking measures to increase deductions from profits to improve the working conditions of employees (including the conditions of material remuneration)
Local government bodies	Large deductions from the enterprise's profit for maintaining order in the district and its development.

1. Efremov V.S. Business systems of post-industrial society. Management in Russia and abroad. 1999. No. 5. URL: <https://www.cfin.ru/press/management/1999-5/01.shtml>

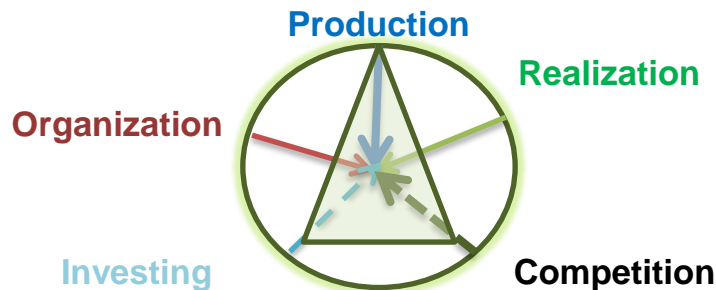
Coordinate space for determining the type of business system ¹



Profile of the business system of the "insourcing" enterprise, internally closed type ¹



Business system profile of a production-type enterprise ¹



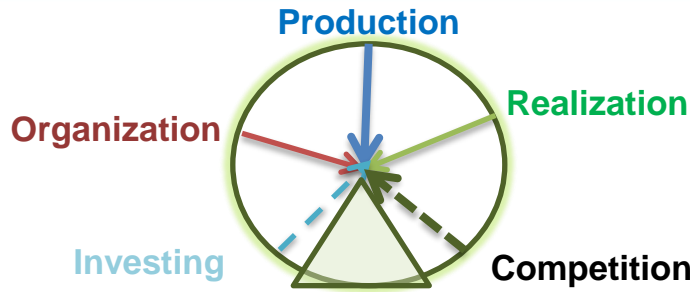
The company specializes in key functions - investment, production, ensuring competition

- Extremely complex processes of organization and management of production of products in conditions of minimal supplies of materials and components
- Mass guaranteed sales of products
- Low level of competition both in the markets of production factors and in the markets of goods and services
- Simple forms of investment attraction for development

DEFINITION

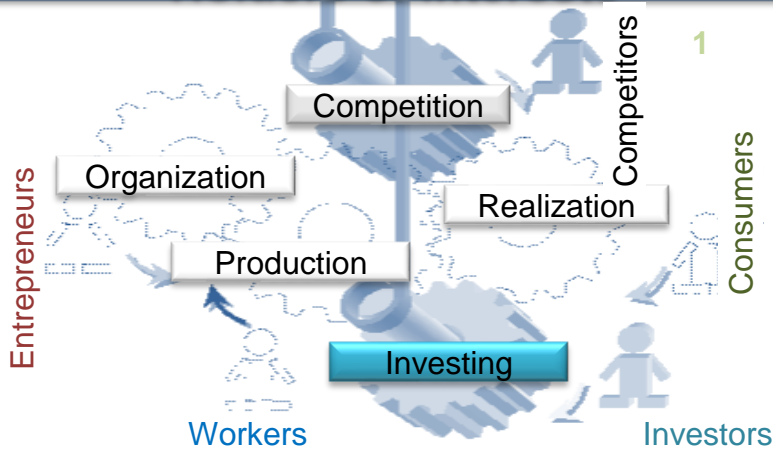
Insourcing - the use of internal sources to ensure the normal course of a single production process as a whole ¹

Business system profile of a "hollow" type enterprise ¹



All production functions (design of the final product, design and technological development, preparation of the production process, implementation) are transferred on a contractual basis to third-party organizations, which receive for their part of the work the equivalent of the costs incurred by them and the corresponding profit.

3 Holders of interests



1

The company is called "hollow" because the boundary between the external and internal environment is virtually absent. These environments are entirely and completely formed according to the laws of the market, in contrast to classical firms, where the internal environment is subject to intra-firm laws that are under the influence of administrative decisions. ¹

2

A "hollow" company does not add practically any value to the manufactured product, it only attracts investments for the production of products and assumes the costs associated with the competitive struggle. ¹

3

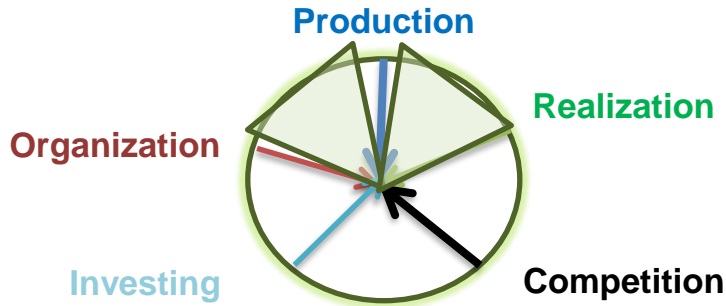
Bearing the transaction costs of someone else's business is the company's business. That is, the costs of transactions in the external economic environment. separate transaction costs (for example, related to marketing research, advertising, accounting, etc.). ¹

4

The emergence and successful functioning of a company is possible only in a certain economic environment. It requires not just the conditions of a market economy, but the contradictory conditions of a stable, saturated market with a developed institutional and infrastructure, uncertain demand for predictable products, but with a reasonable tax climate. ¹

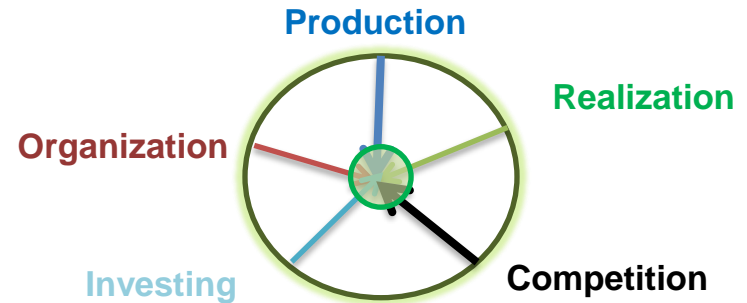
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Profile of the business system of an "outsourcing" type enterprise¹



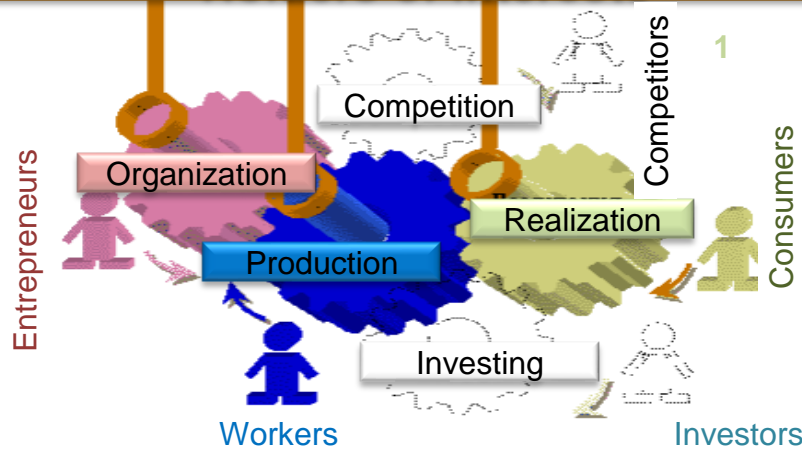
An outsourcing company is characterized by the presence of its own production, in which the business idea is realized and in which the excellent capabilities of this company are revealed, which is the basis of its competitive advantages. Outsourcing is carried out to reduce the enterprise's dependence on external investors and competitors.¹

Virtual enterprise business system profile¹

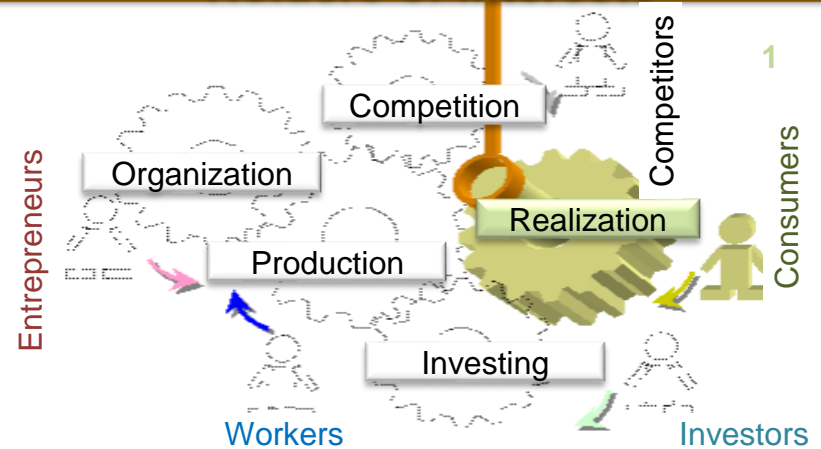


All elements of the business system of the virtual enterprise are connected to the system in the final consumer of the virtual product. The real processes of organization, production, sale of products, competition and investment do not flow. With the emergence of a consumer need, an organizational structure arises that generates a response to the need.¹

1 Holders of interests



1 Holders of interests



TOPIC 3 1

1. Efremov V.S. Business systems of post-industrial society. Management in Russia and abroad. 1999. No. 5. URL: <https://www.cfin.ru/press/management/1999-5/01.shtml>



The Nordson Business System



Nordson Business System, or NBS, - is a collected set of tools and best practices to drive sustained long term growth and performance. The NBS applies to all employees and touches every area of Nordson..

- **At the heart of the system** is continuous improvement. The company strives to improve in everything it does constantly.
- **The inner ring** illustrates the various processes in the company
- **The blue ring** shows that Lean Six Sigma practices can be applied to all processes, not just production.
- **The outer ring** shows that the NBS creates value for all key stakeholders - customers, investors, employees and communities.

BUSINESS ADMINISTRATION



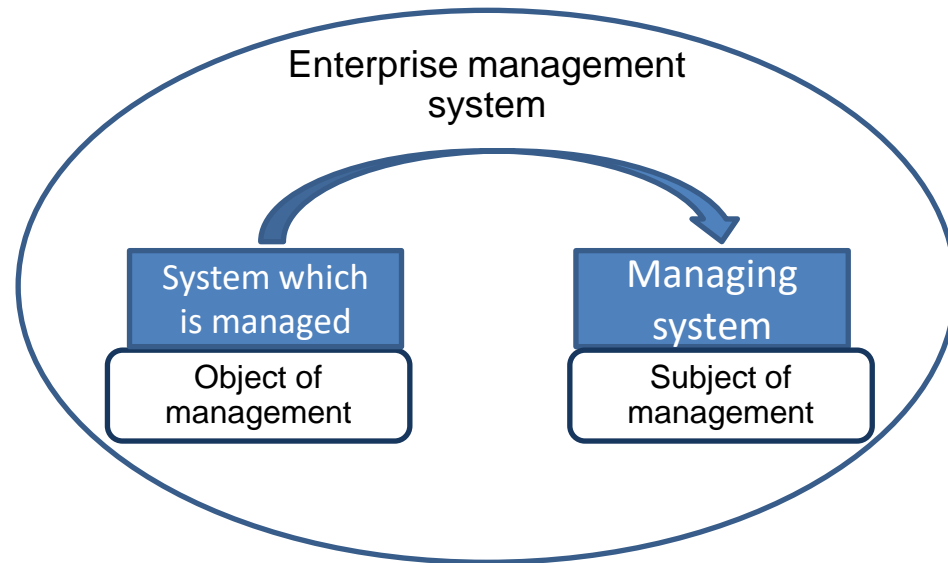
- 2.1.** Content, principles and functions of business administration
- 2.2.** Peculiarities of business administration

THE ESSENCE OF ADMINISTRATIVE MANAGEMENT

From the point of view of management, the activity of enterprises is a system that consists of economic, social, technical and organizational interrelated elements that act as components of such subsystems: the one that is managed (**managed**) and the one that manages (**managing**), that is, its object and subject of management.¹

The **effectiveness** of the management subsystem varies **depending on the goals** faced by the complex management system of the enterprise. Therefore, its structure should be changed in such a way that managerial work contributes to the maximum extent to a high level of efficiency, quality and sufficient purposefulness of the functioning of the managed object (and therefore the entire system in general).

Administrative management is a direction focused on optimization and high organization during the execution of tasks..¹



DEFINITION

Administrative management – this is a managerial activity that involves establishing and maintaining the standard parameters of the organization's functioning through clear formalization, strict regulation, control and regulation of the work team's activities aimed at solving external tasks, achieving target benchmarks, ensuring the stability of the organization in the external environment²

1. Stoyan K., Byhkalov K. Components of enterprise management systems. URL: http://confcontact.com/2014_04_25_ekonomika_i_menedzment/tom4/54_Stoyan.htm
2. Veleshchuk S. Conceptual approaches to the definition of functions and classification of administrative management methods. Efficient economy. No. 4, 2013. URL: <http://www.economy.nayka.com.ua/?op=1&z=1952>

THE ESSENCE OF ADMINISTRATIVE MANAGEMENT

The founder of the administrative school of management, A. Fayol, first distinguished the **administrative function of the organization** and defined its elements :¹

- Foresight,
- Organization,
- Ordering,
- Coordination,
- Control.

The **elements** of administrative management as a functional area of management include the following:¹

- ❑ management of the organization;
- ❑ regulation of activity;
- ❑ order;
- ❑ regulation of the development and solution of tasks by management specialists;
- ❑ information provision of organization management processes;
- ❑ control of the organization's activities.

The purpose of administrative management

The goal of administrative management is to provide administrative support for the achievement of the organization's prospective benchmarks¹

Subject of administrative management

The subject of administrative management can be defined as the mechanism of administrative activity in the field of management from the design of administrative and management technologies, the construction of rational management structures and the formation of administrative relations that involve employees in the implementation of the mission and goals of the organization¹

1. Veleshchuk S. Conceptual approaches to the definition of functions and classification of administrative management methods. Efficient economy. No. 4, 2013. URL: <http://www.economy.nayka.com.ua/?op=1&z=1952>

FUNCTIONS OF ADMINISTRATIVE MANAGEMENT

DEFINITION

Function is a separate type of professional activity that fully and comprehensively reflects the essence and content of the processes that are carried out and form the system of operating mechanisms of the organization.¹

Among the main characteristics of management functions, the following can be distinguished: homogeneity of the content of works performed within the framework of one management function; the target orientation of these works; a separate set of performed tasks.

The main and most significant **functions of administrative management** should include: design, organizational, managerial, executive and control functions.¹

Design function

It involves determining the directions of the organization's development, implementing a purposeful sequence of actions regarding the synthesis of systems or its individual components.¹

Organizational function

It is aimed at organizing and maintaining a rational structure for the purpose of rational and balanced activity of the organization's divisions¹.

Managerial function

It is focused primarily on achieving the set goal, ensuring sustainable functioning and development of the organization¹.

Executive function

Ensuring the effective performance of activity tasks aimed at the realization of defined goals and set goals¹.

Control function

It provides quantitative and qualitative assessment and accounting of the results of the organization's activities and acts as feedback, as previously adopted decisions, plans, as well as norms and standards are adjusted based on the results of control.¹

1. Veleshchuk S. Conceptual approaches to the definition of functions and classification of administrative management methods. Efficient economy. No. 4, 2013. URL: <http://www.economy.nayka.com.ua/?op=1&z=1952>

FUNCTIONS OF ADMINISTRATIVE MANAGEMENT

The main tasks of administrative management functions ¹

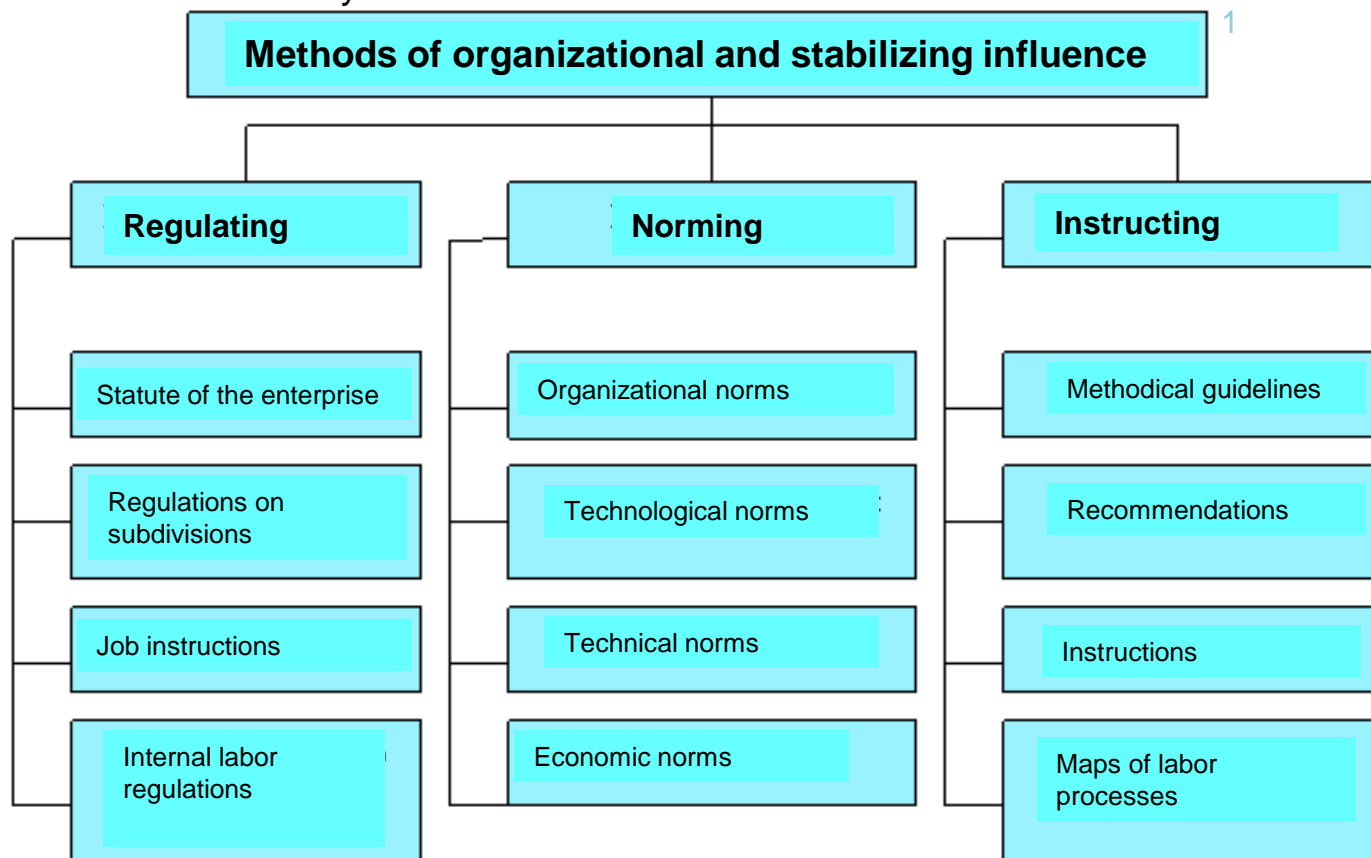
Functions of administrative management	The main tasks of implementing the function
Design	1. Organization of the development of documents defining the standards, types, directions of the organization's activities. 2. Development of the project of founding documents 3. Formation of the organization's development strategy. 4 Development of the organization's activity programs. 5. Development of internal labor regulations, collective agreement, job instructions. 6. Establishment of organizational, economic, technological, technical and ethical norms and standards.
Organizational	1. Formation of the organizational structure and the structure of the administrative service. 2. Distribution of powers, duties and responsibilities between structural units. 3. Establishment of forms of relations of the administrative service with other structural subdivisions 4. Formation of personnel policy. 5 Organization of staff support, forms and methods of working with personnel. 6. Organization of information and communication support for the organization's activities. 7. Determination of the content of works by performers. 8. Organization of work with documents in the document circulation of the organization. 9 Formation of the corporate culture of the organization. 10. Organization of ensuring the conditions of effective and safe work at workplaces. 11. Organization of events with the participation of the manager.
Managerial	1. Organization of management procedures. 2. Adjustment of activity goals. 3 Development of current and operational plans for the organization and structural divisions; personnel work plans based on the list of works. 4. Development and approval of work schedules and deadlines. 5 Formation of the information and communication infrastructure of the organization. 6 Regulation of information and analytical work; 7. Conducting effective communicative interaction.
Executive	1. Implementation of information and analytical support of the organization and its structural divisions. 2. Ensuring compliance with legal norms and powers in economic activity. 3. Defining and documenting interaction between works. 4. Identification and determination of the sequence of works. 5. Ensuring the effectiveness of tasks. 6. Maintenance of organizational and administrative documentation. 7. Creation of an effective system of labor relations. 8. Implementation of measures to strengthen labor and production discipline 9. Ensuring timely submission and preparation of reports on the implementation of planned indicators. 10 Creation of an appropriate moral and psychological climate when carrying out joint activities.
Control	1. Implementation of general control of the activities of the organization and structural units; 2. Monitoring of the implementation of the chosen strategy 3. Control of the results of the implementation of personnel policy. 4. Control of compliance with the terms of the collective agreement. 5. Control of compliance with labor and executive discipline. 6. Control of compliance with the timeliness and completeness of financial and other legally established reporting. 7. Control of the transparency of information coverage of the organization's activities. 8. Control of the activity of the administrative service (administrative audit). 9. Control over compliance with labor safety and sanitary and hygienic requirements.

1. Veleshchuk S. Conceptual approaches to the definition of functions and classification of administrative management methods. Efficient economy. No. 4, 2013. URL: <http://www.economy.nayka.com.ua/?op=1&z=1952>

METHODS OF ADMINISTRATIVE MANAGEMENT

DEFINITION

Methods of organizational and stabilizing influence - establishment of stable organizational ties between system elements by means of fixing the defined duties to the system as a whole and its separate links, i.e. this organizational influence aimed at permanent change of subsystems, their structure and order of activity¹



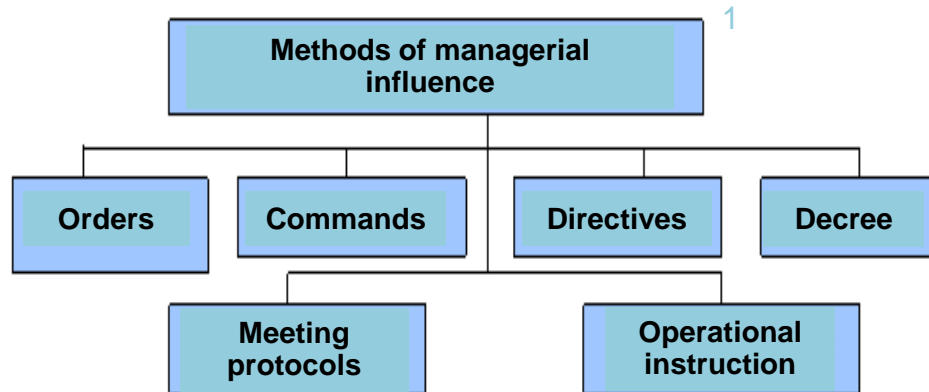
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1. Veleshchuk S. Conceptual approaches to the definition of functions and classification of administrative management methods. Efficient economy. No. 4, 2013. URL: <http://www.economy.nayka.com.ua/?op=1&z=1952>

METHODS OF ADMINISTRATIVE MANAGEMENT

DEFINITION

Methods of managerial influence – reflect the current use of established organizational relationships and their partial adjustment in the event of a change in working conditions¹



The methods of administrative management are based on the obligation to comply with the relevant orders and instructions, since their non-compliance causes certain sanctions and is considered as a direct violation of discipline.

DEFINITION

Methods of disciplinary influence are sanctions for deviation from the established order and requirements of state, financial, contractual discipline, statutes. Their goal is to ensure the stable operation of the organization through disciplinary requirements, as well as the responsibility of teams and employees.¹

Four types of methods of disciplinary influence are defined as following: ¹

- ❑ **material** - related to the material responsibility that rests on enterprises and managers based on the results of economic activity;
- ❑ **administrative** - related to the activities of such special bodies, such as sanitation, tax administrations, inspections, etc..;
- ❑ **criminal law** - arise in the presence of the composition of the crime;
- ❑ **disciplinary** - arising as a result of non-performance or improper performance of official duties.

1. Veleshchuk S. Conceptual approaches to the definition of functions and classification of administrative management methods. Efficient economy. No. 4, 2013. URL: <http://www.economy.nayka.com.ua/?op=1&z=1952>

THE ESSENCE OF BUSINESS ADMINISTRATION

In the conditions of the enterprise, **administrative management is transformed into business administration**, which concentrates attention on the field of entrepreneurial activity and is aimed at obtaining profit.¹

DEFINITION

Business administration is an activity aimed at a systematic approach to the step-by-step and coordinated organization of all processes of economic activity and aspects of the functioning of the enterprise with the aim of meeting the needs of consumers and maintaining high rates of growth in sales volume, forming and maintaining a positive image of the enterprise, effective use all kinds of resources, interaction with public, trade union and state institutions, providing motivation for improving professionalism and conditions for career growth of employees in the process of achieving the goals of the organization and increasing the value of the company¹

In business administration, the administrative function of the enterprise (enterprise management) plays the main role.

Business administration assumes the focus of all management activities on the internal organization, on regulation of relations within the organization itself to achieve its goals (since business organizations cannot influence social relations by adopting and ensuring, if necessary, the enforcement of normative legal acts; it can only be about mutually beneficial contractual relations of the enterprise with external entities, compliance with legislation and their obligations to the state, social responsibility of the enterprise.²



<https://www.trainingexpress.org.uk/wp-content/uploads/2021/12/Business-Administration.jpg>

1. Voinarenko M., Kostyuk O. The essence and principles of business administration at enterprises under conditions of a changing competitive environment. Economy: realities of time. 2013. No. 4(9). P. 49-51.
2. Novikova M. Synopsis of lectures on the discipline "Management and administration (administrative management)" (for students of all forms of education in the field of training 6.030601 - Management). Kh.: XNUMG named after OHM. Beketova, 2016. 98 p.

THE ESSENCE OF BUSINESS ADMINISTRATION

Comparison of the views of the authors regarding the functions of the subjects of management and business administration ¹

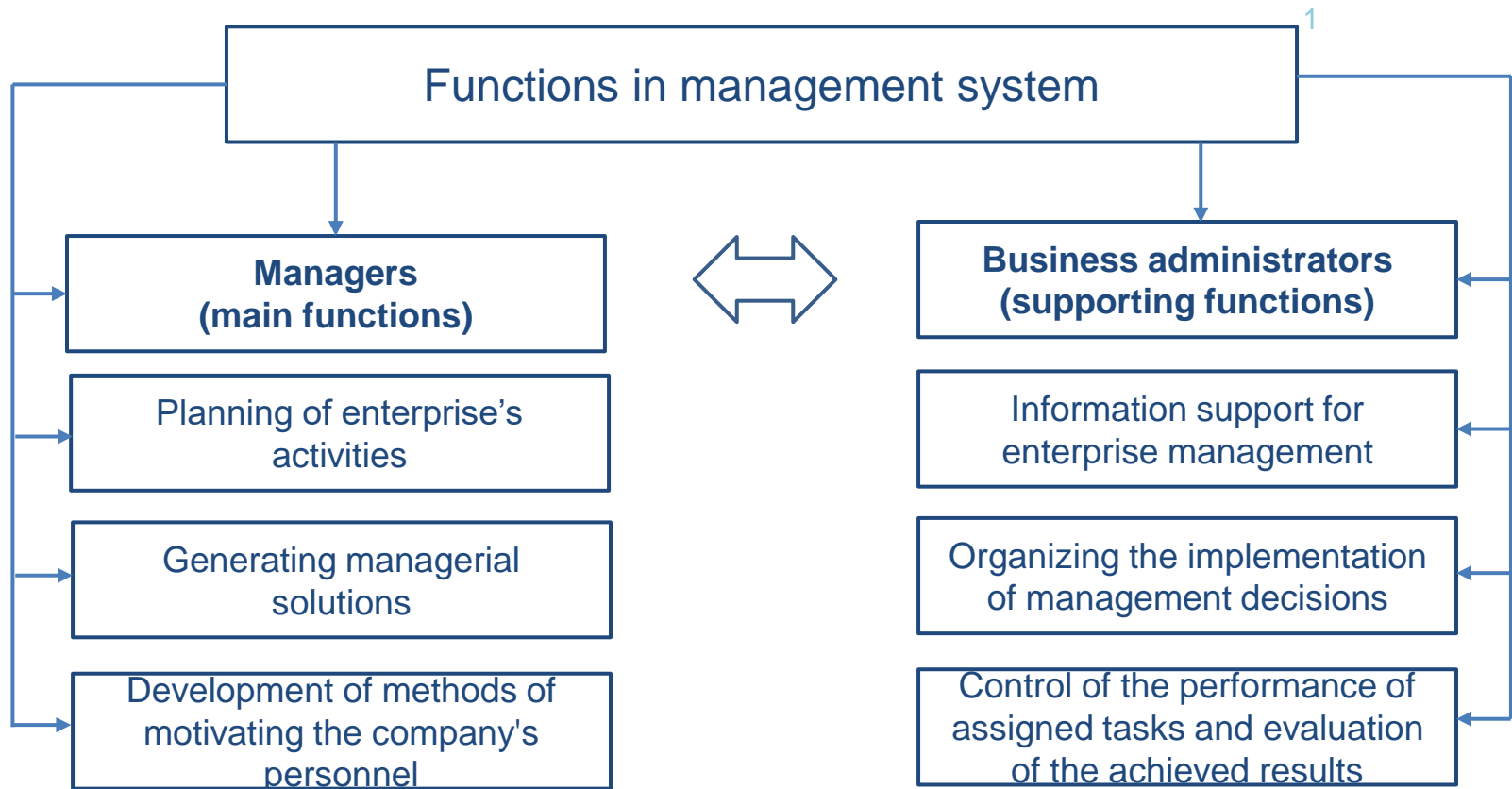
Author	Activity content or specific functions	
	Managers	Business administrators
N.Z. Arabadzhisky	perform corporate tasks of the organization and have high mobility	help management bodies and managers economic enterprises
O.V. Zamazii	managers are a layer of managerial professionals whose main task is to coordinate and organize the activities of teams based on taking into account the objective laws and regularities of economics, sociology, psychology, conflict studies, etc., that is, managing the activities of a business entity on a scientific basis	a business administrator is an executive, owner or employer who performs the function of managing not only personnel, but also the entire production and economic process
I.S. Smirnova	manage individual divisions of the organization and are responsible for the fulfillment of assigned tasks	carry out general management of the organization at the highest level

1. Tararuev Y.O., Telyatnik S.V.. Analysis and definition of the concept of "business administration". A young scientist. 2016. No. 6 (33). P. 116-119.

THE ESSENCE OF BUSINESS ADMINISTRATION

The role and importance of business administrators in the management system is determined primarily by their ability to provide organizational and information management activities. It is they who carry out coordination between managers who make decisions and employees who implement these decisions in the practical activities of the enterprise.

Therefore, the development of business administration within the framework of the management system is important for any enterprise.¹



1. Tararuev Y.O., Telyatnik S.V.. Analysis and definition of the concept of "business administration". A young scientist. 2016. No. 6 (33). P. 116-119.

PRINCIPLES OF BUSINESS ADMINISTRATION

Business administration is a complex system of interrelated processes of the enterprise and the sphere of human activity, which is necessary for :

- a) information support for enterprise management;
- b) organization of proper execution of management decisions;
- c) control of the performance of assigned tasks and evaluation of the achieved results.¹

General principles of business administration¹

- systematicity;
- process approach;
- separation of functions and powers;
- efficiency;
- possibility of assessment and controllability of activity parameters of all participants;
- orientation to the change of the competitive environment and the development of technologies

Systematicity

It consists in the awareness of the organization as a whole organism consisting of many elements with established relationships between them and creating such an environment within the company that makes these relationships as specialized and effective as possible, excluding duplication, duplication of functions, excessive documentation and cumbersome reporting.

The main **system parameters** in business administration are **simplicity, reliability, and measurability of work results.**¹

A systematic approach in business administration ensures the participation of all units of the business entity in solving strategic and tactical business tasks, allows you to clearly define tasks and expected results from making business decisions at each stage and determine the effectiveness of each of the following systems in the process of achieving goals.¹

PRINCIPLES OF BUSINESS ADMINISTRATION

A set of organizational systems (corporation, business entity, company, etc.)¹

PRODUCTION AND TECHNOLOGY

- production activity of the enterprise,
- introduction and use of technologies, machines and equipment,
- quality control of products and services

SOCIAL AND PSYCHOLOGICAL

- principles of personnel policy at the enterprise,
- staff motivation,
- construction of management hierarchy,
- stimulating professional growth,
- general psychological climate in the team,
- formation of the company's philosophy and education of the staff's sense of the company's common goal)

ORGANIZATIONAL

- characterizes the enterprise as a structural link of the industry, the economy of the region, the economy of the country or the international economy
- defines it as a system with a certain organizational structure that determines the nature of relations within the organization between production or the process of providing services and management, between the organization as a whole and external counterparties

INFORMATIONAL

- characterizes the enterprise as the subject of the accumulation of a large amount of information about consumers, partners, employees, financial and economic transactions,
- information links between the elements of the structure of the enterprise, subject and object of electronic communications,
- use of business communication systems to create an effective business structure)

FINANCIAL AND ECONOMIC

- defines an enterprise as a business entity, a separate economic unit, a financial system with internal and external cash flows, principles of budgeting, tax planning

PRINCIPLES OF BUSINESS ADMINISTRATION

Process approach ¹

It is based on the perception of the organization's activities as a set of processes from marketing, planning, to sales and after-sales service.

Characteristic features of processes:

- ✓ the presence of a process manager, or a process master, who exercises leadership and is responsible for the implementation and results of the process;
- ✓ resources (material, financial, informational, labor, etc.); determination of process parameters (indicators by which the manager can determine the effectiveness of the process implementation);
- ✓ portrait of the process consumer, who is the final consumer of the process results;
- ✓ process inputs (initial components), which as a result of the process are transformed into process outputs, taking into account that the outputs of one process can be the inputs of another;
- ✓ outputs of the process – products, services, information – for which the process exists;
- ✓ a network of organizational processes is a combination of interrelated and coordinated organizational processes into a single system

Separation of functions and powers

It is aimed at the effective interaction of departments, divisions of the organization, limits of responsibility, levels of stimulation and encouragement, exclusion of duplication of management functions, control functions, documentation and reports. ¹

Operativeness

It is determined by the ability of the owners, management staff and managers of the organization, on the basis of objective market information, to quickly respond to changes in the external parameters of business functioning and respond to the challenges of a changing competitive environment, redistribute resources, prioritize tasks, methods of achieving goals, emphasize powers. ¹

Efficiency of business administration

It is determined by the possibility of assessment and controllability activity parameters of all participants of economic processes in the organization. Functional responsibilities, deadlines, quantitative and qualitative characteristics of current and final activity results, establishment of an objective, clear and transparent order of incentives are clearly established and are a reliable and convincing tool for guaranteed achievement of the organization's goals. ¹

PRINCIPLES OF BUSINESS ADMINISTRATION

Specific principles of business administration¹



lean production (identification and exclusion from the process of all unnecessary material resources, actions and operations that do not directly participate in the creation of new consumer value, but only cause damage by increasing the cost of production);



resource planning (becomes more effective when using an automated enterprise management system (AEMS), which is an information system created to process business operations (business processes), which helps increase competitive advantages);



certification of enterprise management systems according to ISO 9000 series standards (must cover procurement of raw materials or components, contract analysis, quality control, design, creation, processing, product delivery, personnel training, as well as customer service and support);



"process approach" (aimed at changing the administrative management system available at enterprises in order to distinguish all processes of production of goods and services)

BUSINESS ADMINISTRATOR

Activities of the business administrator

A business administrator manages the business and its operations.

The activity of a business administrator is aimed at ensuring the realization of business goals, so that it is properly organized and coordinated.

An administrator has a broad perspective and diverse knowledge, which often includes making plans for the business and monitoring day-to-day operations. If there is a need to implement organizational changes, a person in this position also usually develops and implements them.

In some cases, the person who is the guarantor or owns the business acts as its administrator. But this is not always the case, sometimes the company hires a business administrator.¹



<https://ua.depositphotos.com/vector-images/%D0%B0%D0%B4%D0%BC%D1%96%D0%BD%D1%96%D1%81%D1%82%D1%80%D0%B0%D1%82%D0%BE%D1%80.html>

1. Business administration. Wikipedia: website. URL: <https://uk.wikipedia.org/wiki/%D0%91%D1%96%D0%B7%D0%BD%D0%B5%D1%81-%D0%B0%D0%B4%D0%BC%D1%96%D0%BD%D1%96%D1%81%D1%82%D1%80%D1%83%D0%B2%D0%B0%D0%BD%D0%BD%D1%8F>

SKILLS OF A SUCCESSFUL BUSINESS ADMINISTRATOR

Business administrators have many responsibilities and must juggle those duties without neglecting any of them. Sometimes those tasks include planning large-scale activities or representing senior management personnel. At other times, these professionals analyze financial reports or create presentations.¹

Key skills that should be developed for successful business administration: ¹

- Time management
- Organizational Skills
- Initiative
- Communication
- Teamwork
- Affability
- Resourcefulness
- Technological Skills



Time Management

With many projects underway at once, it's important that business administrators can complete tasks efficiently while meeting deadlines and maintaining quality results. Even if you hope to have administrative assistants working with you, it's vital that you prioritize and keep a tight schedule to avoid falling behind or becoming spread too thin.¹



Organizational skills

The business world moves at a fast pace, requiring an ability to shift gears, make changes, keep up with advancements, and move back and forth between projects. This requires a lot of flexibility, and strong organizational skills will help you keep all of your administrative balls in the air. A clear organizational system that is easy to follow also improves the efficiency of the rest of your team.¹

НАВИЧКИ УСПІШНОГО БІЗНЕС-АДМІНІСТРАТОРА



Initiative

Administrative professionals need to be self-starters. Can others depend on you getting projects completed ahead of time? Do you recognize things that need to be done and then do them even if those tasks don't fall directly under your job duties? If you can take charge of a situation and help your team take positive action, your business will be in very good hands.¹



Communication

Whether you're communicating with business partners, resource providers, customers, or employees, you must maintain clear, positive habits of communication. The words you use and the tone of your conversation reflect back on the company, so it's important that you are polite and clear when sending written and verbal instructions, memos, or documents. In addition to using a friendly, confident tone, you must be sure that you use words and conventions properly. Get in the habit of running spell-check and other grammar resources before sending out documents.¹



Teamwork

As an administrator, you are likely to become part of many teams. Whether you're the lead administrator, you must recognize the strengths of your team members and improve your success by drawing upon those skills. As a member of a diverse team of professionals, you need to understand how to recognize your role in the team and how to make a positive contribution.¹



Affability

This characteristic doesn't come naturally to everyone, but you can develop the skill of being pleasant to be around. Work on being approachable and friendly. It's important to be polite, but the success of your business may require you to be more than polite. People must feel comfortable and welcome in your presence.¹

НАВИЧКИ УСПІШНОГО БІЗНЕС-АДМІНІСТРАТОРА



Resourcefulness

What can you do when local regulations change how you bill clients? Are you prepared to continue operating if the power goes out? Business administrators must have the ability to respond quickly to unique situations and problems. Being resourceful means having an open mind, being imaginative, and positive. When you believe there's a solution to every problem, you're more likely to come up with that solution.¹

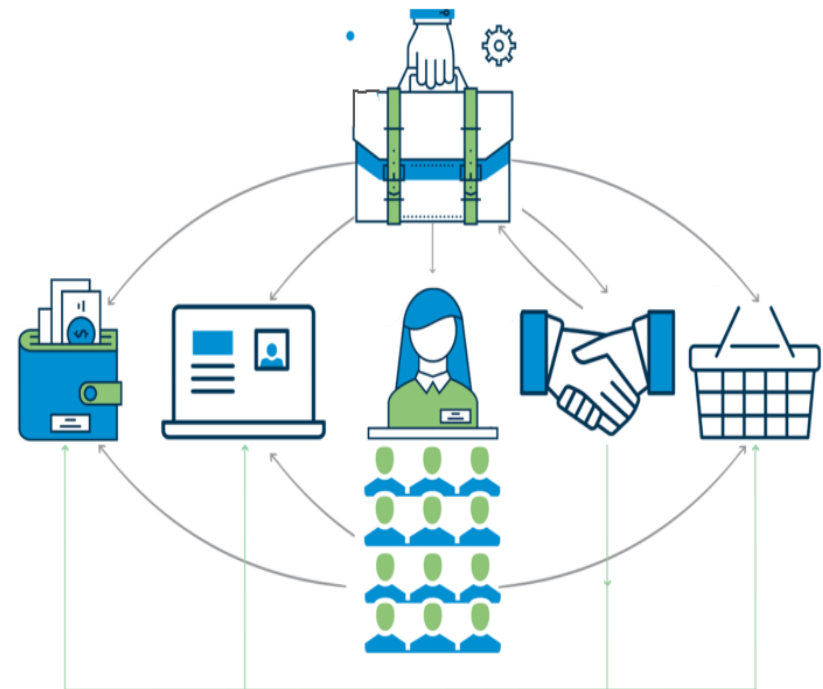


Technological Skills

There are very few jobs today that don't require some familiarity with technology. When it comes to business administration, you must be comfortable running data entry, word processing, payroll, team calendaring, presentation, spreadsheets, and many other forms of software.¹

You may also need to understand how hardware and operating systems work, if only to identify where problems are happening.¹

An outline of the implementation of the skills of a business administrator



<https://odesseo.com.ua/business-manager-facebook-vladei-i-upravlyai/>

ADMINISTRATIVE ETHICS

DEFINITION

Administrative ethics – these are norms and laws of behavior, following which the manager determines ethical standards for problems arising in the institution, independently analyzes these standards and bears personal professional responsibility for the decisions made.¹

Administrative ethics is a section of ethics that studies the moral aspects of managers' activities and contains four components :

- ❑ **Values** are beliefs, opinions, relationships of individuals, attitudes of groups and society to such categories as freedom, justice, responsibility.
- ❑ **Standards and norms** are principles that determine the actions of people in accordance with current laws, codes and rules.
- ❑ **Features of the external environment** — the conditions under which the activities of managers and leaders are carried out (political, social, cultural).
- ❑ **Organizational behavior** — forms of activity of leaders and managers, oriented to the values of a specific society or institution (organization) within the framework of the actions of defined standards and norms.¹

Administrative ethics essentially seeks answers to such questions :¹

- what is good and evil
- what is right and wrong in the behavior of managers and business administrators;
- what motives and conditions contribute to their ethical behavior;
- what should be done to form high moral principles.

It is these questions that determine the moral climate in the management environment at any level.

In order for the behavior of leaders and managers to meet the defined standards and norms, internal and external control is necessary, as well as such mechanisms that make it possible to apply it in practice.

Internal control is associated with the moral principles and consciousness of managers, especially when they make management decisions.¹

ADMINISTRATIVE ETHICS

A model of ethical behavior of a business administrator ¹

Factors of external environment:

- system of incentives and punishments;
- mutual relations in the team;
- politics and moral principles;
- management system and the role of top management

Stages of formation of ethical behavior:

- ethical perception and interpretation of the situation;
- ethical judgments and opinions about a moral and ethical course of action;
- the choice of cultural values and behavior;
- implementation of moral norms of behavior.



Individual characteristics:

- level of moral development;
- motivation, personality orientation;
- degree of dependence, self-control;
- self-awareness abilities

Principles of solving ethical problems:

- maximum social result;
- satisfying the interests of the majority;
- observance of human rights, freedoms and dignity;
- distribution of income and expenses among different population groups.

Questions of ethical choice:

- what the law says about it;
- what are the philosophical foundations of the solution to the question;
- what suggests professional experience and knowledge;
- whether the organization itself is part of the problems;
- what you need to know about yourself to make an adequate decision.

EVALUATION OF PERFORMANCE OF BUSINESS ADMINISTRATION

«*What cannot be measured cannot be managed*»

Jack Welch, head of GE

There are three main types of metrics for measuring performance and managing progress :¹

- ❑ Measuring Completion;
- ❑ Measuring Effect;
- ❑ Measuring Competence;

Measuring Completion

A “checklist” approach to performance measurement which measures if and when a particular task has been completed. Its primary focus is on measuring how much effort has been put into something or whether a particular activity or process has been executed. Examples include the number of customer calls conducted, completion of steps in a process, or number of hours spent on something.¹

Measuring Effect

A second approach is what can be called an “output” approach to performance management. It focuses on measuring the outcomes, results or impact of what has been done. In this case, the process and exact steps taken don’t really matter, only the outcomes do. Examples include employee satisfaction, financial results, carbon footprint, or Net Promotor Score.¹

Measuring Competence

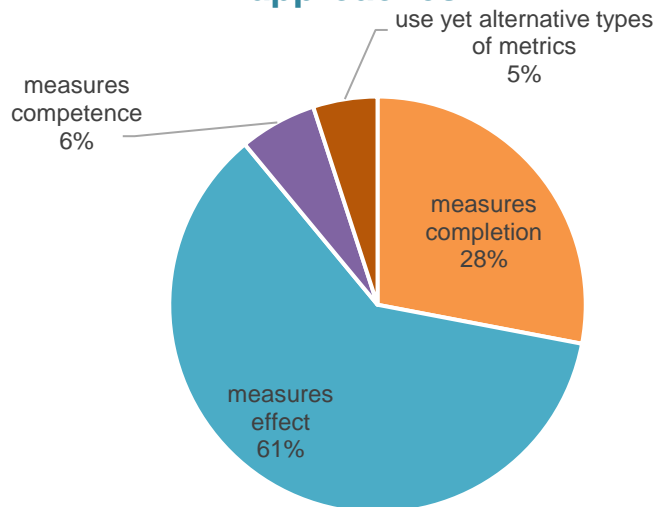
A third approach is to focus more on the “input” side of performance. Instead of measuring process (completion) or output (effect), it focuses on people and whether they have the skills, personality and mindset to do what it takes. This type of measures centers on whether the right conditions are met for an organization to perform well. Examples include skill assessments, personality tests, competence tests, or 360 degree feedback reports.¹

1. Kraaijenbrink J. You're Probably Measuring Your Performance Wrong, Here's How To Do It Right. *Forbes*. URL: <https://www.forbes.com/sites/jeroenkraaijenbrink/2022/04/28/youre-probably-measuring-your-performance-wrong-heres-how-to-do-it-right/?sh=4246c7916151>

EVALUATION OF PERFORMANCE OF BUSINESS ADMINISTRATION

The first two of these are more quantitative in nature and generally simpler to apply, because it's easier to make them SMART (specific, measurable, attainable, relevant and time-bound). The third is more open and generic can be more challenging to specify. But does that make it a weaker approach? According to conventional wisdom it does, perhaps, but this deserves some further scrutiny.¹

Results of LinkedIn's non-scientific survey on the use of performance appraisal approaches¹



If we take a deeper look at the three approaches, it shows that the way you measure performance heavily dictates the virtues and goals of your company and how you look at and manage it in the first place. This is revealing:

- In the **completion** approach, a company is primarily perceived as a collection of work, or activities that need to be done.
- In the **effect** approach, the company is mostly a mechanism, or “machine” to produce desired results.
- In the **competence** approach, a company is conceived as a group of people with particular skills, personalities and mindsets that work together.¹

! In the light of the Great Resignation, and the widely shared idea that we live in an increasingly VUCA world, it may not be the most popular or the most accessible approach that would be best. It may be the competence approach.¹

1. Kraaijenbrink J. You're Probably Measuring Your Performance Wrong, Here's How To Do It Right. *Forbes*. URL: <https://www.forbes.com/sites/jeroenkraaijenbrink/2022/04/28/youre-probably-measuring-your-performance-wrong-heres-how-to-do-it-right/?sh=4246c7916151>

EVALUATION OF PERFORMANCE OF BUSINESS ADMINISTRATION

“By putting the employee first, the customer effectively comes first by default, and in the end, the shareholder comes first by default as well,” “Find the right people to work with and you can’t go wrong” and “Train people well enough so they can leave. Treat them well enough so they don’t want to.”¹

*Sir Richard Branson,
Serial entrepreneur and founder of Virgin*

This means that if people perform well, any other type of performance will automatically improve as well. This makes performance measurement at the competency level, focusing on people's skills, personality and mindset, more important than ever before.¹

In performance management lingo, of the three ways of measuring, the competence-based approach focuses on the most “leading” set of performance indicators, whereas the other two are more “lagging” indicators, with the effect-based measurement being the most lagging of all three. In short: competence causes completion, completion causes effect. This means that if we want to change and achieve anything, it starts with people’s competences. All the rest is a merely a derivative—and thus arguably less important.¹

Competence-based performance management is more flexible and open-ended than the other approaches. This is traditionally seen as a weakness. Because, if done wrong, it can cause ambiguity and loss of focus. But if done right, it is the biggest asset and strength your company could possibly possess.¹

1. Kraaijenbrink J. You're Probably Measuring Your Performance Wrong, Here's How To Do It Right. *Forbes*. URL: <https://www.forbes.com/sites/jeroenkraaijenbrink/2022/04/28/youre-probably-measuring-your-performance-wrong-heres-how-to-do-it-right/?sh=4246c7916151>

FUNCTIONAL AREAS OF BUSINESS MANAGEMENT



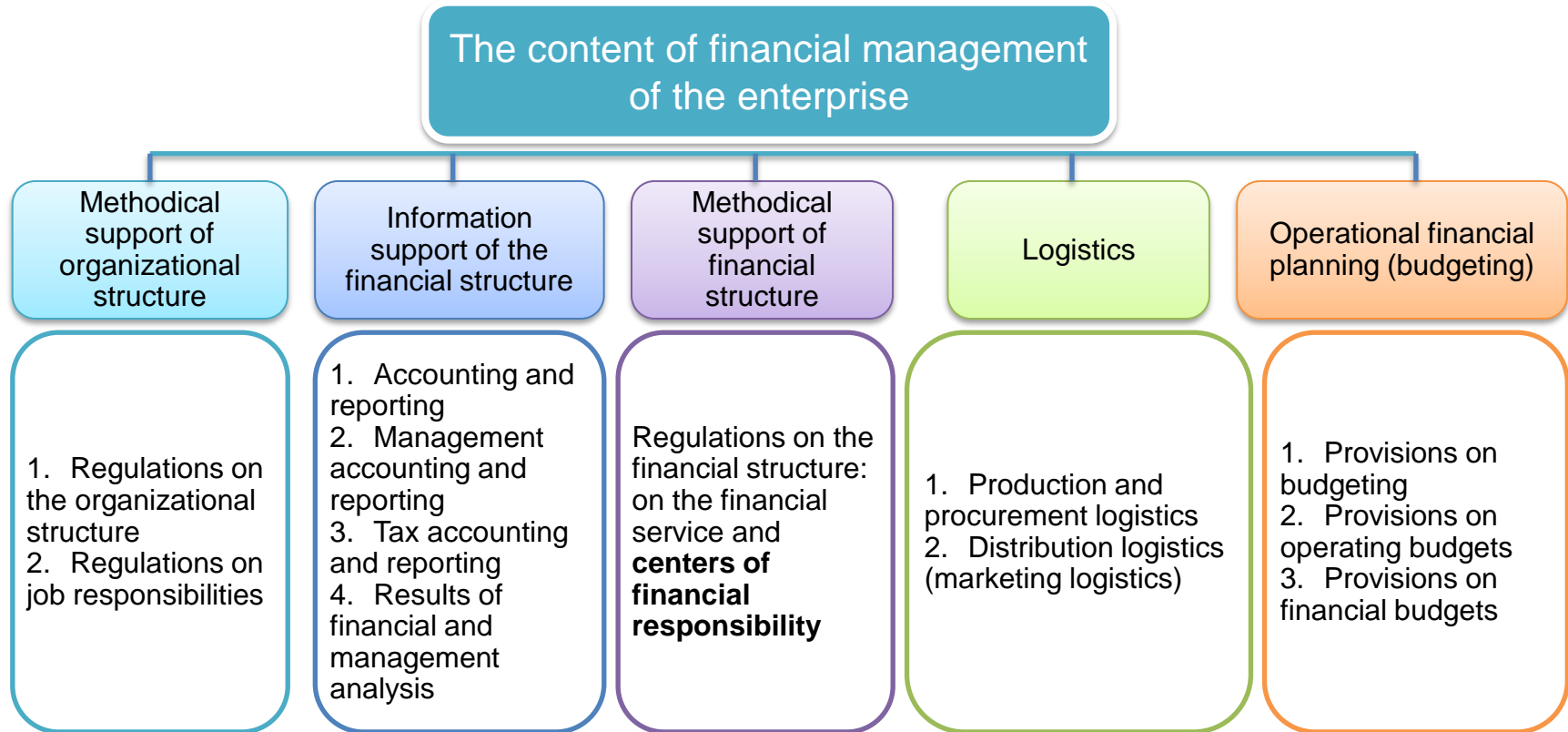
3.1. Formation and management of the financial structure of the enterprise

3.2. Marketing management of the enterprise

DEFINITION

Financial structure of the enterprise – it is a set of centers of financial responsibility (CFV), interconnected lines of responsibility¹, which determines the technology of financial results and the distribution of responsibility for achieving the overall result of economic activity²

Contour of financial management at the enterprise²



TOPIC ① 3

1. Chayv V. T., Chupakhina N. I. Management accounting: a textbook and a workshop for academic undergraduates. 2017. 420 p.
 2. Fundamentals of building a financial structure in an organization. Lectures: website. <https://lektsii.org/11-94957.html>
 3. The financial structure of the company. Russian School of Management: website. URL: <https://uprav.ru/blog/finansovaya-struktura-kompanii>

CENTERS OF FINANCIAL RESPONSIBILITY

DEFINITION

Center for Financial Responsibility (CFR) is a division of the company (or group of divisions) that carries out a certain set of business operations that can directly affect the costs and / or income from the activity and is responsible for these items of costs and / or income.¹



Investment Center

A manager responsible for this center is responsible for utilizing the company's assets in the best manner to earn a good return on capital employed.²



Marginal Income Center

Responsible for the efficiency of activities, controlling the revenue and expenditure part of their direction in terms of covering direct costs associated with the activities of the direction (business direction). This is a separate production unit, which has both costs and costs. In principle, the commercial director, who is in charge of production, is the head of the center of marginal revenue².



Profit Center

Profit center refers to the center whose performance is measured in terms of cost and revenue. Generally, the company's factory is treated as a profit center where raw material consumption is a cost and finished product sold to other departments is revenue.³



Revenue Center

The revenue center takes care of revenue, with the company's sales teams being mainly responsible³.



Cost Center

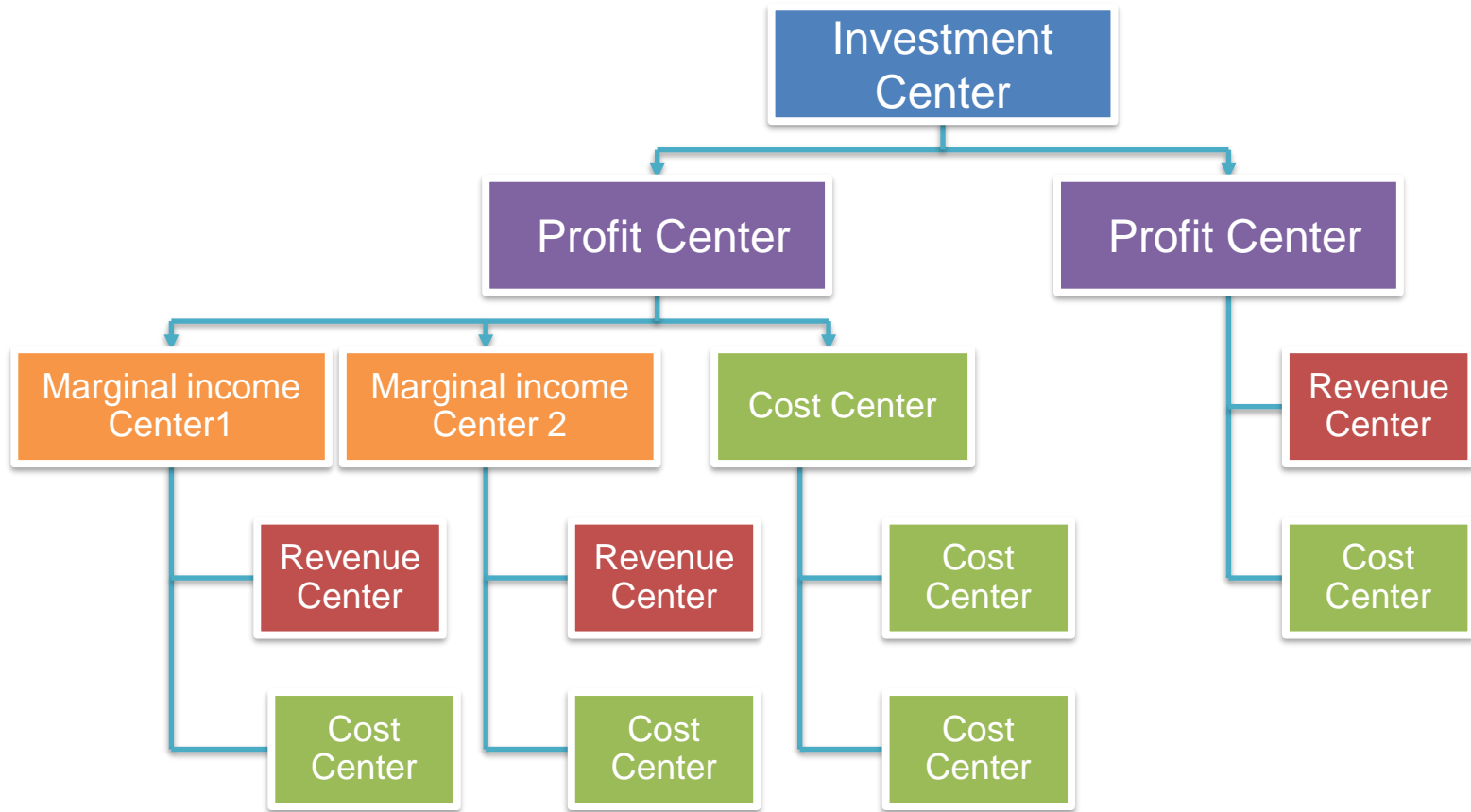
This center consists of individuals responsible only for cost control. A person responsible for a particular cost center is held accountable only for controllable expenses. Therefore, it is essential to differentiate this center's controllable and uncontrollable costs. The performance of each center is evaluated by comparing the actual vs. targeted price³.

1. Management of Financial Responsibility Centers Author's program "Budget Planning and Management Accounting". U-gz: website. URL: <https://u-gz.ru/wp-content/uploads/2019/10/urok-2.-Upravlenie-po-TSentram-Finansovoj-Otvetstvennosti-TSFO.pdf>

2. The financial structure of the company. Russian School of Management: website. URL: <https://uprav.ru/blog/finansovaya-struktura-kompanii>

3. Thakur M., Vaidya D. Cost Center Meaning. Wall Street Mojo: website. URL: <https://www.wallstreetmojo.com/cost-center>

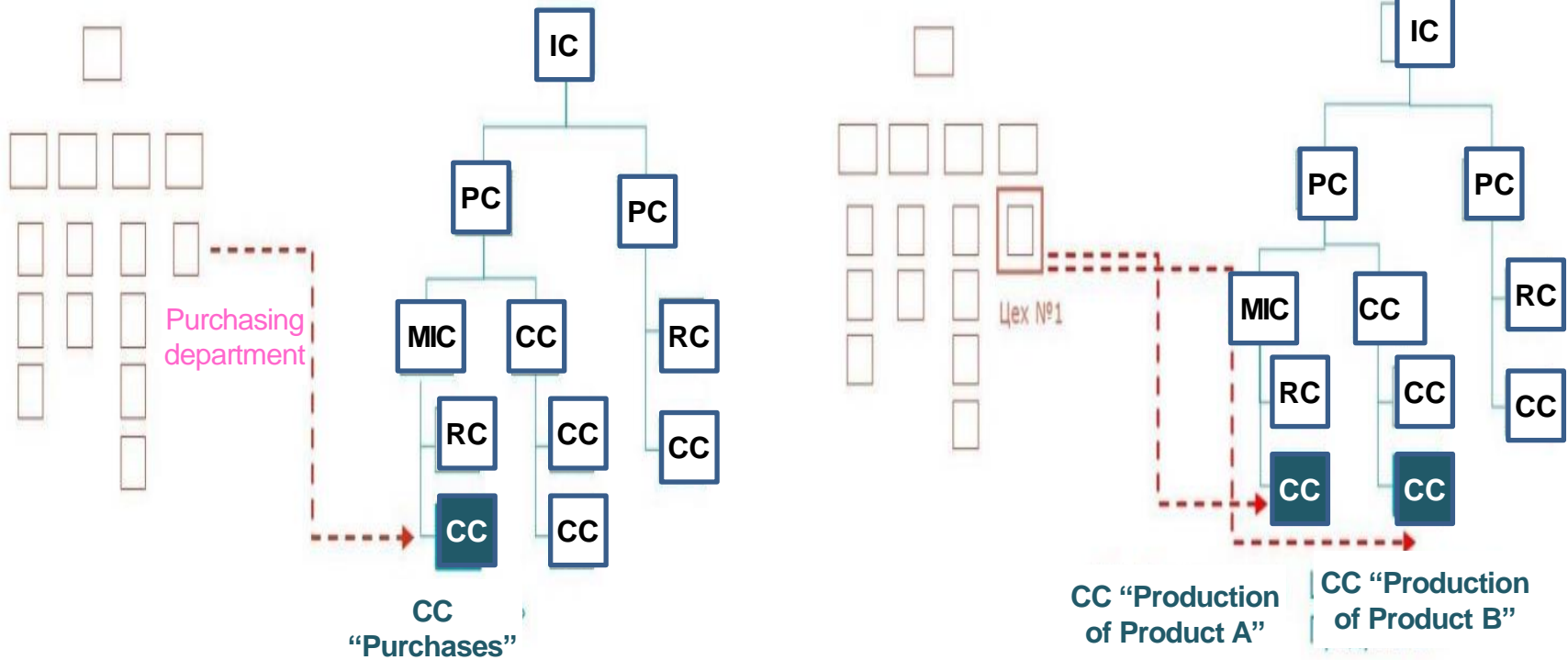
FINANCIAL STRUCTURE BY CENTERS OF RESPONSIBILITY ¹



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CENTER OF RESPONSIBILITY FORMED ON THE BASIS OF ONE DIVISION

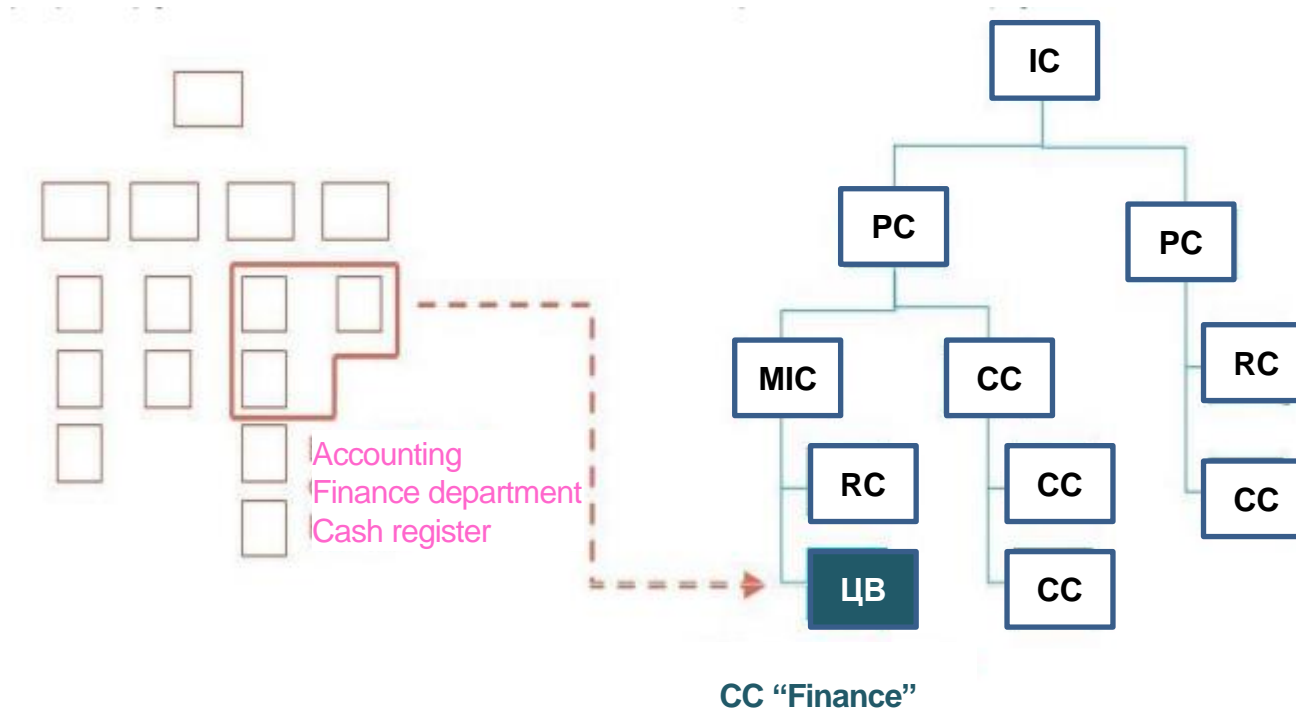
CFR is formed on the basis of one unit¹ CFR is formed on the basis of one unit (by dividing it into parts)¹



① TOPIC 3

CENTER OF RESPONSIBILITY FORMED ON THE BASIS OF SEVERAL DIVISIONS

CFR is formed on the basis of several divisions (by merging) ¹



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CENTERS OF RESPONSIBILITY ¹

Characteristics	Types of responsibility centers				
	Center for regulatory costs	Center for management costs	Revenue Center	Profit Center	Investment Center
Indicators controlled by the management of the CR	Production costs for the volume of production	Costs	Sales revenue, profit margin	Profit	Return on invested capital
Indicators controlled by the central government	Volume and structure of products	Operating cost budget	Assortment, operating costs budget	Investments and sources of financing	Large investments and sources of financing
Counterparties	Internal departments		Internal divisions, open market	Open Market	
Example of a unit	Main and auxiliary production shops	Administrative functional services	Sales Department, Commercial Directorate	Subsidiary, branch, business unit	Independent company, subsidiary, branch

EXAMPLE

ABC Pharma Inc. is engaged in the manufacturing of medicine. The company has decided to produce 10000 drugs in the year 2018. The company has defined the budget as \$90,000 at the beginning of the year. However, at the end of the year, the actual cost incurred

for the production is \$95,000. Therefore, an excess expenditure of \$5,000 over-budgeted fee was incurred. The responsibility manager is thus expected to be answerable.

It may be possible that the government has increased the electricity and water charges because overhead has increased.

The manager has used the superior quality of the material. Therefore, the cost of material has increased, but at the same time, it takes fewer workforce hours, due to which labor cost has decreased.¹

ABC Pharma Inc			
Responsibility Report of Cost of Production			
For the year ended 31st Decemeber 2018			
Controllable Cost	Budget	Actual	Favorabile/ (Unfavorable)
Units of Production (Nos.)	10,000	10,000	
Direct Material (In \$)	50,000	52,000	-2000
Direct Labour (In \$)	20,000	18,000	2000
Overhead (In \$)	20,000	25,000	-5000
Total Cost (In \$)	90,000	95,000	-5000

EXAMPLE

Samsung Inc. had targeted revenue of \$95,000 from their electronic segment for 2018. But at the end of the year, they received \$93,000. As a result, there is a decrease of \$2000 in their revenue.

In the report below, it has been seen that the company has achieved its target in the television and washing machine division. In contrast, they have outperformed in the microwave and mobile division. However, their refrigerator and air conditioner division has not achieved the targeted revenue. Moreover, their electronic division target falls short by \$2,000, for which the manager of their revenue center will be responsible, and he has to explain the underperformance of these two divisions..¹

SAMSUNG Inc			
Responsibility Report of Revenue Centre			
For the year ended 31st Decemeber 2018			
Revenue	Budget (\$)	Actual (\$)	Favorabile/ (Unfavorable) (\$)
Television	10,000	10,000	0
Refrigerator	20,000	16,000	-4000
Washing Machine	15,000	15,000	0
Air Conditioner	25,000	22,000	-3000
Microwave	10,000	11,000	1000
Mobile	15,000	19,000	4000
Total Cost (In \$)	95,000	93,000	-2000

1. Thakur M., Vaidya D. Responsibility Accounting. *Wall Street Mojo: website*. URL: <https://www.wallstreetmojo.com/responsibility-accounting>

COST CENTERS

Personal

Personal

This type of expense center deals with a person or group of persons.¹

Impersonal

Impersonal

This type of center deals with a location or equipment or both.¹

Production

Production

This type of expense center deals with a product or manufacturing work. Few examples of production centers are **welding shop, machine shop, grinding shop, painting shop, polishing shop, assembly shop, etc.**¹.

Service

Service

Suppose a cost pool deals with or is associated with rendering services to a production center.

*A few examples of this type of cost center are transport, stores, accounts, power, personnel department, etc.*¹.

Operation

Operation

Suppose an expense center consists of machines or persons who are involved in similar activities. This type of cost pool is relevant to manufacture concerns.¹

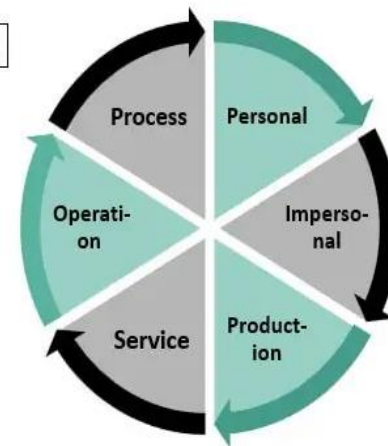
Process

Process

Suppose a cost pool deals with a particular or specific process of a manufacturing enterprise. This type of center is also relevant to manufacturing concerns.¹

Cost Center

Types & Examples



COST CENTERS

CENTER OF REGULATED COSTS

In the center of regulated costs can be established regulatory ratio of input and output. The required amount of materials and works is determined for each unit of production. In production units, this ratio is set by technological standards of material consumption and performance of works for the production of one unit of output.¹

Dependence of the exit from the entrance allows the head of the center of normalized costs to control and be responsible.¹

Production structural subdivisions (shops of main and auxiliary production).¹

CENTER OF UNREGULATED COSTS

In the center of unregulated costs can not be established direct dependence of the output on the input. The costs of the center of unregulated costs are constant relative to output. The key problem is to determine the optimal level of costs. When considering two companies of the same size, the costs of the financial management in one can be twice as much as in the other. At the same time, the management of both companies may believe that the costs of financial departments are optimal and no objective evidence can be found that the differences in the level of costs are due to different degrees of efficiency.¹

Most of the structural units that perform administrative, representative, financial, legal functions, as well as marketing, research and development.¹

CENTER OF REGULATED COSTS

Planning

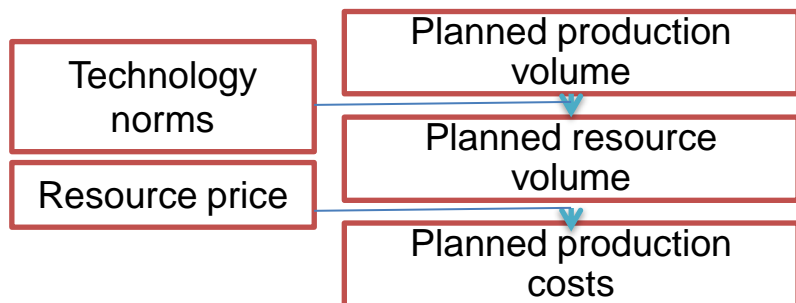
Planning at the center of normalized costs begins with planning the release in kind - in other words, it turns out how many units need to be carried out.¹

The planned amount of resources is determined on the basis of the planned volume of production and normative coefficients.¹

$$C=R \times P$$

- C – planned costs
- R – resources
- P – resource price.

¹



Results

To compare actual and planned data, the budget should be transferred to the actual output.¹

In the center of normalized costs, the basis for bonuses is a comparison of actual and planned data on costs listed for actual output¹

Indexes	Plan	Result	Listed Plan	Deviation
Output, units	10	7	7	-3
Normalized (variable) costs	10 * 300 \$/unit= 3000 \$	2500 ррн	7 *300\$/unit = 2100 \$	-400 \$
Fixed costs	500 \$	450 \$	500 \$	+50 \$
Total costs	3500 \$	2950 \$	2600 \$	-350 \$

CENTER OF UNREGULATED COSTS

Planning

Planning in the centers of unregulated costs is carried out on the basis of data from previous periods, adjusted for inflation, seasonality, changes in the volume of work, etc. (Incremental budgeting) ¹.

EXAMPLE

Used at most companies to plan the cost of financial services, administrative apparatus, legal services and other departments involved in providing business processes ¹

Results

The lack of a clear dependence of the output on the input leads to the fact that the budget (cost plan) of the structural unit characterizes only the input and does not characterize the output.

Budget overruns are the result of a comparison of planned and actual input and do not indicate inefficiency, just as budget savings do not indicate the efficiency of the structural unit ¹.

EXAMPLE

If the R&D department spent 10% more than the allocated budget during the month, it does not mean that it was 10% less efficient than it should have been. In fact, the research and development carried out could be extremely important for the company - or, conversely, have no value ¹

PROFIT CENTER

This center may include cost centers and revenue centers. It controls all aggregate costs 1. The center deals with decisions related to markets, with the selection of suppliers, controlled prices for goods. The Center has the right to decide on the disposal of surplus and inefficient assets, the liquidation of assets if they are not loaded 1.

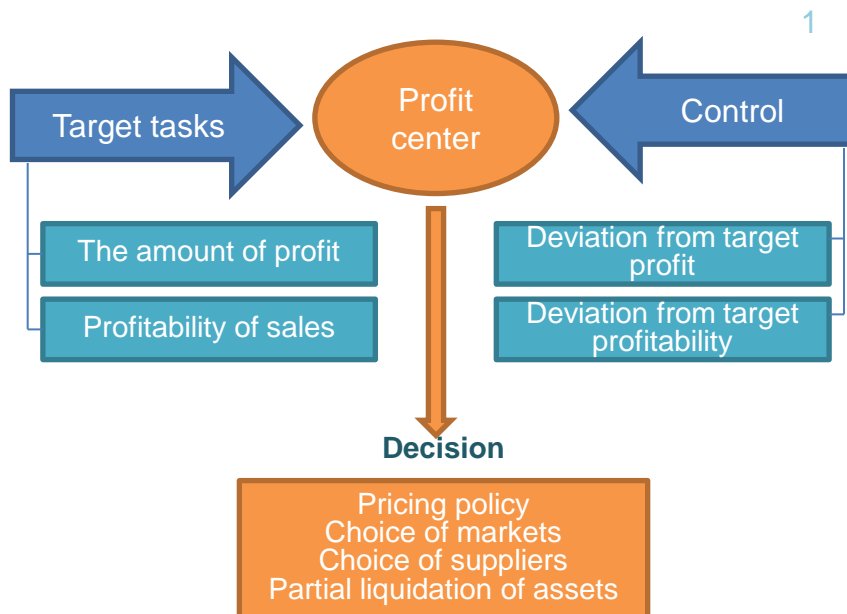
Results

The centers of profit at an industrial enterprise, as a rule, are separate business units (controlling both production and sales) - production units. For them, the condition of the bonus is to achieve the planned amount of gross profit in the budget 2.

The actual amount of gross profit of investment centers 2 :

$$Q = Vf - Cf - Cp \times P$$

Q – the size of the bonus
Vf – actual revenue
Cf – actual direct commercial and production costs (minus current material costs)
Cp – actual production costs in terms of current material costs in kind
P – planned price



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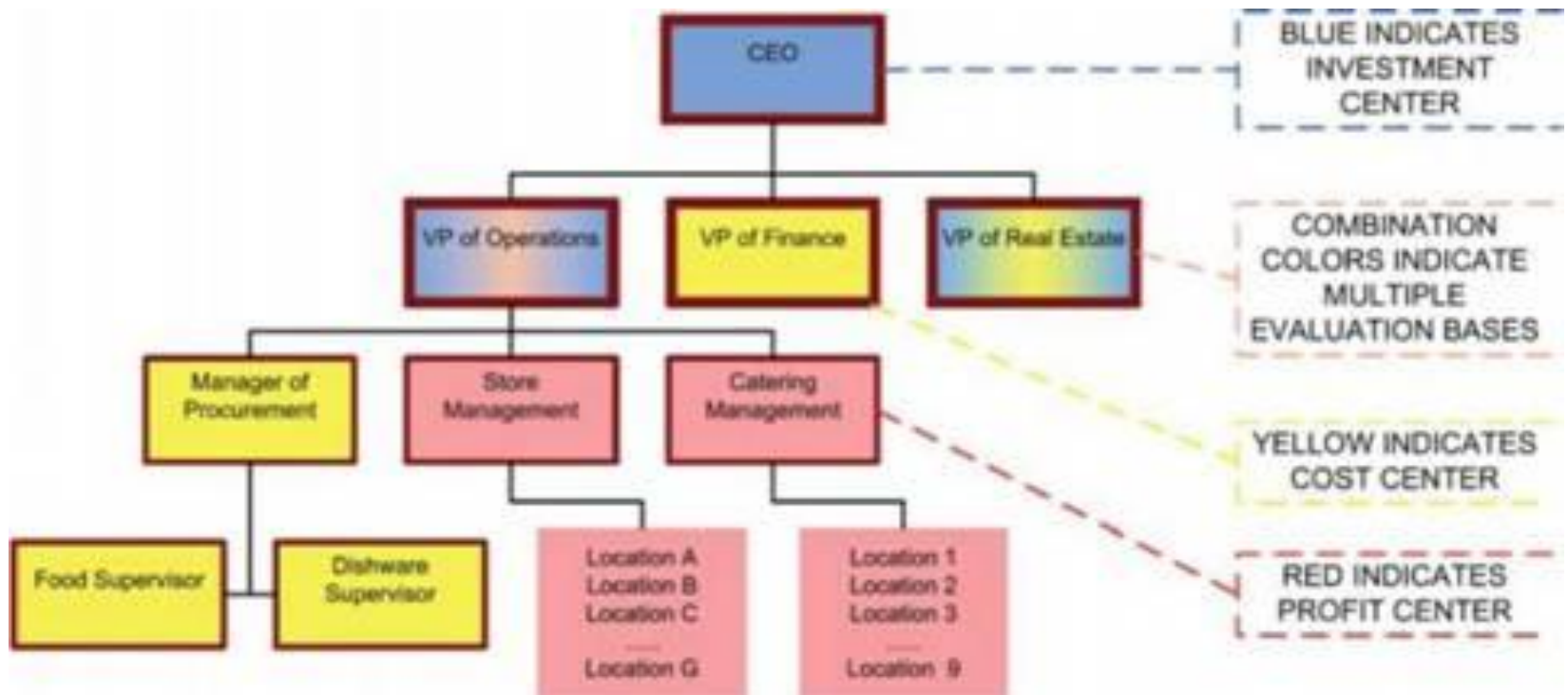
1. Company Responsibility Centers. Goldvoice.club: website.URL: <https://goldvoice.club/@boriss/akademiya-kurs-upravlenie-stoimostyu-kompanii-16-chast>
 2. Shchiborsch K.V. Accounting for responsibility centers as the basis of material incentives at the enterprise. Management in Russia and abroad. 2000. No. 6. URL: <http://www.mevriz.ru/articles/2000/6/868.html>

PROFIT CENTER

EXAMPLE

The head of the revenue center is responsible for the income of the structural unit.

Sales department, whose task is to attract new customers and increase sales. At the same time, the sales department is the center of costs: it bears the costs of wages, entertainment, stationery, etc. However, because the sales function dominates, the department should be considered primarily as a profit center¹



1. Leikin D. Management by responsibility centers. Company management. 2005. No. 7 URL: <http://www.management.com.ua/finance/fin089.html>

2. Profit Center. Ebrary; website. URL: https://ebrary.net/280/accounting/profit_center

TOPIC 3

PROFIT CENTER

Planning

Profit center planning is done by setting targets for implementation. In industries where the share of product returns is significant, use target sales targets (sales less returns) ¹.

The Profit Center seeks to reduce the amount of planned revenue so that the actual budget execution exceeds the planned indicators: ¹

- ❑ The management of the company directives brings to the sales department the target value of sales for the planning period in one amount or with a minimum decoding. The sales department decomposes the set goals for analytical sections of revenue.
- ❑ Profit planning is carried out by the financial directorate (for example, the planning and economic department). ¹

Results

The system of incentives for the head of the revenue center is based on a comparison of planned and actual data on sales ¹.

The amount of the premium is determined by adjusting the bonus fund by the percentage of implementation of the plan. If the actual implementation is less than planned, the value of the premium is zero, if more: ¹

$$Q = Q_1 \frac{Df}{Dp}$$

Q – bonus size
Q1 – bonus fund
Df – actual sales
Dp – planned sales

The amount of the premium is defined as a percentage of the amount of overfulfillment of the plan. If the actual implementation is less than planned, the value of the premium is zero, if more: ¹

$$Q = (Df - Dp) \times q$$

Q – bonus size
q – bonus ratio
Df – actual sales
Dp – planned sales

INVESTMENT CENTER

Results

The condition of the bonus is to achieve the planned amount of gross profit¹.

The actual amount of gross profit of investment centers : ¹ :

$$Q = Vf - Sf - c - i - Cxj$$

- Q** – bonus size
- Vf** – actual revenue
- Sf** – actual cost of sales
- c** – taxes
- i** – percentage of involvement
- i** – the amount of current material costs
- j** – the planned level of the transfer price

Investment Center



A type of responsibility center

Responsible for:

- ✓ **Revenue generation**
- ✓ **Cost control**
- ✓ **Investing in assets**

<https://cdn.wallstreetmojo.com/wp-content/uploads/2021/03/Investment-Center.jpg>

BUILDING A FINANCIAL STRUCTURE BASED ON BUSINESS PROCESSES

1

Collection of information on production and economic and management activities of the enterprise

- Collection of documents
- Questionnaire
- Interviewing

The information obtained should reflect : ¹

- Ⓜ Tasks to be solved by departments and officials;
- Ⓜ The order of document circulation and exchange of other information;
- Ⓜ Types of goods and materials and the order of their movement;
- Ⓜ Responsibility for managing financial and economic indicators (planning - accounting - control - analysis);
- Ⓜ The movement of financial flows, the existing system of accounting and (if any) management accounting.

Forms of business process description ¹

Business	Input streams	Results	Management action	Mechanism
Business 1. Retail sale of building materials	Market conditions	Satisfied need: «Materials for individual construction and repair» Product group: “Construction materials” Client group: “Private person”	1. Desired financial results 2. Possible attraction and use of financial resources 3. Legislation	Chain of branded retail stores. Plant for the production of building materials
Business 2 Wholesale of construction supplies		Satisfied need: “Goods for resale” Product group: “Construction materials” Client group: “Dealers”		Wholesale composition . Plant for the production of building materials
Business 3 Building materials for industrial construction		Satisfied need: “Materials for industrial construction and repair” Product group: “Construction materials” Client group: “Construction organizations”		Wholesale composition . Corporate Clients Department Plant for the production of building materials

BUILDING A FINANCIAL STRUCTURE BASED ON BUSINESS PROCESSES

2

Selection and description of businesses (main business processes)

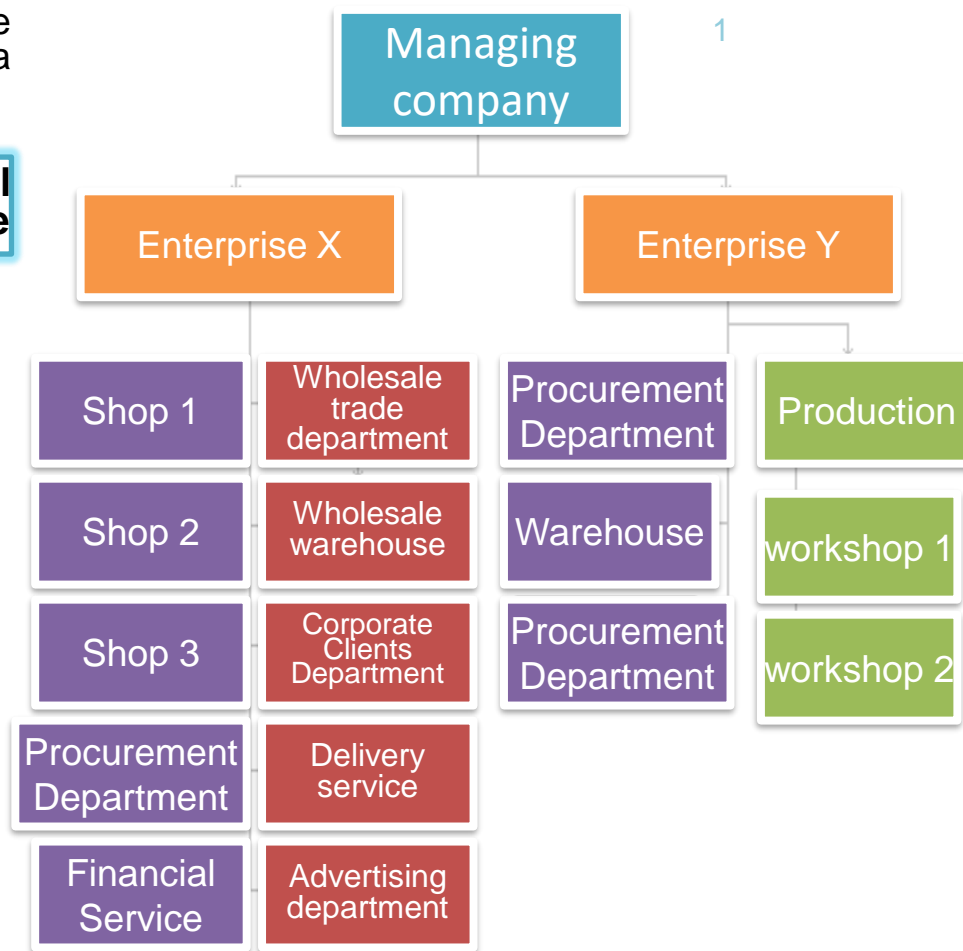
The description of businesses is made in terms of relations with the external environment. The main criterion for distinguishing a business is a product.¹

3

Analysis of the organizational structure of the enterprise

The analysis of the organizational structure should be carried out according to three criteria :¹

- ⊗ Relevance of the organizational structure
- ⊗ The presence of organizational inconsistencies
- ⊗ Execution of the financial function and attitude to the management of income, expenses and investments of the enterprise.



TOPIC 3

BUILDING A FINANCIAL STRUCTURE BASED ON BUSINESS PROCESSES

Analysis of the organizational structure of the enterprise ¹

Department	Function	Performance indicators	Profit management	Cost management	Investment management	Type of FRC
Managing company	Capital management	Capital profitability	Yes	Yes	Yes	IC
Enterprise X	MAX Profit	Profit	Yes	Yes	No	PC
Retail department	MAX Marginal profit	Marginal profit	Yes	Yes	No	CMP
— Shop 1	MAX Profit	Revenue	Yes	No	No	CP
— Shop 2	MAX Profit	Revenue	Yes	No	No	CP
— Shop 3	MAX Profit	Revenue	Yes	No	No	CP
Whole sale department	MAX Marginal profit	Marginal profit	Yes	Yes	No	CMP
— Whole sale warehouse	MIN Costs	Revenue	No	Yes	No	CC
Corporate Clients Department	MAX Marginal profit	Marginal profit	Yes	Yes	No	CMP
Advertising department	MIN Costs	Costs	No	Yes	No	CC
Procurement Department	MIN Costs	Costs	No	Yes	No	CC
Delivery service	MIN Costs	Costs	No	Yes	No	CC
Financial Service	MIN Costs	Costs	No	Yes	No	CC
Enterprise Y	MIN Costs	Costs	No	Yes	No	CC
Procurement Department	MIN Costs	Costs	No	Yes	No	CC
Production	MIN Costs	Costs	No	Yes	No	CC
workshop 1	MIN Costs	Costs	No	Yes	No	CC
workshop 2	MIN Costs	Costs	No	Yes	No	CC
Warehouse	MIN Costs	Costs	No	Yes	No	CC
Financial Service	MIN Costs	Costs	No	Yes	No	CC

BUILDING A FINANCIAL STRUCTURE BASED ON BUSINESS PROCESSES

4

Comparison of businesses and elements of organizational structure

Analysis of compliance of businesses and elements of the organizational structure of the enterprise ¹

Department	Business 1. Retail sale of building materials	Business 2 Wholesale of construction supplies	Business 3 Building materials for industrial construction
Managing company	+	+	+
Enterprise X	+	+	+
Retail department	+		
— Shop 1	+		
— Shop 2	+		
— Shop 3	+		
Whole sale department		+	
— Whole sale warehouse		+	
Corporate Clients Department			+
Advertising department	+	+	
Procurement Department	+	+	+
Delivery service	+	+	+
Financial Service	+	+	+
Enterprise Y			
Procurement Department	+	+	+
Production	+	+	+
workshop 1	+	+	+
workshop 2	+	+	+
Warehouse	+	+	+
Financial Service	+	+	+

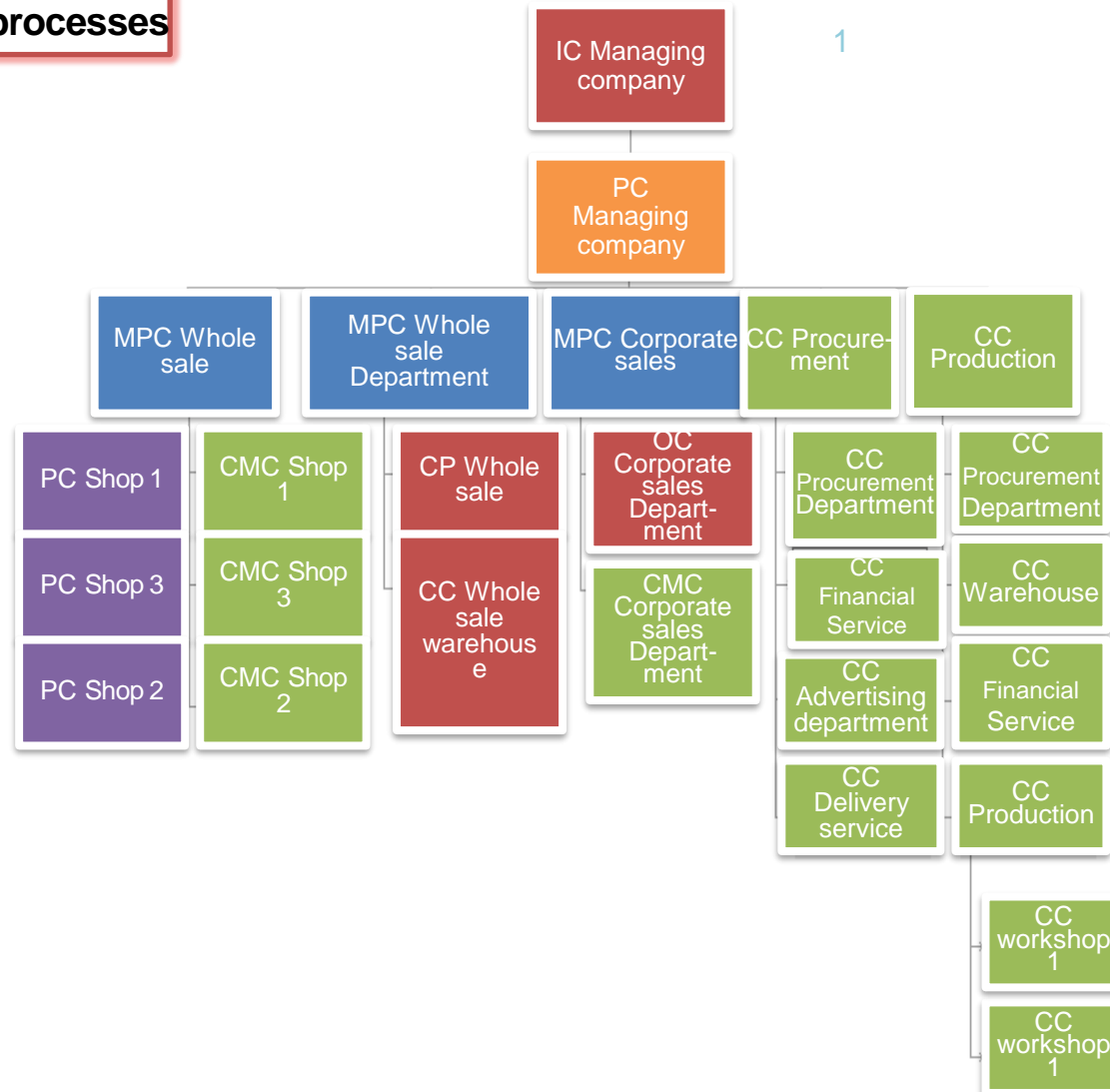
BUILDING A FINANCIAL STRUCTURE BASED ON BUSINESS PROCESSES

5 Designing a financial structure based on business processes

By comparing the main business processes (businesses) of the enterprise with the elements of the organizational structure, you can design a financial structure based on the affiliation of these elements.¹

The constructed structure is not optimal for the following reasons:¹

- Ⓜ The structure is overloaded with elements, at the same time they are all necessary
- Ⓜ Since all three businesses sell the same group of goods produced in a single production area, it becomes impossible to divide them into three businesses
- Ⓜ The positive effect of scale is not used, because the same type of functional services work independently of each other



BUILDING A FINANCIAL STRUCTURE BASED ON BUSINESS PROCESSES

Combining the positive effects of business process and functional business organization

① Division of business processes into external and internal.¹

With this approach are allocated to an independent business process "common" for external businesses functional services: procurement, logistics, manufacturing, advertising, finance. They will become independent business units with financial responsibility of the Profit Center. They are grouped by analogy with external business processes¹

Internal business processes¹

Internal Business	Input streams	Results	Management action	Mechanism
Business processes Production	Information on the needs of external business units	Satisfied need: «Building materials for resale» Product group: "Construction materials" Client group: "External business units"	Financial indicators: Net profit, business value. Legislation	Plant for the production of building materials
Business processes Logistics		Satisfied need: "Storage and supply of goods, raw materials and supplies" Product group: "Construction materials" Client group: "External business units"		Wholesale composition. Composition of raw materials Supply service

1. Development of the financial structure of the enterprise. Business Studio website. URL: https://www.businessstudio.ru/articles/article/razrabotka_finansovoy_strukturny_predpriyatiya/

TOPIC 3

BUILDING A FINANCIAL STRUCTURE BASED ON BUSINESS PROCESSES

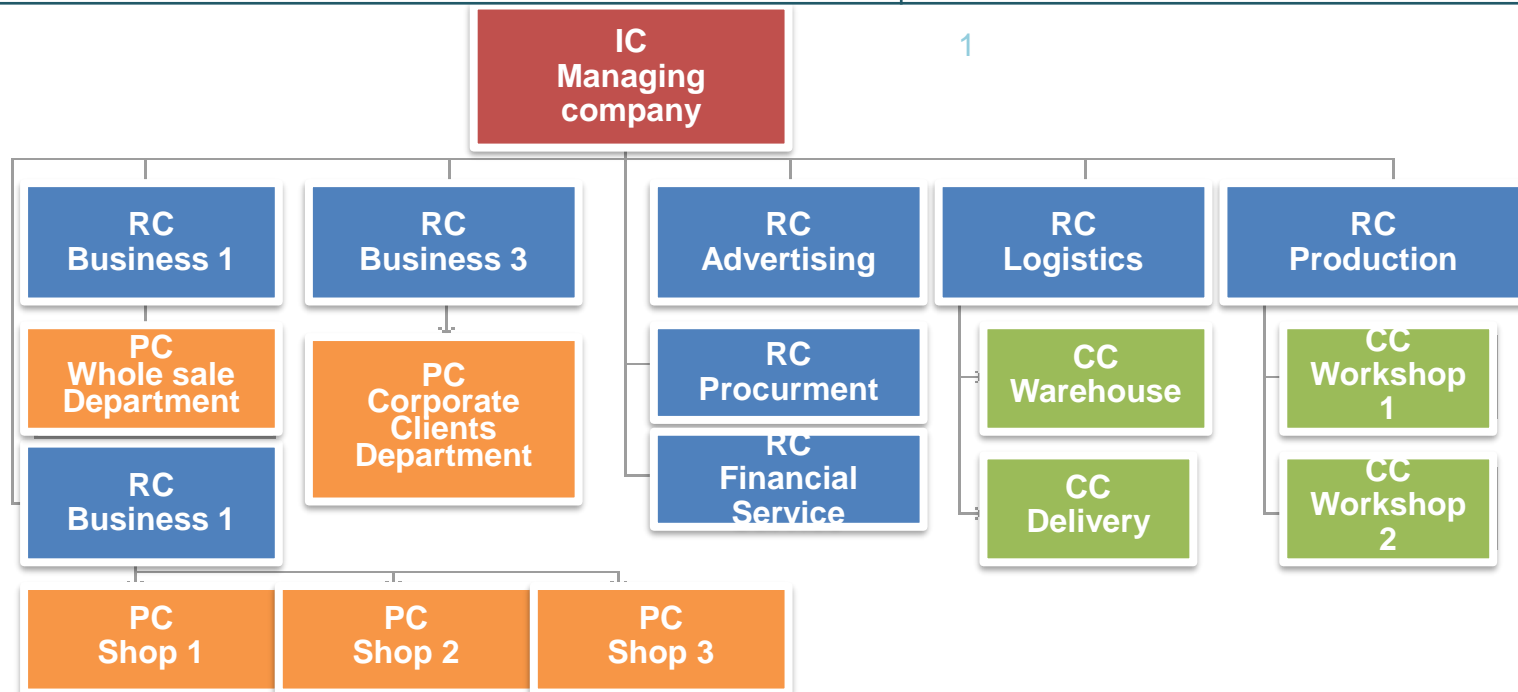
Internal business processes ¹

Internal Business	Input streams	Results	Management action	Mechanism
Business process Advertising	Information on the needs of external business units	Satisfied need: «Product promotion» Product group: “Promotions” Client group: “External business units”	Financial indicators: Net profit, business value. Legislation	Advertising department
Business process Procurement		Satisfied need: «External goods, raw materials and materials for production» Product group: “Raw materials, goods” Client group: “External business units”		Procurement department
Business process Calculations(finances)		Satisfied need: «Management and accounting statements» Product group: “Internal and external financial statements” Client group: “External and internal business units”		Financial Service

BUILDING A FINANCIAL STRUCTURE BASED ON BUSINESS PROCESSES

Financial structure taking into account internal business processes ¹

Advantages	Disadvantages
High transparency of the business due to the clear localization of the main business processes, the lack of "general" costs that distort the information about the financial results of the business	High requirements for staff qualifications, especially top managers, as the principles of BP interaction require control
Good business management through high transparency, clear financial objectives, self-regulatory and incentive mechanisms (as a result)	The complexity of setting up the system, developing a transfer pricing mechanism
Increased security of the business as a whole, due to the high independence of the BE, the "failure" of one BE will not lead to the failure of the entire system.	High requirements for the technology of accounting for its technical mechanisms due to the greater number of objects of accounting and accounting of internal transactions



TOPIC 3

BUILDING A FINANCIAL STRUCTURE BASED ON BUSINESS PROCESSES

② Standardization of the activities of "general" services for further calculation of the contribution of the unit to the financial result of each business process.¹

■ Transfer prices should be the basis for internal settlements of such a structure. Transfer prices are determined based on the analysis of external, market prices for similar goods and services.

■ In order to increase the efficiency of business units and optimize costs, external business units must be able to choose whether to buy goods / services from internal business units or from external suppliers.

■ A business unit always has an alternative - to buy a similar product / service on the side, to organize such a process independently, at the expense of their own resources, or still purchase a product / service of an internal business unit. Since in such an organization of work, internal business units use a positive effect of scale, their prices, with the correct organization of work, must be competitive.¹

Disadvantages:¹

■ Transfer pricing mechanism. It is not always possible to correctly calculate prices for all domestic goods and services.

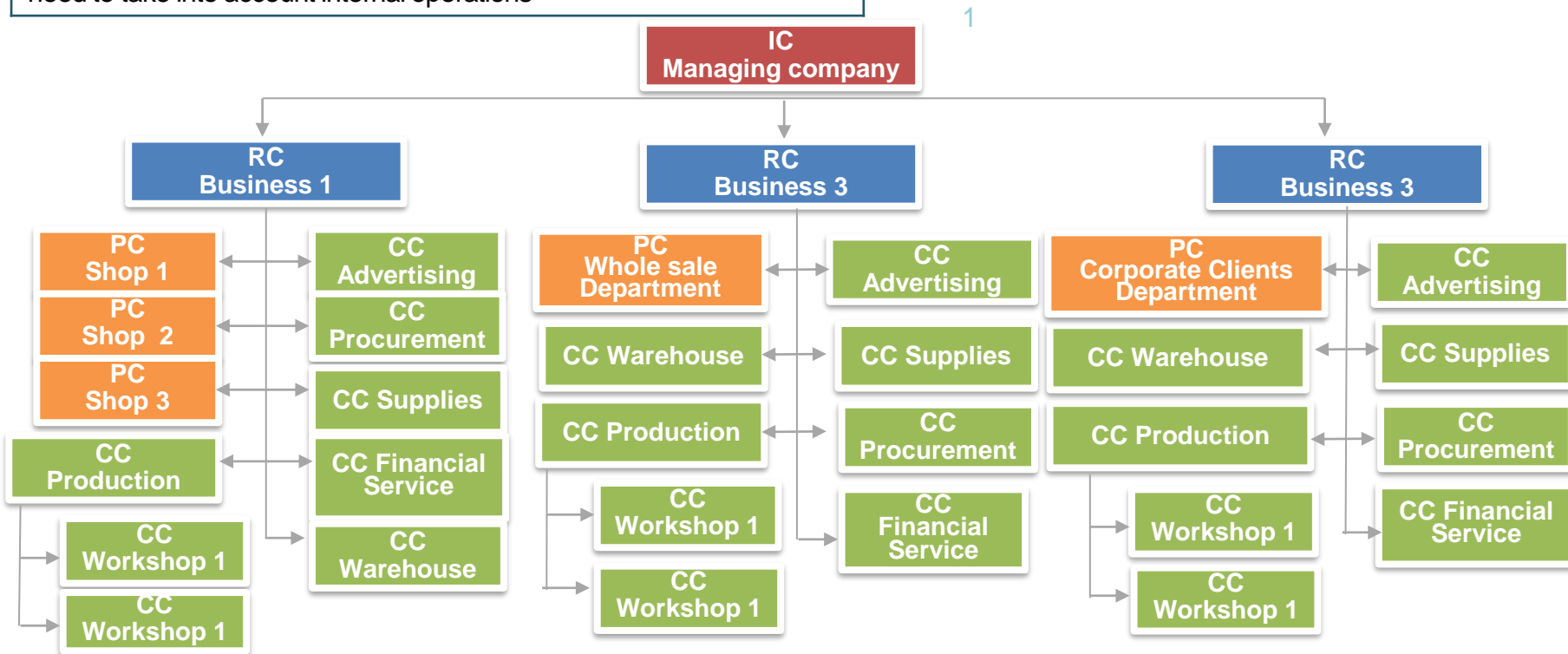
■ The problem of accounting for internal settlements. With such a business organization it becomes necessary:

- clearly formalize and document all processes of interaction of business units
- second, take them into account.

BUILDING OF FINANCIAL STRUCTURE ON THE BASIS OF ORGANIZATIONAL STRUCTURE ¹

Advantages	Disadvantages
Ability to analyze the effectiveness of the main businesses of the enterprise, due to their localization in the CMD	The presence of "general" costs that distort information about the financial results of the business
Average requirements for staff qualifications, due to the similarity of the financial structure with the usual organizational structure	Lack of mechanisms for self-regulation and stimulation of business units
The average difficulty of setting up the system due to the lack of need for a transfer pricing mechanism	
Low requirements to the technology of accounting for its technical mechanisms, due to the number of objects of accounting and the lack of need to take into account internal operations	

TOPIC 3



1. Development of the financial structure of the enterprise. Business Studio website. URL: https://www.businessstudio.ru/articles/article/razrabotka_finansovoy_strukturny_predpriyatiya/

ERRORS IN CONSTRUCTION OF FINANCIAL STRUCTURE

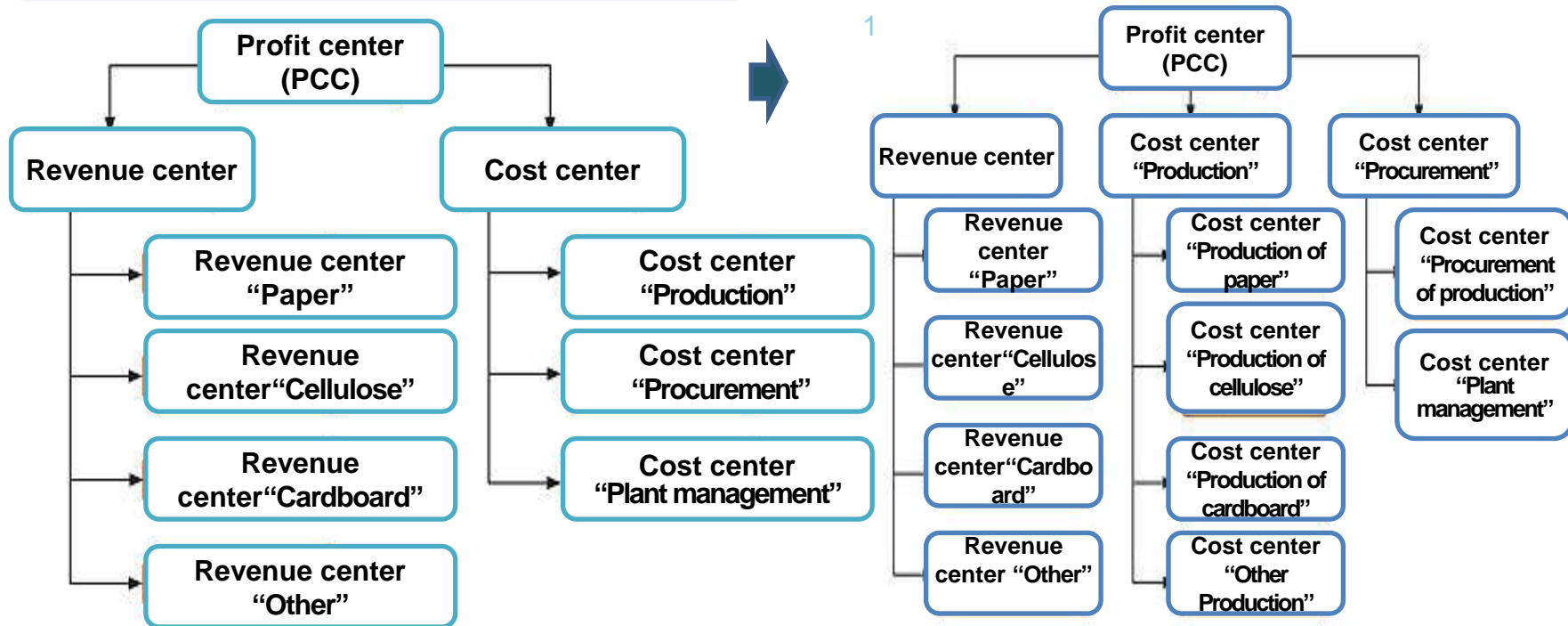
Complexity

One of the most common mistakes is to replace the analytics system with the CFV system, as a result the financial structure of the enterprise becomes too confusing ¹

For the financial structure to be transparent, it would be more logical to go in the decomposition of the CFO to the level where the obvious link between costs and financial results. ¹

For example, if profit centers were divided on a product basis, then with cost centers, at least, it was necessary to do the same ¹

Significant enlargement of CC



TOPIC 3

1. Borovkov P. Five mistakes to be avoided when building the financial structure of an enterprise. fd: website. URL: <https://www.fd.ru/articles/37574-pyat-oshibok-kotoryh-sleduet-izbegat-pri-postroenii-finansovoy-strukturny-predpriyatiya/>

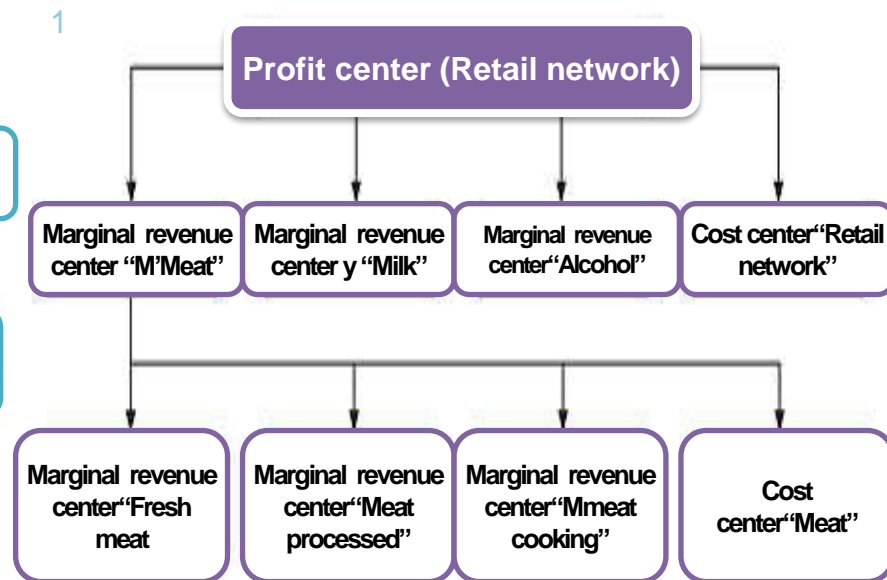
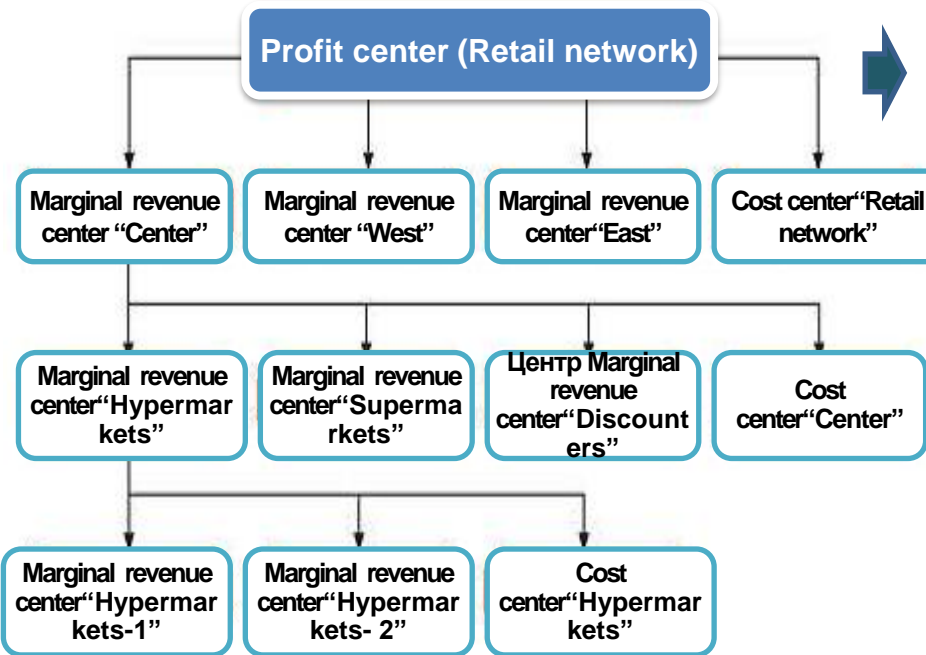
ERRORS IN CONSTRUCTION OF FINANCIAL STRUCTURE

Copying the organizational structure

When a company does not have an obvious criterion for the selection of CFR, even knowing all the nuances of the business, it is difficult to abstract from the stereotypes and understand which departments and for what are really financially responsible.¹

The first idea of the management of the supermarket chain was to create a central office in each store, because it is in it that sales are carried out (revenues are generated) and the basic cost is formed.¹

The centers of financial responsibility, or rather, marginal revenue have become large product areas. The company was able to manage not only market share or range, but also its economic efficiency.¹



TOPIC 3

ERRORS IN CONSTRUCTION OF FINANCIAL STRUCTURE

Temporary CR

The center of financial responsibility, by definition, is a permanent, stable unit. However, in practice, when a company has some important business processes or projects with high returns and investments (dynamic in nature), they are often considered as separate CFR. Since both projects and processes are temporary phenomena, the financial structure will creep in any of their restructuring.¹



Each project generated significant income and expenses, was given the status of "profit center", and was appointed responsible manager who is responsible for financial results¹.

It was unclear how to reflect in the plans and reports new projects for customers with whom they have already collaborated, etc.

To solve all these problems, the company had to reconsider its financial structure. Namely, to build it on sustainable types of projects: creating websites, organizing banner campaigns, promoting on social networks, etc.¹

Not for professional use

The center of financial responsibility, by definition, is a permanent, stable unit. However, in practice, when a company has some important business processes or projects with high returns and investments (dynamic in nature), they are often considered as separate CFR. Since both projects and processes are temporary phenomena, the financial structure will creep in any of their restructuring..¹



Common cases where the correct financial structure loses all meaning due to management errors.

In particular, when an economist is appointed the head of the CFV, and not the manager of the relevant department ("managers still do not understand anything in finance"). Or when the responsibility centers lower the budget from above, without the possibility of its adaptation.

Another mistake is the allocation of centers of marginal revenue with the subsequent distribution of indirect (corporate) costs.¹

USE OF RESPONSIBILITY CENTERS ACCORDING TO SWOT

S

Strengths

① Increasing the time for strategic planning and the possibility of using two formats of BDR (revenue and expenditure budget):¹

● on a functional basis (by business processes or business creation), when the responsibility for the items of expenditure in the consolidated BDR rests with the functional directors.

● resource principle, when the resource budget is drawn up, which reflects the total amount of expenditures on necessary resources.

② Effective application of the concept of deviation management, because in this case it is known in advance which of the units brings revenue or bears certain costs¹

③ Ensuring a reasonable choice of the base of distribution of general expenses on the CFR / PC, which is simply necessary for the direct costing system;¹

④ Motivated approach to the allocation of CFR (allocation of new CFR, division and merging of existing ones) on a functional, linear basis¹

W

Weaknesses

① Managers of financial responsibility centers tend to consider only their business direction, and not the organization as a whole, which may be contrary to the principle of collegiality of the budget process¹

② Increase in the cost of obtaining additional information from the heads of the CFV, increasing the flow of documents; Blurring of responsibilities under separate articles of the basic budget between several heads, especially it concerns resource planning¹

③ Increased time for budget preparation, approval and approval due to the large number of participants in the budget process¹

④ Often very poor training of heads of financial responsibility centers in the field of financial planning¹

USE OF RESPONSIBILITY CENTERS ACCORDING TO SWOT

O

Opportunities

- ① Ability to evaluate the results of a particular unit (the degree of achievement of goals), comparing the effectiveness of different units in financial indicators
- ② Ability to draw the attention of the company's top management to those areas of activity where it is most needed
- ③ Possibility of business decentralization
- ④ Ability to improve the system of motivation of CFV employees through the implementation of their planned indicators
- ⑤ The possibility of using internal (transfer) pricing, which is especially important for large holding companies with a wide range of products, list of works, services.¹

T

Threats

- ① The costs of building and implementing this system are currently not quantifiable and may be greater than the effect of its use (at least in the short term), which is often due to lack of regulatory documents governing the financial structure, and its preparation takes a lot of time
- ② Rejection of functionalities due to various reasons
- ③ Threat of duplication of services and functions in different departments
- ④ Increased risks associated with planning errors¹

ORGANIZATION OF MARKETING ACTIVITIES IN THE BUSINESS OF THE ENTERPRISE

Organization of marketing activities: 1

- building (improving) the organizational structure of marketing management;
- selection of marketing specialists (marketers) with appropriate qualifications;
- creation of conditions for effective work of employees of marketing services (the enterprise of their workplaces, providing the necessary information, means of office equipment, etc.);
- organization of effective interaction of marketing services with other services of the organization.

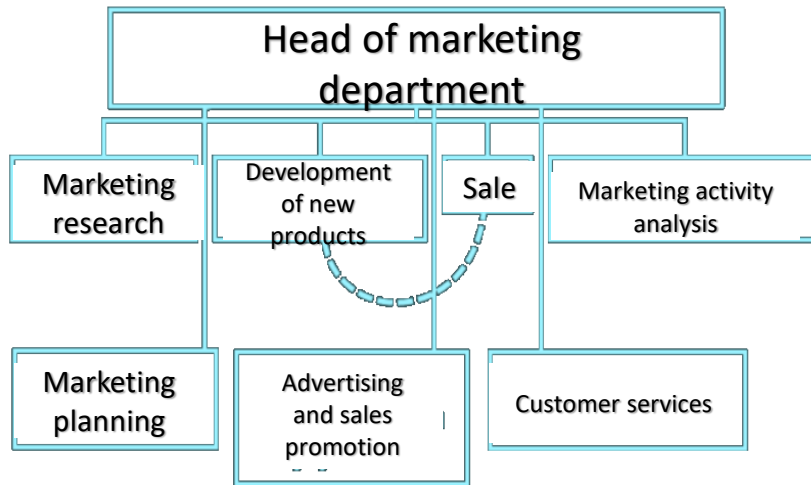


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ORGANIZATION OF MARKETING ACTIVITIES IN THE BUSINESS OF THE ENTERPRISE

Functional organization of marketing

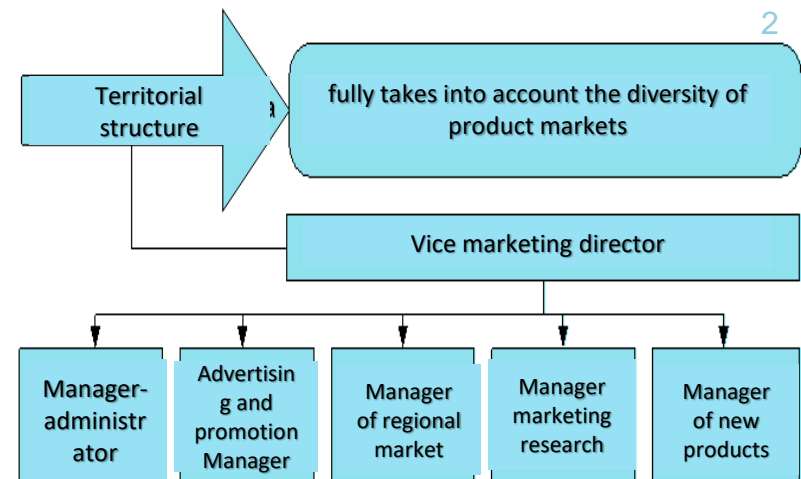
The activities of specialists in marketing departments are organized based on the marketing functions they perform (marketing research, sales, advertising, etc.).¹



*Efficiency decreases with increasing product range and expanding markets. There is no person (except the head of the department) who is responsible for marketing individual products in general or for marketing activities in certain markets.*¹

Geographical (territorial) organization

Marketing professionals, primarily salespeople, are grouped by geographic area.



Allows salespeople to live within the service area, know their customers well and work efficiently with minimal time and money spent on travel.¹

TOPIC 3

1. Zhavoronkov M. Management of marketing. Marketing-mmz: website. URL: https://marketing-mmz.bitrix24.site/upravlinnya_marketynhom

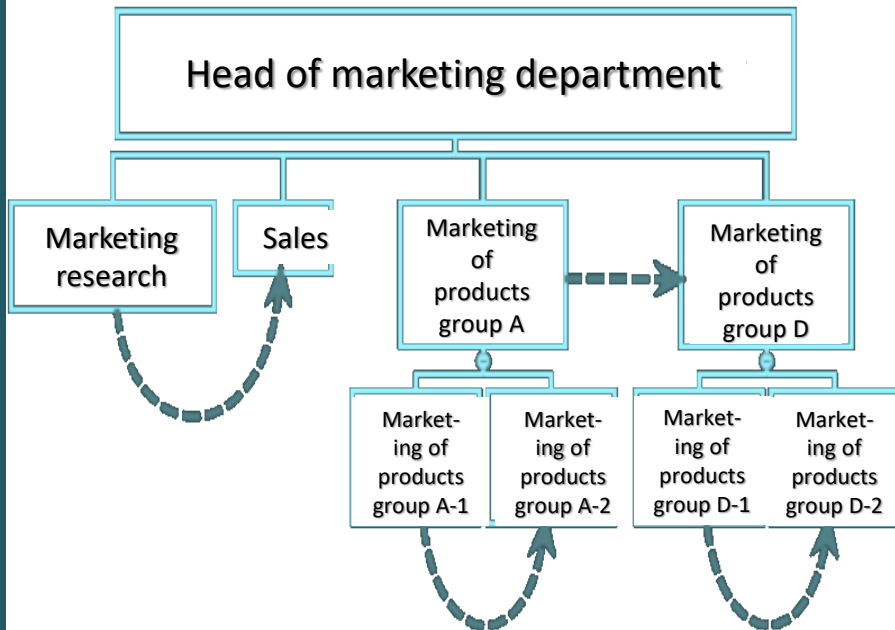
2. Hryhorchuk T. V. Marketing: a distance course. URL: <https://sites.google.com/site/marketingdistance/pro-posibnik>

ORGANIZATIONAL STRUCTURES OF MARKETING MANAGEMENT

Functional product organization

Functional marketing services of the enterprise produce and coordinate the implementation of some unique goals and objectives of marketing¹

The product manager is responsible for developing and implementing marketing strategies and plans for a specific product or group of products.¹



Used by organizations producing multi-item products.¹

Advantages

The manager has the opportunity to coordinate various works on the whole marketing complex for this product

The manager can respond quickly to market demands

In the field of view of the product, which are in high demand and less popular

Disadvantages

The manager is not endowed with powers that would be fully consistent with his activities (he, as a rule, in the production sphere only determines the policy in the field of new product development, monitoring its delivery; R&D, research and production units are not subject to him)

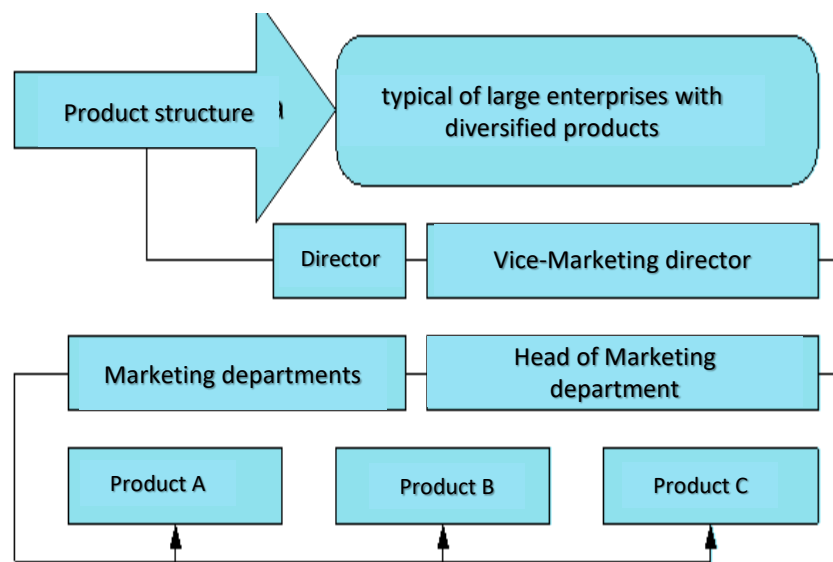
Requires high costs. Initially, managers are assigned to the main products. However, soon in the structure of the enterprise there are managers, responsible for a less important product, have their own staff

Employees of functional departments may have double lines of subordination: their immediate superiors and heads of functional marketing services

ORGANIZATIONAL STRUCTURES OF MARKETING MANAGEMENT

Product (commodity) organization

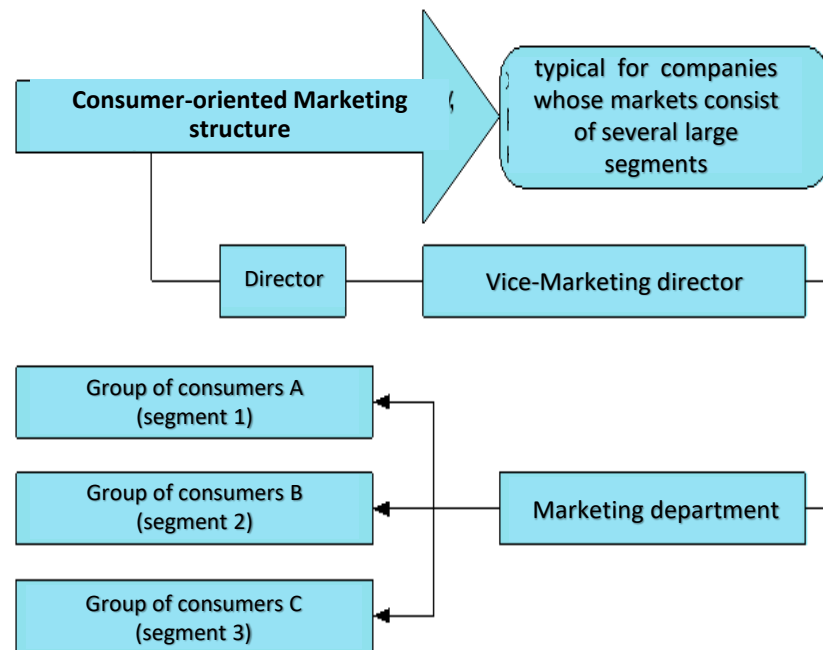
The development and implementation of marketing strategies and current plans for a particular product or group of products is the responsibility of the product manager, who has employees who perform all the necessary marketing functions for this product.¹



Disadvantages: high costs, parallel development of marketing issues, competition between individual units².

Marketing structure is consumer-oriented

The advantages of the model are the ability to closely monitor each segment and to ensure close communication with consumers²



Disadvantages - the high complexity of work, significant costs²

TOPIC ② 3

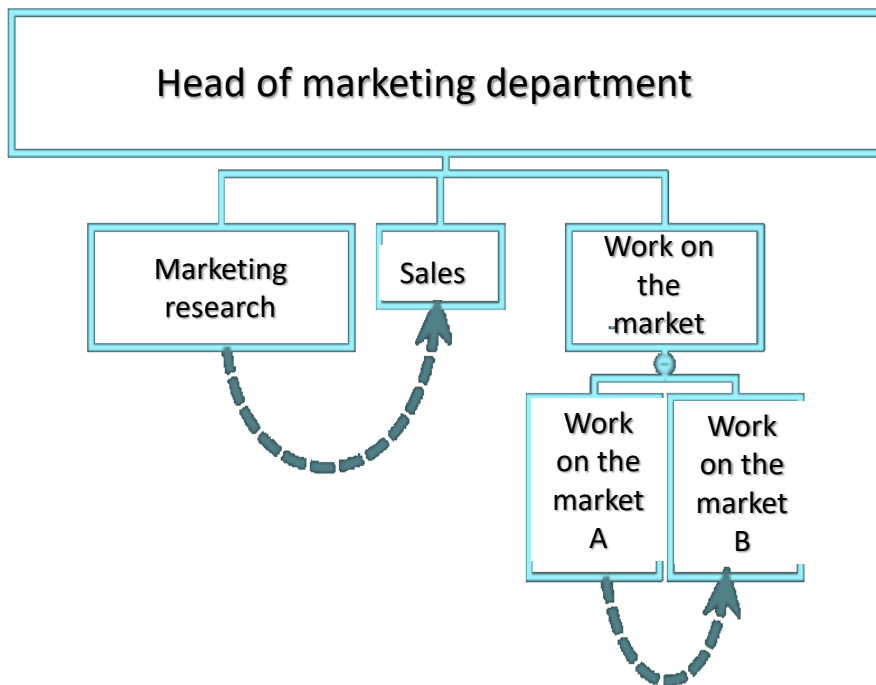
1. Zhavoronkov M. Management of marketing. Marketing-mmz: website. URL: https://marketing-mmz.bitrix24.site/upravlinnya_marketynhom
 2. Hryhorchuk T. V. Marketing: a distance course. URL: <https://sites.google.com/site/marketingdistance/pro-posibnik>

ORGANIZATIONAL STRUCTURES OF MARKETING MANAGEMENT

Functional market organization

Functional marketing services of the enterprise produce and coordinate the implementation of some unique goals and objectives of the company for marketing.¹

1



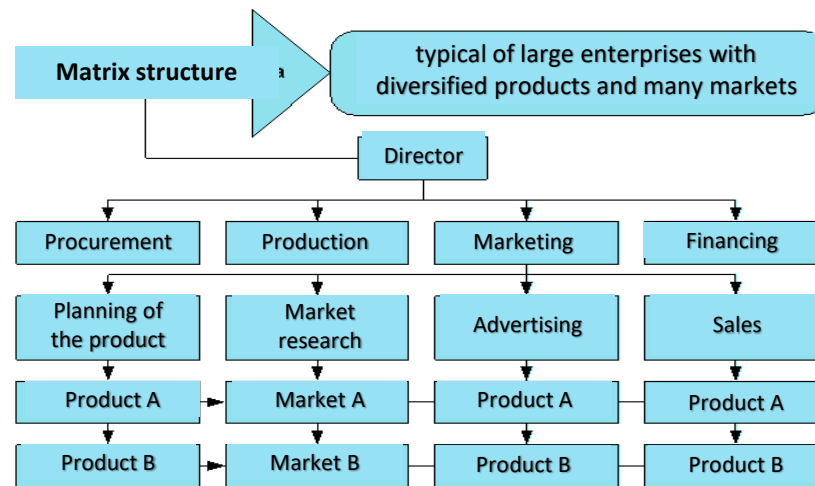
Concentration of marketing activities around the needs of specific market segments, not around individual products.¹

Functional-product-market organization

Functional marketing services of the enterprise produce and coordinate the implementation of some unique goals and objectives of marketing

Matrix organization

The advantages of the matrix organization of marketing are the ability to ensure integrated performance, cost savings, avoid parallel development²



Disadvantages - difficulties in organizing the structure, defining functions².

1. Zhavoronkov M. Management of marketing. Marketing-mmz: website. URL: https://marketing-mmz.bitrix24.site/upravlinnya_marketynhom

2. Hryhorchuk T. V. Marketing: a distance course. URL: <https://sites.google.com/site/marketingdistance/pro-posibnik>

ORGANIZATION OF MARKETING DEPARTMENT ¹

1. Sales department

Businesses that have sales departments may conduct marketing research and advertising, but they are not the main



2. Sales department performing marketing functions

Such departments are created at the enterprises when their sphere of activity expands and there is a necessity in market researches, the organization of advertising, planning of actions for service of customers.



3. Special marketing department

The development of the enterprise leads to an increase in the importance of such marketing functions as market research, new product development, advertising and sales promotion, and marketing activities are concentrated in a specially created department.



4. Marketing department that performs sales functions

A number of enterprises have combined these services. This was due to the fact that conflicts often arose between the deputy heads of the enterprise responsible for marketing and sales. The deputy head of sales is responsible only for organizing the sale of goods, and the deputy head of marketing seeks to perform all functions related to customer service



5. Modern marketing department.

The organizational structure of marketing management as a holistic system is presented only in large companies and corporations. In the case of medium-sized businesses, these structures may have their own divisions, and in small businesses, marketing functions are usually entrusted to the top manager or owner of the enterprise.

ORGANIZATION OF MARKETING DEPARTMENT

Functions of the marketing department¹

- Market research, which includes the study of supply and demand, analysis of customer behavior.
- Formation of commodity policy. Working with the range, appearance of goods, packaging, compiling "delicious" offers.
- Pricing policy and pricing.
- Drawing up a strategy for the sale of goods / services.
- Communication with the market (promotions, branding, company image formation, etc.)
- Building a relationship between brand and customer¹



Marketing Director¹

- Goal setting by the marketing department
- Budget planning for marketing events, promotions and campaigns.
- Determining whether there is a need for an event and their coordination.
- Control what they do in the marketing department.
- Dialogue with sales and outsourcing specialists (if any).
- Report of the marketing department on the work done and the clients involved
- Tracking of KPI indicators of the marketing department¹



ORGANIZATION OF MARKETING DEPARTMENT

Chief specialists¹

- Marketing Director.
- Analyst. He is responsible for data collection.
- The promotion manager draws up a sales plan using data from an analyst.
- Specialist in the range of goods / services.
- The person responsible for online promotion.

Job levels¹

- Strategic Management - it is represented by the head of the department, which reports to other specialists.
- Tactical management in the person of the department manager - forms the principles of the marketing department.
- Execution (state marketers) - the main activity of the marketing department is these specialists.
- Technical level. Responsibility of employees on it in the organization of marketing campaigns.
- Auxiliary level. This is the work of copywriters, designers, content managers, SEO optimizers and so on.

Number of specialists¹

1

The traditional scheme for companies with low turnover. They want to see 12 positions in one person

2

1 person is responsible for analytics and research, the other - for promotion.

3-8

Full-fledged department

n

Marketing departments. This is the choice of "business sharks", as a full-fledged department is created for each marketing area.

Internet marketing specialists¹

1. A content manager is a specialist responsible for selecting the optimal content for a resource (website or blog), material for publication on social networks.
2. SMM specialist - he interacts with clients on social networks, promotes groups and public pages using modern tools.
3. The SEO-specialist is responsible for building a strategy for promoting the web-site, for its good position in search engine rankings.
4. Director (contextual) configures contextual advertising.
5. Targetologist, essentially the same director, but within social networks.

ORGANIZATION OF MARKETING DEPARTMENT

Analytical department

Purpose: Ensuring the organization's need for information about the external environment¹

Tasks:¹

- Development of a marketing plan
- Development of standards for marketing research at the firm level
- Budget development, organization and conduct of marketing research
- Advising various services of the enterprise on the development of new products, areas of improvement of the old product, production planning, etc.
- Work in the field of analysis of internal indicators (pricing, efficiency of the movement of products and services, the effectiveness of the distribution system, evaluation of the effectiveness of advertising, etc.)
- Sales forecasting
- Development of proposals for the organization's strategy.

Development Department

Purpose : Definition and development of target segments, development of enterprise products¹

Tasks :¹

- identification of potential buyers - development of marketing
- programs for certain markets or products;
- analysis of trends in changing consumer preferences;
- contacts with current and potential customers in order to determine promising areas of production;
- organization of development of new products and services, improvement of old goods;
- support of the branch database on new design and technological achievements;
- analysis of competitors' products and services - development of budgets for marketing programs and R&D;
- development and analysis of testing programs for products and services;
- quality control of manufactured products.

ORGANIZATION OF MARKETING DEPARTMENT

Advertising and PR department

Purpose : Communicating with potential consumers¹

Tasks:¹

- development of standards for advertising campaigns at the external level and within the organization;
- development of media plans; organization and quality control of advertising campaigns;
- evaluation of the effectiveness of advertising campaigns;
- organization of work to create corporate identity and company image;
- assessment of the relationship of the external environment to the company;
- organization of press conferences, exhibitions, fairs, etc .;

- preparation and editing of in-house publications and other information materials;
- creation and maintenance of corporate spirit within the team;
- negotiations with contractors on the price and quality of services provided - determination of advertising prices for organizations and individuals wishing to place advertising in the production and information areas of the company, or using its products and services;
- organization of development of printed, audio and video advertising materials by own forces or by third-party organizations;
- training of specialists of the sales department on the technique of working with advertising materials¹

ORGANIZATION OF MARKETING DEPARTMENT

Interaction of the marketing department with the sales department ¹



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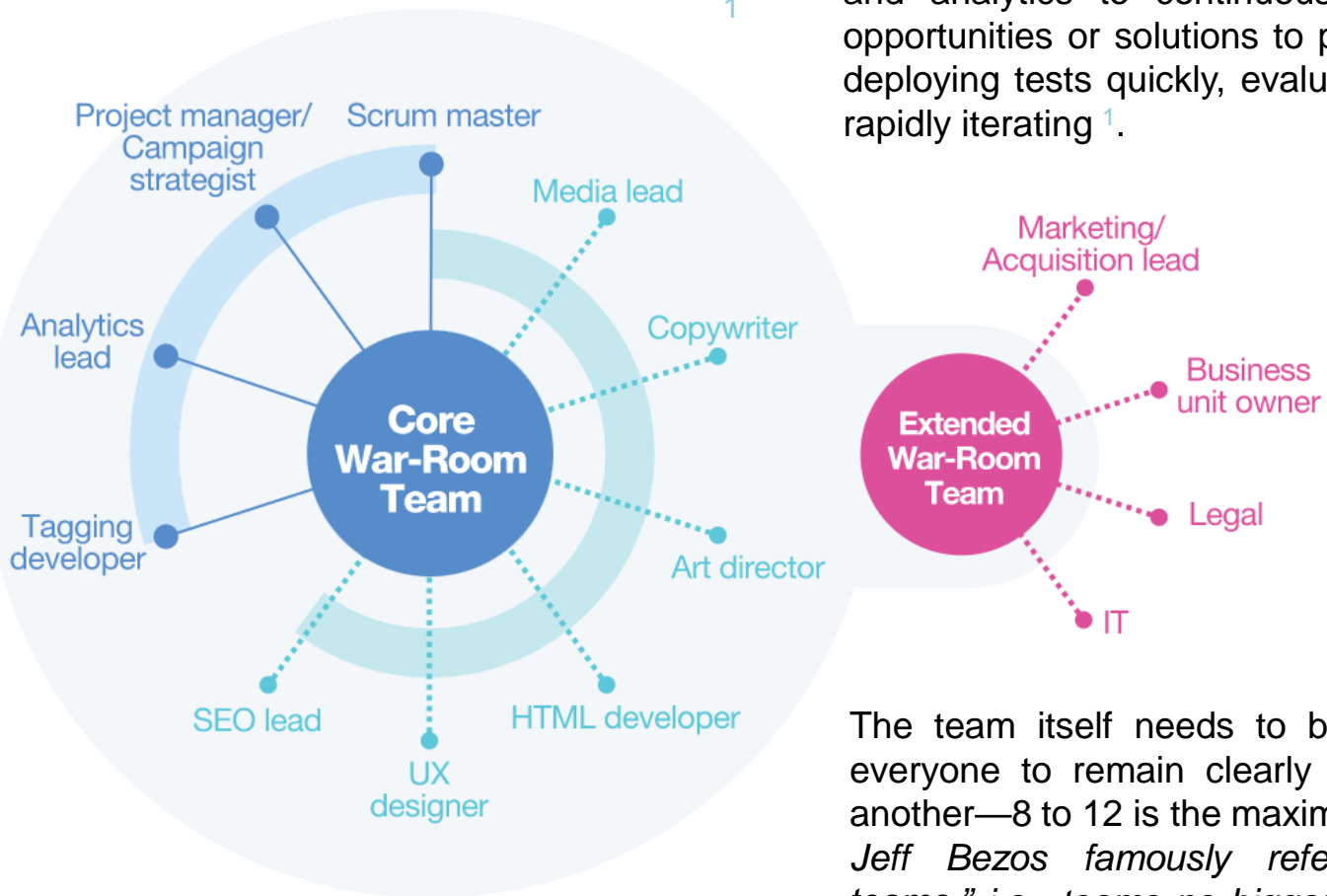
1. Marketing department. main functions and tasks! Maximus Media: website. URL: <https://maximusmedia.pro/article/otdel-marketinga-cto-gde-zachem-osnovnye-funkczii-i-zadachi>

ORGANIZATION OF MARKETING DEPARTMENT

Agile marketing team

Agile, in the marketing context, means using data and analytics to continuously source promising opportunities or solutions to problems in real time, deploying tests quickly, evaluating the results, and rapidly iterating ¹.

1



The team itself needs to be small enough for everyone to remain clearly accountable to one another—8 to 12 is the maximum size.

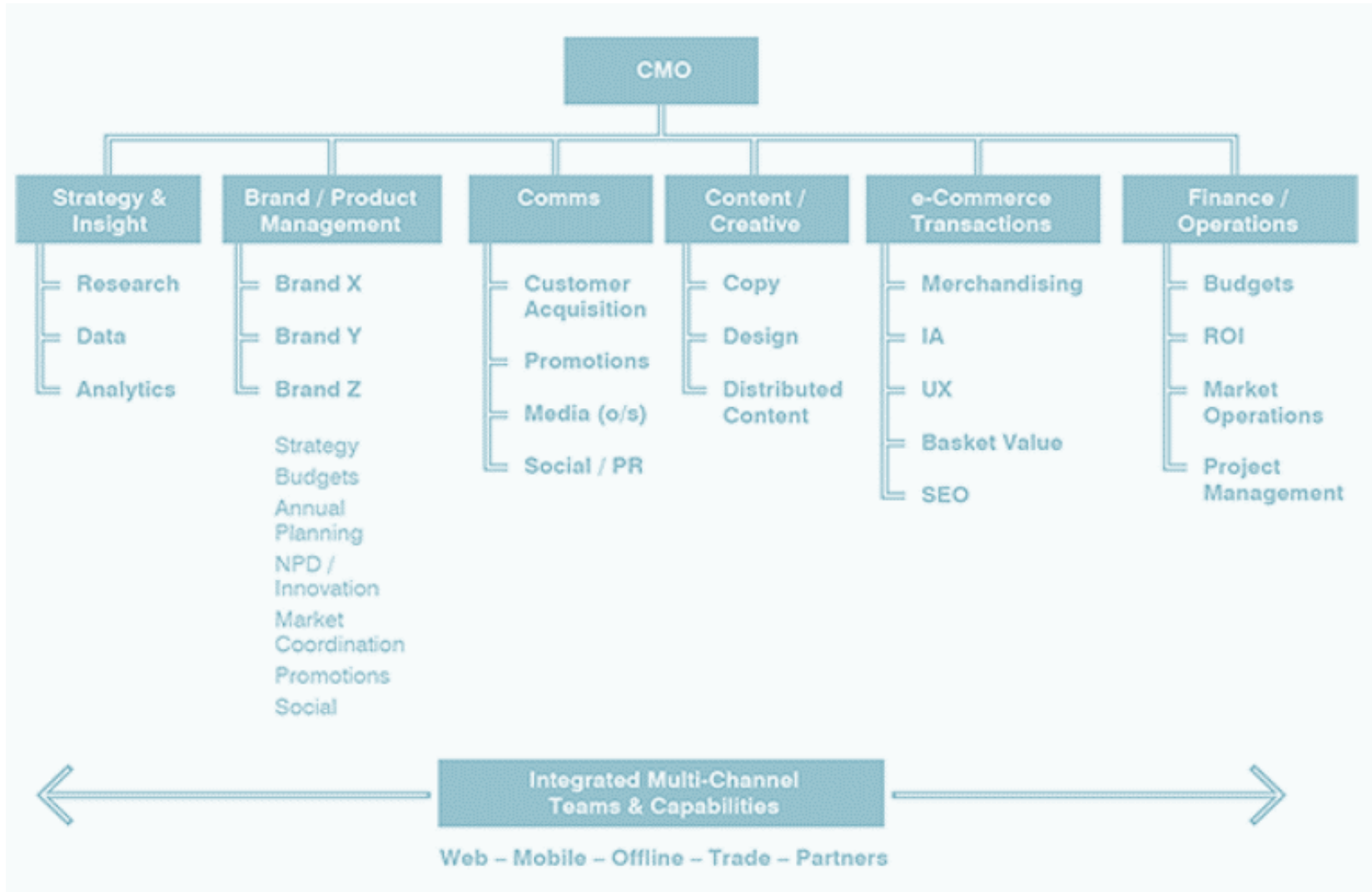
Jeff Bezos famously referred to “two-pizza teams,” i.e., teams no bigger than can be fed by two pizzas ¹.

②
TOPIC
③

② MARKETING MANAGEMENT OF THE ENTERPRISE

ORGANIZATION OF MARKETING DEPARTMENT

The structure of the marketing department ¹



② MARKETING MANAGEMENT OF THE ENTERPRISE

EFFICIENCY OF BUSINESS MARKETING

MARKETING COSTS¹

① **Costs associated with the organization and maintenance of the service (department) of marketing**

- Salary costs of marketing staff.
- Depreciation deductions
- Operating costs and other related to the normal operation of the marketing department.¹

② **Costs associated with marketing activities, implementation of the marketing plan**

- Expenditures on activities related to product development and product policy, investment in the brand.
- Costs of measures related to pricing policy.
- Expenses for activities related to the promotion of goods (both the costs of promotion activities and losses from discounts).
- Expenses for activities related to the implementation (sales).
- Expenses for activities related to research and analytical activities of marketing.¹

MARKETING REVENUES¹

① **Linear or active revenue**

Arises as a result of attracting new customers.¹

Active income = Number of newly attracted customers * Average purchase size of a new customer¹

② **Residual or passive income**

Occurs as a result of the organization's retention of customers. This income is not only marketing, but also depends on other factors, including discounts to customers and loyalty programs¹

Passive income = Number of retained customers * average purchase size of retained customers. In this case: Number of customers withheld = Number of customers * retention rate

③ **Indirect profit or loss**

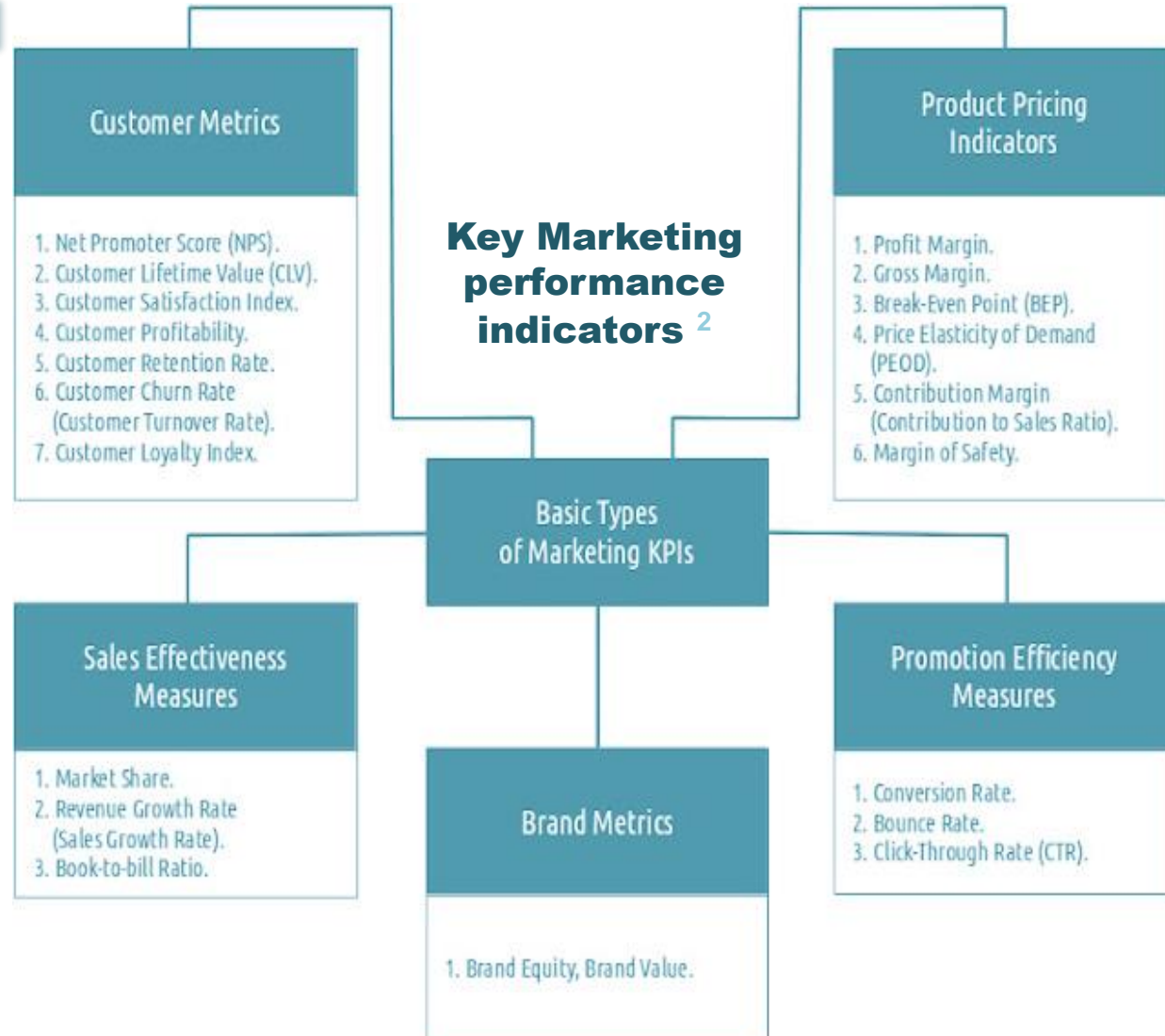
Occurs as a result of the fall of the national currency, which can reduce sales or, conversely, cause a wave of sales motivated by external factors¹

② MARKETING MANAGEMENT OF THE ENTERPRISE

EFFICIENCY OF BUSINESS MARKETING

DEFINITION

Economic efficiency from marketing - a relative indicator that shows the ratio of the result to the cost of marketing, or the types of marketing costs that led to this result, as well as the positivity of the resource balance - providing the marketing service with the necessary resources ¹



1. How to calculate marketing effectiveness. Consulting company Iteam: website. URL: <https://blog.iteam.ru/kak-rasschitat-effektivnost-marketinga/>

2. Examples of the Most Popular Key Performance Indicators. URL: <http://kpi-examples.blogspot.com/2016/11/list-of-the-best-marketing-metrics-and-kpis-examples-of-sales-effectiveness-kpi-crm-metrics-and-other-key-performance-indicators-for-the-manager.html>

EFFICIENCY OF BUSINESS MARKETING

Indicators of marketing effectiveness ¹

1. Sales effectiveness measures

- Market share;
- revenue growth rate (sales growth rate);
- book-to-bill ratio.

2. Customer metrics

- Net promoter score (NPS);
- customer lifetime value (CLV);
- customer satisfaction index;
- customer profitability;
- customer retention rate;
- customer churn rate (customer turnover rate);
- customer loyalty index.

3. Product pricing indicators

- Profit margin;
- gross margin;
- break-even point (BEP);
- price elasticity of demand (PEOD);
- contribution margin (contribution to sales ratio);
- margin of safety.

4. Promotion efficiency measures

- Conversion rate;
- bounce rate;
- click-through rate (CTR).

5. Brand metrics:

- Brand equity,
- brand value.

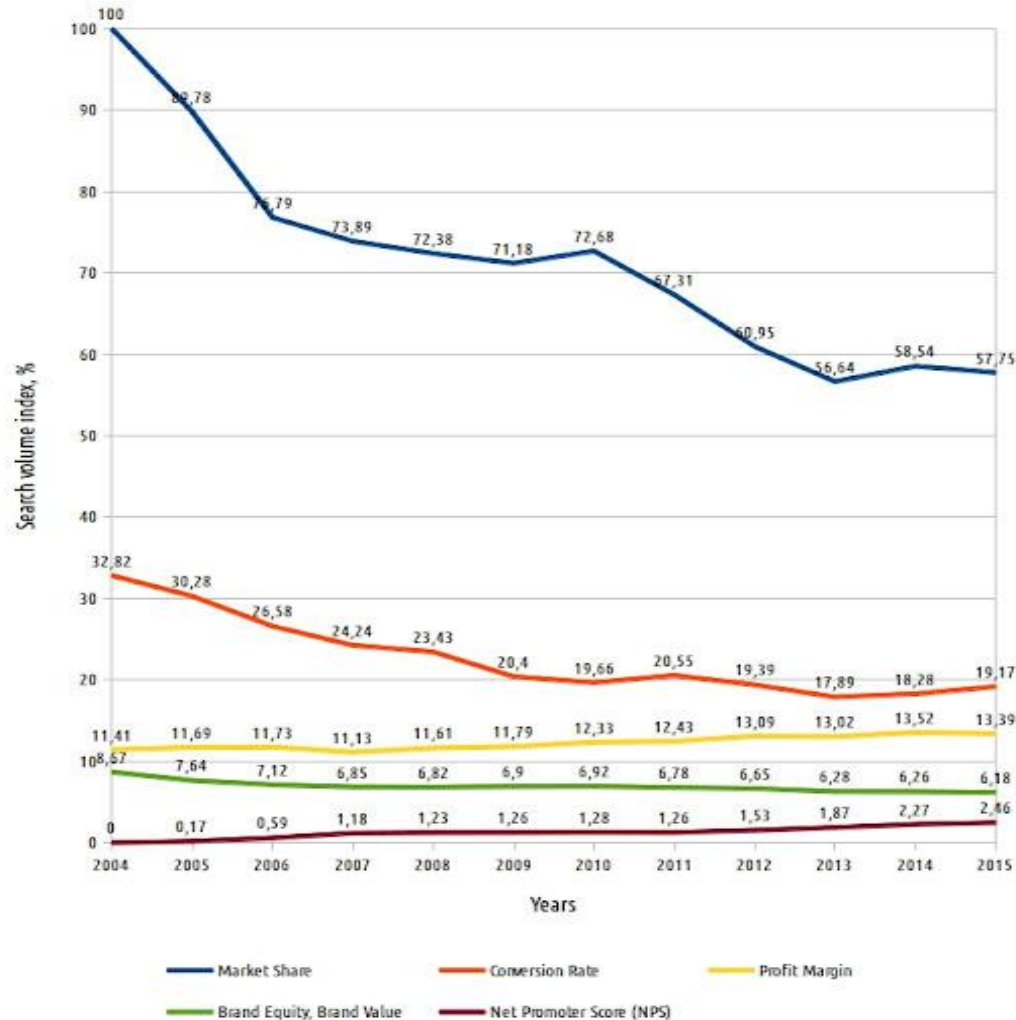
The most popular marketing KPIs in their categories

- Market share (sales effectiveness measures);
- net promoter score (customer metrics);
- profit margin (product pricing indicators);
- conversion rate (promotion efficiency measures);
- brand equity, brand value (brand metrics).

② MARKETING MANAGEMENT OF THE ENTERPRISE

EFFICIENCY OF BUSINESS MARKETING

Marketing KPI charts: the best by categories in 2004-2015* ¹



*Based on the web search data in 2004-2015.

BUSINESS MODEL OF THE ENTERPRISE



4.1. Content, archetypes and types of business enterprise models

4.2. Mechanisms of formation of business models

4.3. Building a business model based on templates and improving it

DEFINITION

Enterprise business model – it is a set of elements that characterize the fundamental logic of its operation based on the effective use of competencies and strategic resources in business processes to create a product (service) with high value that meets consumer priorities and provides profit growth¹

Key questions of the business model¹:

■ How a company does business?

Interpreted as the architecture and interaction of different entities (consumers, suppliers, intermediaries, investors) and objects (products, services, works, processes) of the business model

What does the company use to do business?

This means the presence of specific "inputs" in the company - resources, abilities, competencies

What value does the company provide to consumers?

Focus on creating high added value (value) for consumers.

What is the company's profit mechanism?

This financial characteristic of the business model ensures the completeness of its economic content.

«Equation of value» M. Levy - the relationship between business model and strategy^{2; 3}

$$V=M \times S$$

V – Value,
M - Model
S - Strategy .

Business model is created for^{2; 3} :

- for a specific product or service (group of homogeneous goods (services))
- for the enterprise as a whole
- for a group of enterprises or a holding company

1. Formation of the business model of the enterprise: Lecture course for students of the training direction 6.030504 "Economics of the enterprise" / Compiler, Candidate of Economics, Associate Professor S. K. Kucherenko - Dnipropetrovsk: 2013. 80 p.
2. Frolova L. V. Kravchenko E. S. Formation of business models of an enterprise: textbook. K.: Center for Educational Literature, 2012. 384 p.
3. Formation of a business model of an enterprise: a summary of lectures for bachelor's degree students/ Ministry of Education and Science of Ukraine, Donetsk. national University of Economics and Trade named after M. Tugan-Baranovskyi, cafe. business and trade. - Kryvyi Rih: DonNUET, 2018. 83 p.

BUSINESS MODEL FUNCTIONS¹

Strategic functions

- Defining the company's mission, strategic vision and development opportunities in existing and promising markets
- Ensuring the implementation of the company's strategy
- Study of future consumer priorities
- Increasing competitiveness and ensuring the uniqueness of the company

Operational functions

- Ensuring the optimal distribution of existing and focusing on the mobilization of new (potential) resources
- Organization of an effective system of business processes of the company
- Formation, use and development of intellectual capital
- Identification and implementation of company competencies
- Transforming innovation into added value (value) that meets consumer priorities.

Financial functions

- Generation of income and profit
- Attracting investors' capital
- Increasing the market value and profitability of the company.

BUSINESS MODEL ELEMENTS

Value of external clients

- Which the company offers based on its products and services

Value creation system

- Includes suppliers and target customers, as well as value chains

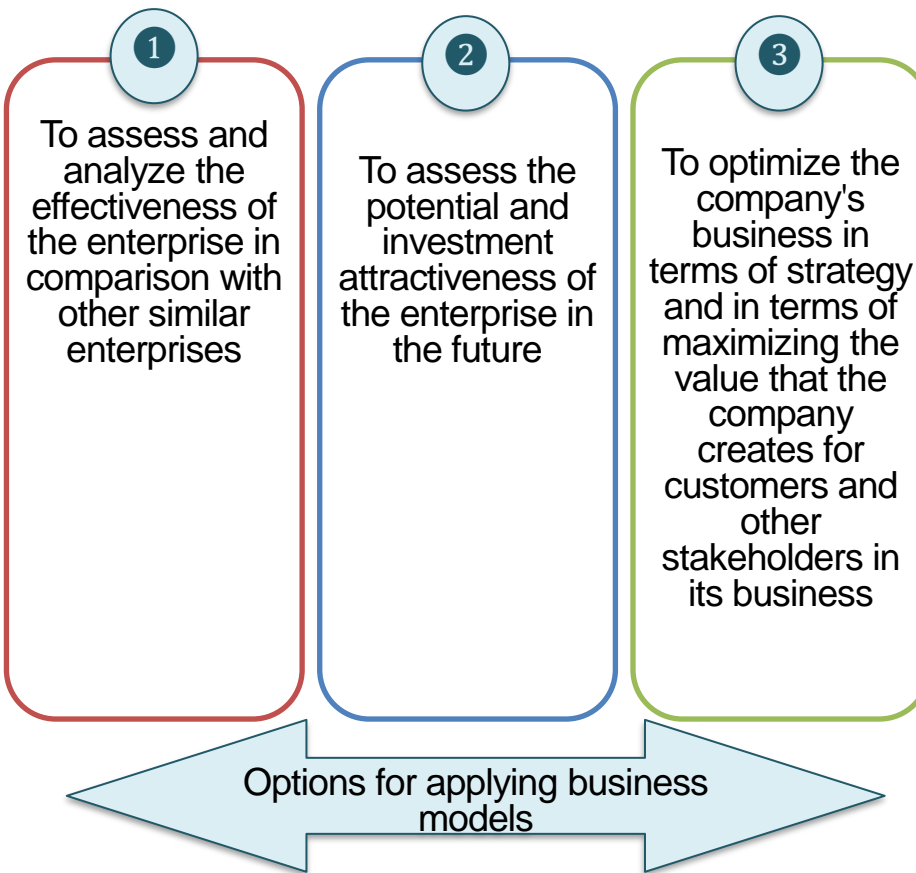
Assets

- Uses for creating value

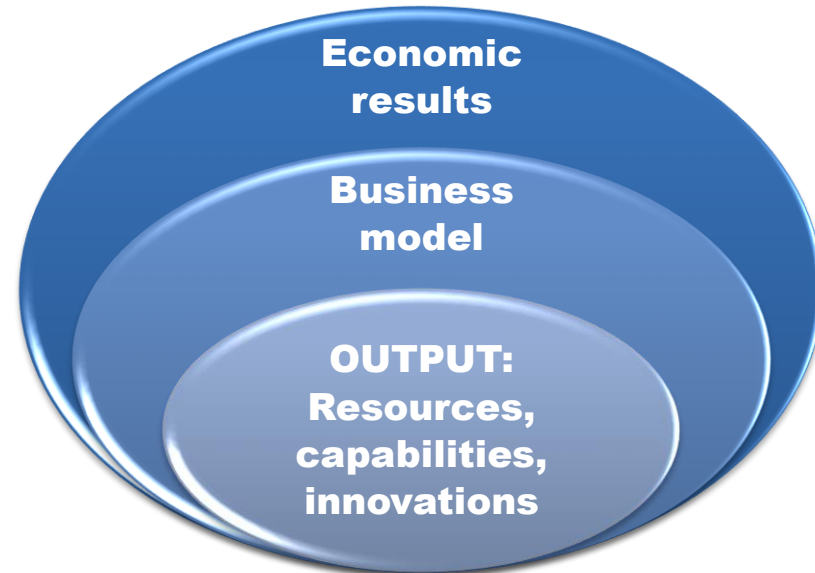
Enterprise financial model

- Determines both the structure of its costs and ways to make a profit.

APPLICATION OF BUSINESS MODEL¹

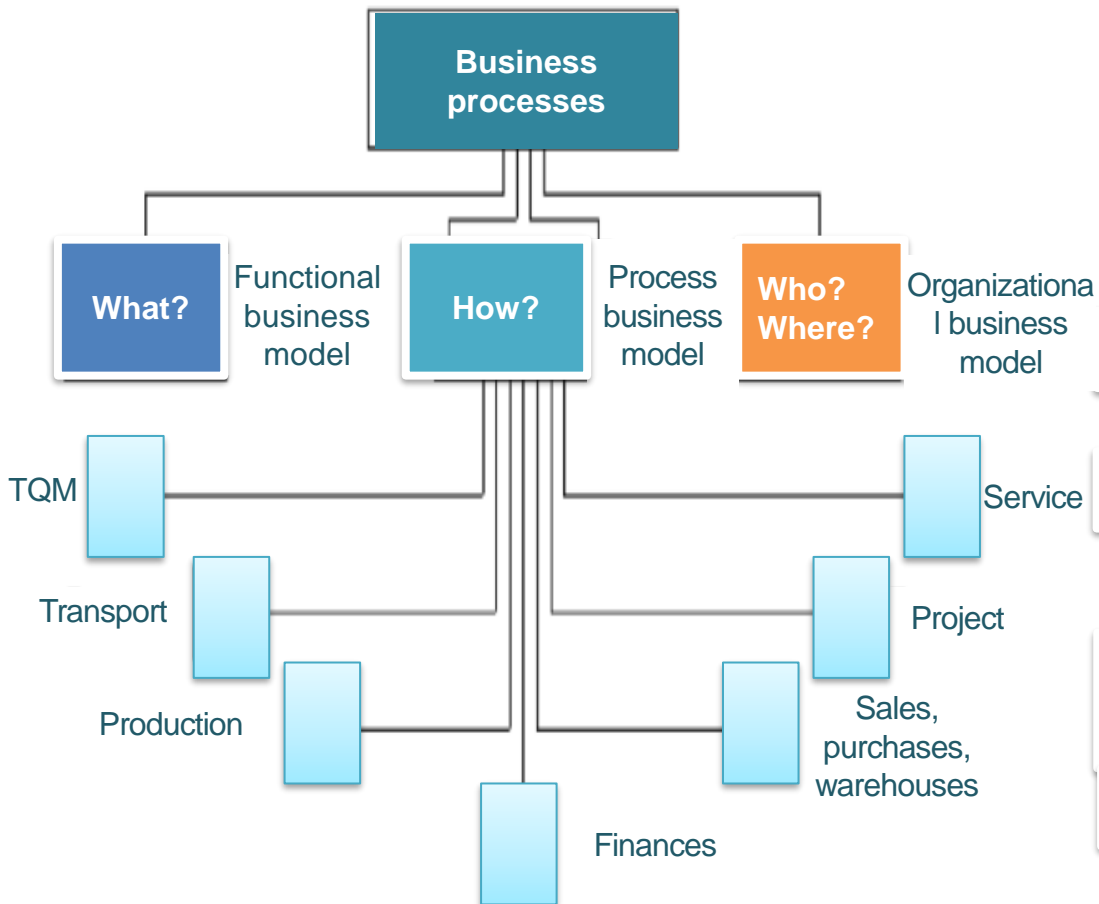


Transformation of initial data into economic results¹



1. Frolova L. V. Kravchenko E. S. Formation of business models of an enterprise: textbook. K.: Center for Educational Literature, 2012. 384 p.

Business model components¹



The business model is formed based on the goals of enterprise development, which determine the composition of all the basic components of the business model (end-to-end business processes), which together constitute a certain methodological platform¹

- WHAT?** Business functions that describe WHAT a business does;¹
- HOW?** Business processes that describe HOW an enterprise performs its business functions;¹
- WHERE ?** Organizational structure that determines where business functions and business processes are performed;¹
- WHEN?** Phases that determine WHEN (in what sequence) certain business functions should be implemented;¹
- WHO?** Roles that determine WHO performs business processes;¹

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1. Frolova L. V. Kravchenko E. S. Formation of business models of an enterprise: textbook. K.: Center for Educational Literature, 2012. 384 p.

Enterprise business model¹

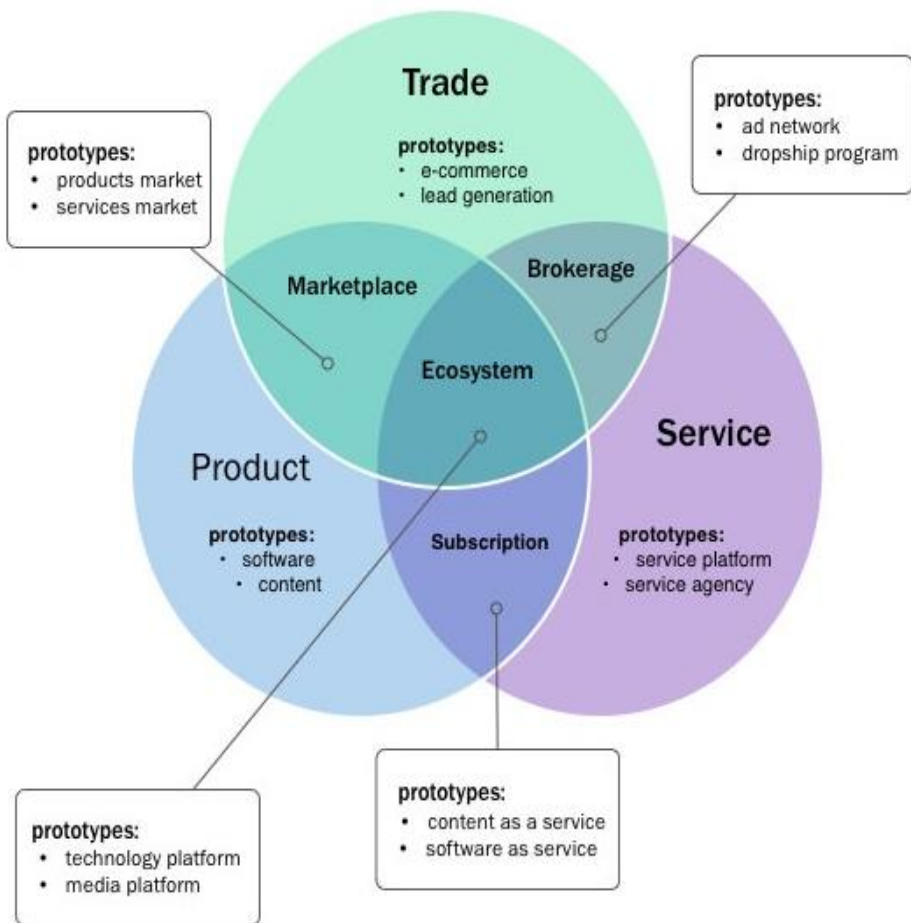


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1. Frolova L. V. Kravchenko E. S. Formation of business models of an enterprise: textbook. K.: Center for Educational Literature, 2012. 384 p.

Business Model Archetypes¹

Primary archetypes¹



Attribute	Explanation
Product	one-time purchase of an artifact
Service	manually doing something and charging a fee
Trade	connecting buyers and sellers for commerce

Secondary archetypes¹

Attribute	Explanation
Brokerage	providing trade as a service
Subscription	productizing and semi-automating a service
Marketplace	productizing trade with a self-service platform
Marketplace	platform others build businesses around (combines all three)

1. Business Model Archetypes. *Mindtheproduct*: website. URL: <https://www.mindtheproduct.com/business-model-archetypes>

A Topology of Business Model Archetypes¹

Value Proposition - A Topology of Business Model Archetypes (BMAs)

What is being sold?		Asset Type			
		Financial	Physical	Intellectual	Human
Asset Right	Ownership Significant Transformation (Creator)	Entrepreneur	Manufacturer	Inventor	Human Creator
	Limited Transformation (Distributor)	Financial Trader	Wholesaler/ Retailer	Intellectual Property Trader	Human Distributor
	Use (Landlord)	Financial Landlord	Physical Landlord	Intellectual Property Landlord	Contractor
	Matching (Broker)	Financial Broker	Physical Broker	Intellectual Property Broker	Human Resource Broker
Products /Services					

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1. A Topology of Business Model Archetypes (BMAs)A study conduted at M.I.T. URL:<https://enterpriselearning.wordpress.com/2009/07/07/value-propositions-a-topology-of-business-model-archetypes-bmasa-study-conduted-at-m-i-t/>

Business Model Archetypes^{1; 2}

Entrepreneur



Creates and sells financial assets, and often the object of sale is the company he created.

Manufacturer



Creates and sells physical assets

Human Creator



Creates specialists in various fields through the transfer of information and training in various skills through the educational process and training.

Contractor



Sells services provided primarily by people

Human Distributor



Buys and sells human assets. By human assets we can mean both the staff of organizations "sold" by various recruitment agencies, and the people themselves

Intellectual Property (IP) Trader



Merchant buys and sells intangible assets (copyrights, patents, domain names)

Wholesaler / Retailer



Buys and sells physical assets (the most common model of the type "distributor")

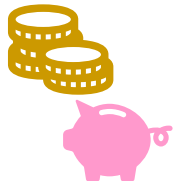
Attractor



Attracts people's attention through TV programs or online content, "sells" that attention to advertisers

Business Model Archetypes 1; 2

Financial Trader



Creates and sells financial assets, and often the object of sale is the company he created.

Physical Landlord



Sells the right to use a physical asset (location or equipment). Profits are generated from rent for production facilities and warehouses, leasing or payment for a hotel room.

Financial Landlord



Allows others to use their cash or other financial assets under certain conditions.

Intellectual Landlord



Buys a license or otherwise pays for the limited use of intangible assets.

Lenders)

Provide the borrower with cash that the client can use for a limited time for a fee.

Insurers

Provide their customers with financial reserves that customers can use only if they suffer losses.

Publisher

Provides limited use of information assets (programs, newspapers) for the sale price, subscription, license.

Attractor

Attracts people's attention through TV programs or online content, "sells" that attention to advertisers

Brand Manager

Pays for the use of trademarks, know-how, franchises.

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1. The MIT Business Model Classification. Craft Business Modeling. URL: <https://bizmodelgu.ru/klassifikaciya-business-models-mit-2>
 2. Simanovskiy F.I. Classification of business models. Forest Bulletin, 2010, No. 1. pp. 180-184.

BUSINESS MODELS WHERE THE SELLER IS A COMMERCIAL ORGANIZATION¹

B2C: Business to the consumer



B2B

The model involves the sale of goods or services to the final consumer - the buyer, who, in fact, can be anyone¹

Purchase any food or household items for personal use in the supermarket¹

B2B: Business to business



B2C

Commercial activity that takes place between two companies. The seller projects his work not on the end consumer, but on the whole enterprise¹

The company supplies professional cosmetics to beauty salons

B2B2C: Business to business to the consumer



B2B2C

Combination of B2B and B2C models.

A business will sell a product or service to another business and use access to consumers already owned by another company²

Advantage of network effects that provide cooperation with existing business, in the absence of a base of regular customers¹

B2G: Business to government



B2G

The commercial activity of the enterprise is aimed at meeting the needs of government agencies. Usually in this case we are talking about public procurement based on the results of the tender (competition between suppliers)¹

Supply of food for public children's educational institutions¹

1. The main types of business models with examples. Fractus: website. URL: <https://fractus.com.ua/uk/blog/korysni-statti/prodazhi/osnovni-vydy-bizness-modelej-z-prykladamy>

2. The MIT Business Model Classification. Craft Business Modeling. URL: <https://bizmodelgu.ru/klassifikaciya-business-models-mit-2>

BUSINESS MODELS WHERE CONSUMERS PROVIDE SERVICES¹

C2B: Consumer to business



Provides for commercial relations between an individual and an enterprise, ie the consumer provides business services¹

The buyer can specify the cost of the desired product. For his part, the entrepreneur may or may not agree with her

C2C: Consumer to consumer



Processes of selling or providing services between individuals¹

Free bulletin board, where anyone can place their offer, and accordingly any consumer can use it

C2G: Consumer to government



Illustrates the relationship between the individual and the state¹

Payment of taxes¹

BUSINESS MODELS WHERE SERVICES PROVIDE GOVERNMENT¹

G2B: Government to business



The state provides services to enterprises¹

Electronic procurement system

G2C: Government to consumer



Services provided by the state to its citizens¹

Various services that can be used by any resident of the country

G2G: Government to government



Services provided within government agencies of one country¹

Not available to residents¹

1. The main types of business models with examples. Fractus: website. URL: <https://fractus.com.ua/uk/blog/korysni-statti/prodazhi/osnovni-vydy-bizness-modelej-z-prykklady>

TYPES OF BUSINESS MODELS ^{1;2}

**Focused
on minimizing costs**



EXAMPLE

Business models of economy class airlines are focused primarily on the lowest possible cost of airfare by minimizing all possible costs associated with creating, maintaining and distributing a unique value proposition, establishing and maintaining relationships with partner companies and specific consumer segments¹

**Focused
on value maximization**

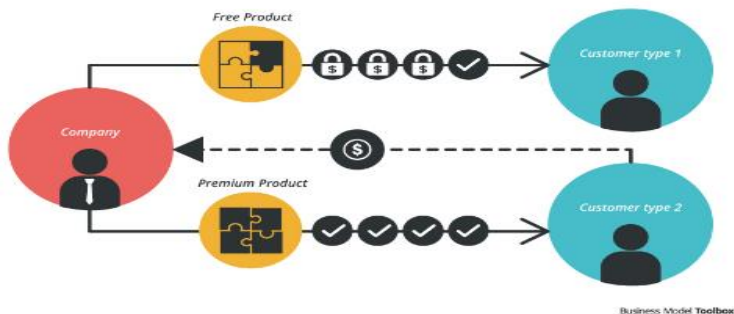


EXAMPLE

Apple's business model is focused primarily on creating an innovative quality product (iPhone) and added value, with which specific consumer segments will be able to fully experience all the benefits of the product²

TYPES OF BUSINESS MODELS 1; 2

FREEMIUM¹

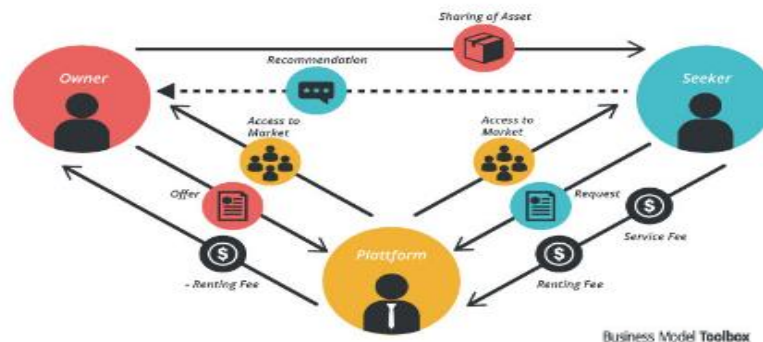


Freemium is derived from the word Free+Premium i.e. some services are for free whereas some are not. This type of business model is helpful in attracting customers to one platform to make them habituated to its environment.¹

EXAMPLE

Hotstar provides few shows, channels and sports for free but to unlock other shows and movies which are exclusive they have to upgrade to their premium program.¹

By request²



As part of the approach, the consumer only needs to place an order for a product or service and wait for it to be fulfilled. The model is convenient not only for consumers but also for business. It is designed for companies that use a well-established infrastructure to solve a problem.²

EXAMPLE

Uber does not have its own fleet. The brand works with independent drivers, which allows it to save significantly. Buying and maintaining a huge number of cars around the world would be too costly.²

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1. 5 types of business models fruitful for high-income. Startuptalky URL: website. <https://startuptalky.com/business-models-types>
 2. 4 effective business models that earn millions. Money_made: website. URL: https://teletype.in/@money_made/r1L1S7pwQ

TYPES OF BUSINESS MODELS 1; 2

By subscription 1



The business model is great for ecommerce, especially if the product you offer tends to end quickly¹

EXAMPLE

Dollar Shave Club and Just Razor Club offer razors. PetCircle and Animal Feed deliver pet food. Healthy Surprise and Local Food pamper subscribers with goodies¹

Virtual goods 1



The consumer is offered a free or inexpensive product, often entertaining, with built-in purchases¹

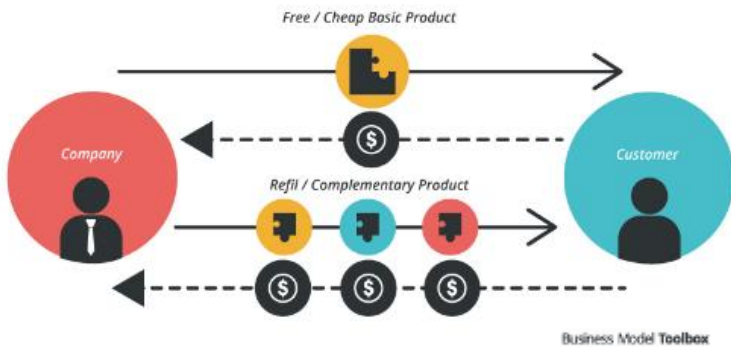
EXAMPLE

Candy Crush - you can play for free, but to pass difficult levels you need to buy virtual items, and for real money²

1. 4 effective business models that earn millions. Money_made: website. URL: https://teletype.in/@money_made/r1L1S7pwQ

TYPES OF BUSINESS MODELS 1; 2

Razor and blade 1



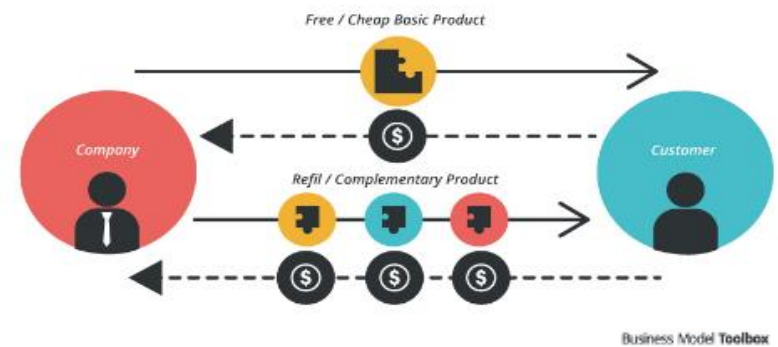
Cheap or even free to offer customers the main product, and components and consumables, sell at very high prices (what, why)¹

EXAMPLE

Hewlett-Packard considered the potential of this template for duplicating equipment: cheap printers and expensive cartridges.

Nestlé uses the Nespresso Razor and Blade template: Espresso machines can be purchased for no more than \$ 150, but the capsules for the machines cost five times more than a pack¹

Inverted business model Razor and Blade 1



As the name implies, this is the type of business model opposite to the Razor and Blade model.¹

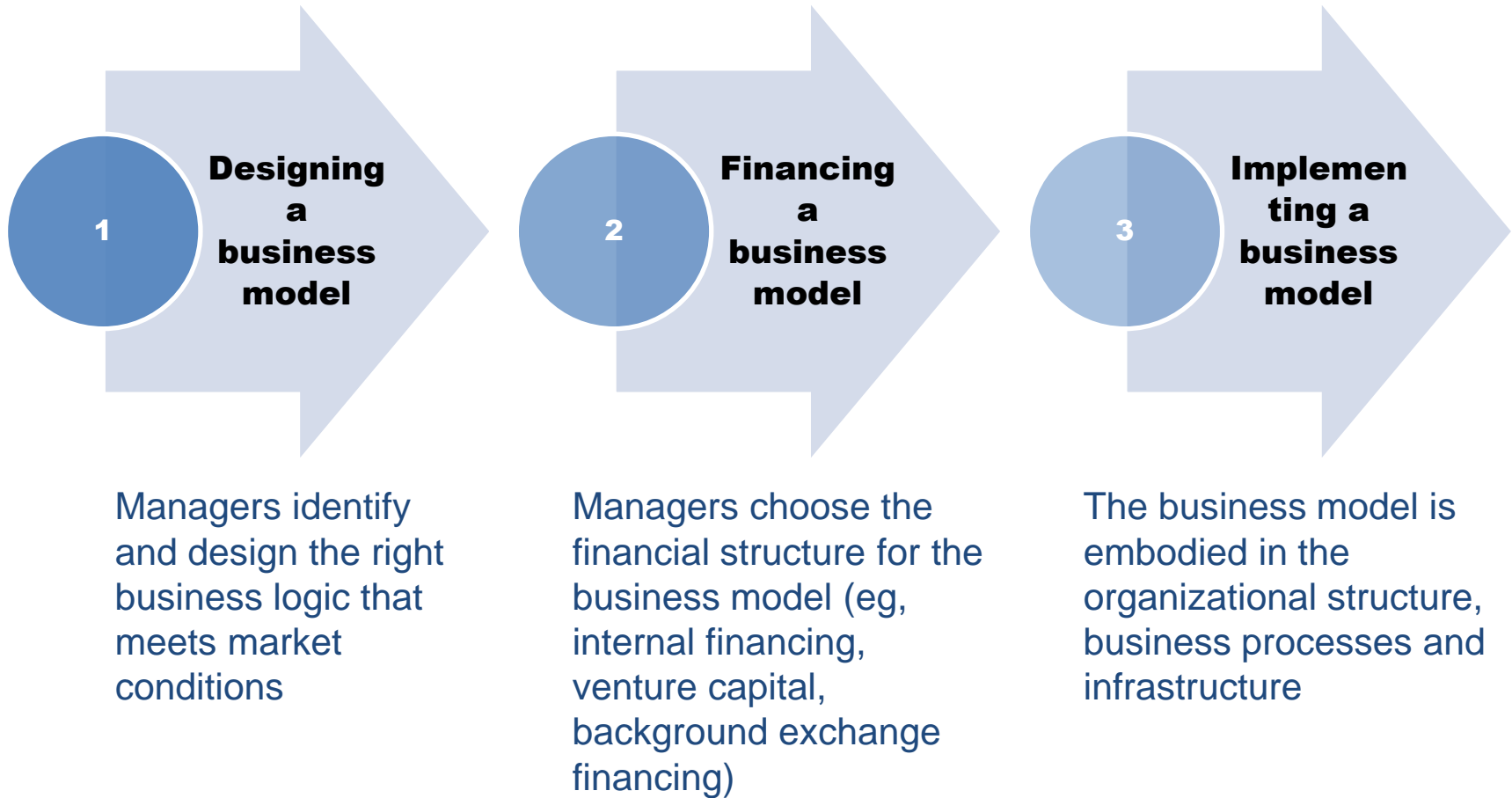
EXAMPLE

Apple has high-end physical products, so it sells music in iTunes for apps in the Appstore at a very low cost, like constant shoppingy²

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1. Gassman O., Frankenberger K., Shik M. Business models. 55 best templates, 2017. 423 p.
2. 23 Types of Business Models Examples. URL: <https://www.marketing91.com/23-types-of-business-models>

STAGES OF FORMATION OF BUSINESS MODEL ¹



1. Shvydanenko G. O., Revutska N. V. Formation of the business model of the enterprise: training. manual K.: KNEU, 2013. 423 p

HUMANITARIAN APPROACH ¹

Advantages and disadvantages ^{1; 2}

DEFINITION

In the humanitarian approach - under the "Business Model" means a list of a number of aspects of the enterprise that determine its effectiveness. As a rule, there are no clear links between them. Emphasis is placed on the completeness and originality of the definition of these aspects ¹

Advantages	Disadvantages
The presentation of the elemental composition of the company's business model has a "user-friendly interface" and is accompanied by a verbal explanation, making it understandable to company management and other stakeholders	Lack of a single methodology leading to uncertainty the final result
Lack of a strictly defined structure of elements and The connection between them provides flexibility for each of the methods of the humanitarian approach	Excessive detail of the elemental composition and lack of logical relationship complicates the perception of the business model as a single object
Correspondence with the components of the overall strategy of the company confirms the importance and strengthens the role of the business model as an effective tool for its implementation in practice	The use in some parts of the principle of "question-answer" as a characteristic of the elements of the business model does not create a fundamental basis for developing a mechanism for its formation

1. Frolova L. V. Kravchenko E. S. Formation of business models of an enterprise: textbook. K.: Center for Educational Literature, 2012. 384 p.
2. Shvydanenko G. O., Revutska N. V. Formation of the business model of the enterprise: training. manual K.: KNEU, 2013. 423 p

HUMANITARIAN APPROACH

Business model of the company according to the approach of research and consulting company "Alt" ^{1; 2}



Goals and size of the company. The overall goals of the business model should correspond to the strategy of enterprise development and meet the defined mission. It is at this stage that the vision of investors or owners of their company's development in three, five or ten years is formulated. The size of the company - having information about sales, staff and market share, you can draw conclusions about a certain "economic space" occupied by the business, and, accordingly, assess its risk, possible development dynamics and efficiency ¹.

Management system. The answer to the question: what is the management system of the enterprise? what is the division of powers and responsibilities? what is the mechanism for making and implementing management decisions? - allows you to determine the organizational component of the company's business model. Particular attention needs to be paid to the corporate culture of the enterprise.

Organization of production. This is the internal environment of the company's business model, which describes the features of the business process system, characterizes the possible ways and determines the economic feasibility of using production cooperation in the production process, ie reflects the internal mechanism of business.

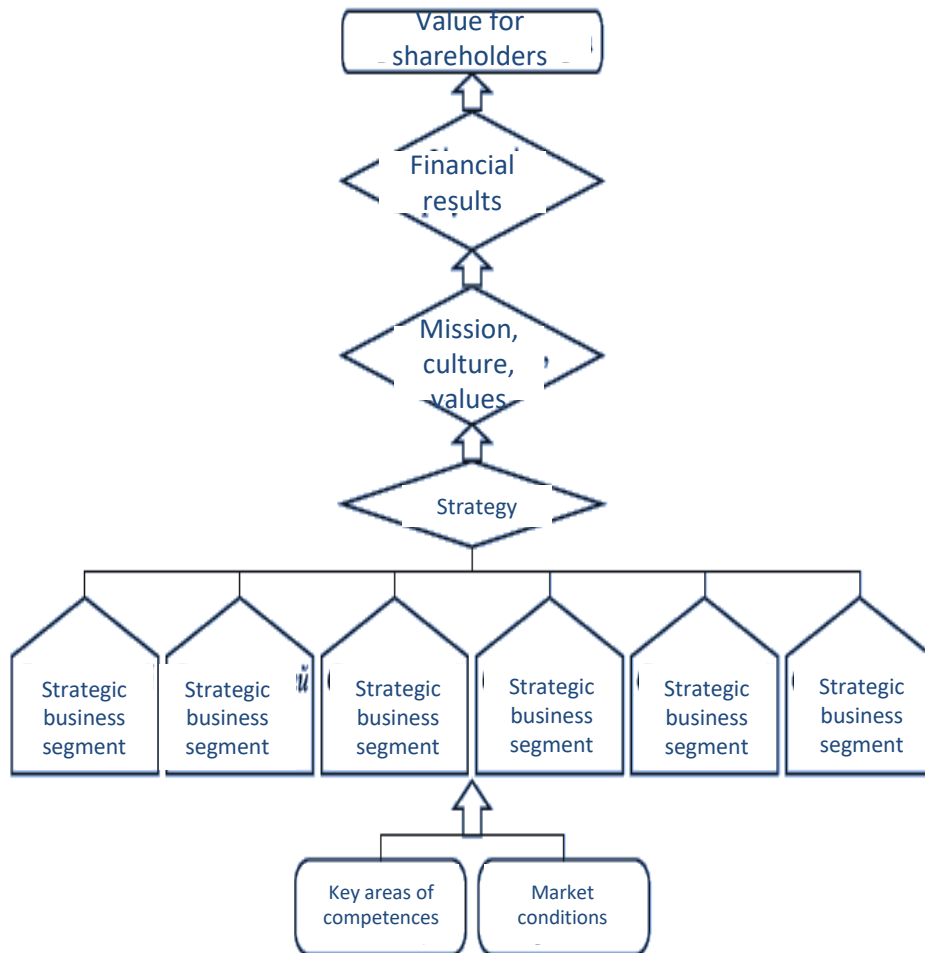
Method of interaction with contractors. Relationships with contractors are an external form of the company's business model, which is an idea of the perception of its suppliers, partners, investors, staff, customers and other stakeholders. This element describes the system of logistics, distribution, procurement principles and other partnerships.

Product portfolio. The product portfolio characterizes the market profile of the company, clearly defining what the company produces and to whom it sells.

1. Formation of the business model of the enterprise: Lecture course for students of the training direction 6.030504 "Economics of the enterprise" / Compiler, Candidate of Economics, Associate Professor S. K. Kucherenko - Dnipropetrovsk: 2013. 80 p.
2. Shvydanenko G. O., Revutskaya N. V. Formation of the business model of the enterprise: training. manual K.: KNEU, 2013. 423 p

HUMANITARIAN APPROACH

M. Scott's business model ^{1; 2}



The scheme of forming a business model of a large company.

The business model is not built on a functional basis, but on the basis of several relevant business segments that exist relatively independently.

According to this model, the additional market value for shareholders is formed in the form of a significant financial result from the mission, maintaining corporate culture and values.

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PROCESS (FORMAL) APPROACH¹

Advantages and disadvantages^{1; 2}

DEFINITION

Process approach - is based on the methodology of business process reengineering (BPR - Business Process Reengineering), the essence of which is to describe the business model as a set of interdependent processes that form a hierarchy.

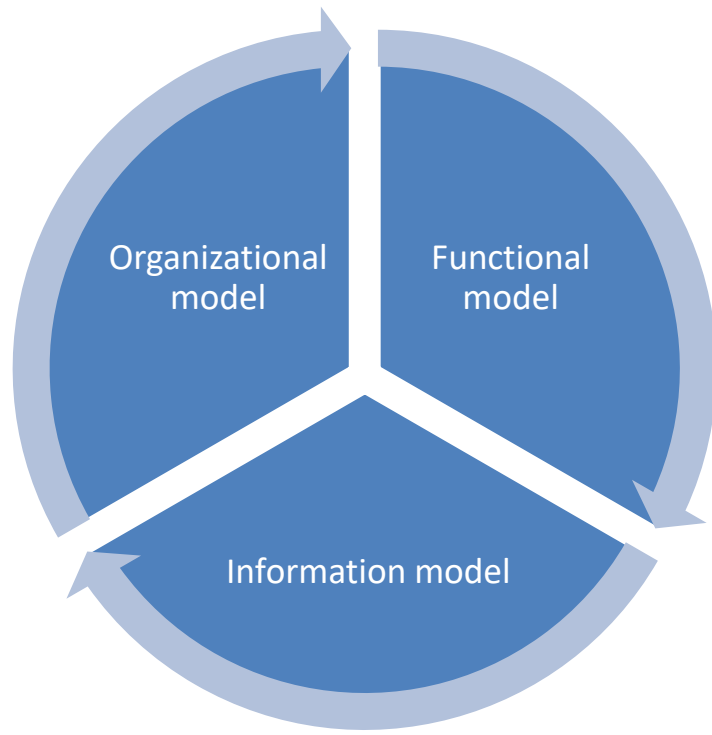
The approach is based on the essence of business processes as consistent activities (operations, functions), coordinated in time and space, performed by different departments of the enterprise, have input resources, regulations and aimed at creating a product or service (output) that has value for internal or external consumer²

Advantages	Disadvantages
A logical description of the company's activities, which increases the level of perception and understanding of the functioning of its business model	The complexity of describing processes that have a long-term nature (describe the implementation of the strategy);
Formalized list of types of business processes	The need to involve consultants and managers with knowledge of process management technology
Availability of the developed device of the description of processes (IDEF, ARIS)	The need to spend on consulting work to implement a process approach to the formation of a business model
Wide choice of business modeling tools	
Presentation in the form of a number of activities of the enterprise for a better understanding of them	

1. Frolova L. V. Kravchenko E. S. Formation of business models of an enterprise: textbook. K.: Center for Educational Literature, 2012. 384 p.
2. Shydanenko G. O., Revutskaya N. V. Formation of the business model of the enterprise: training manual. K.: KNEU, 2013. 423 p

PROCESS (FORMAL) APPROACH ¹

The structure of the business model according to the process approach ^{1; 2}



Organizational model — it is a formalized interpretation of the structure of the enterprise as a set of business units (subdivisions), which contains the rules of authority, functions and role of personnel of the enterprise.

Functional model — it is a complex reflection of the business process system of the enterprise (operations with customers, suppliers, logistics, production, accounting, financial management, personnel management, business infrastructure management, project management, etc.).

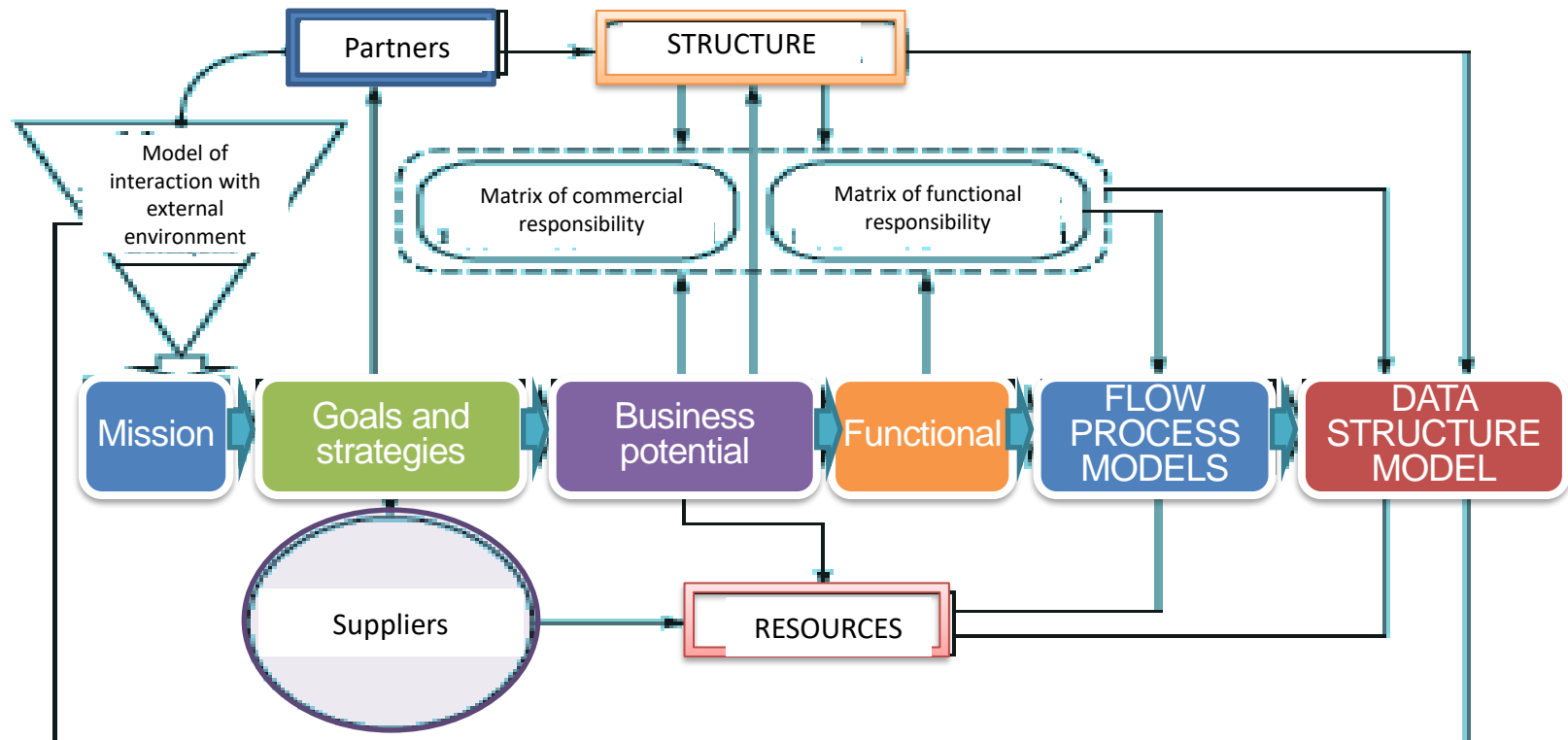
Information model — scheme of information flows of the enterprise (based on the functional model). Its formation involves the identification of corporate information, creating a system of information flows and defining communication channels in the company.

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1. Frolova L. V. Kravchenko E. S. Formation of business models of an enterprise: textbook. K.: Center for Educational Literature, 2012. 384 p.
2. Shvydanenko G. O., Revutska N. V. Formation of the business model of the enterprise: training. manual K.: KNEU, 2013. 423 p

PROCESS (FORMAL) APPROACH ¹

Generalized scheme of business modeling according to the process (formal) approach according to Gorelik SL ^{1; 2}



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1. Frolova L. V. Kravchenko E. S. Formation of business models of an enterprise: textbook. K.: Center for Educational Literature, 2012. 384 p.
2. Shydanenko G. O., Revutskya N. V. Formation of the business model of the enterprise: training. manual K.: KNEU, 2013. 423 p

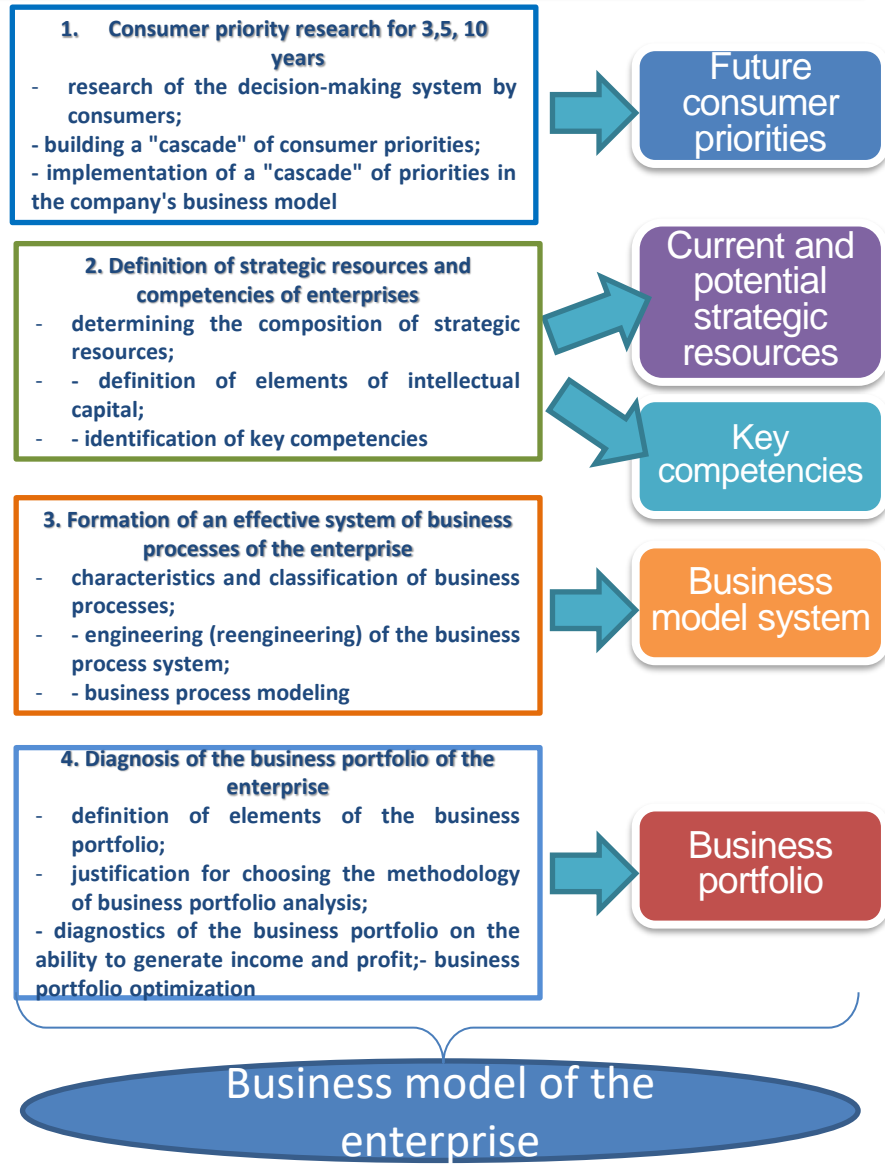
MANAGEMENT APPROACH¹

DEFINITION

Management approach - involves the development of a mechanism for forming a business model of the company based on the synthesis and modification of the basic provisions of humanitarian and process approaches in the context of ensuring integrated management of the company in modern conditions².

Advantages and disadvantages^{1; 2}

Advantages	Disadvantages
Priority of social parameters (taking into account the future needs of consumers over time)	High sensitivity to changes in the external operating environment
Focus on a high level of realization of strategic opportunities and business activity	The need to transform the model when changing the internal parameters of any component
Complexity and uniqueness	
Perspective and long-term non-reproducibility	



TOPIC 2 4

1. Frolova L. V. Kravchenko E. S. Formation of business models of an enterprise: textbook. K.: Center for Educational Literature, 2012. 384 p.
 2. Shydanenko G. O., Revutskya N. V. Formation of the business model of the enterprise: training. manual K.: KNEU, 2013. 423 p

ONTOLOGICAL APPROACH ¹

DEFINITION

Ontological approach - comes from the process approach and is closely related to the development and implementation of integrated automated corporate governance systems, as well as the emergence of a new field of management - knowledge management (*Knowledge Management*).

Transforming the company's competencies and capabilities into a source of long-term competitive advantage requires the use of modern technologies to identify, create, disseminate, process, preserve and use corporate knowledge ².

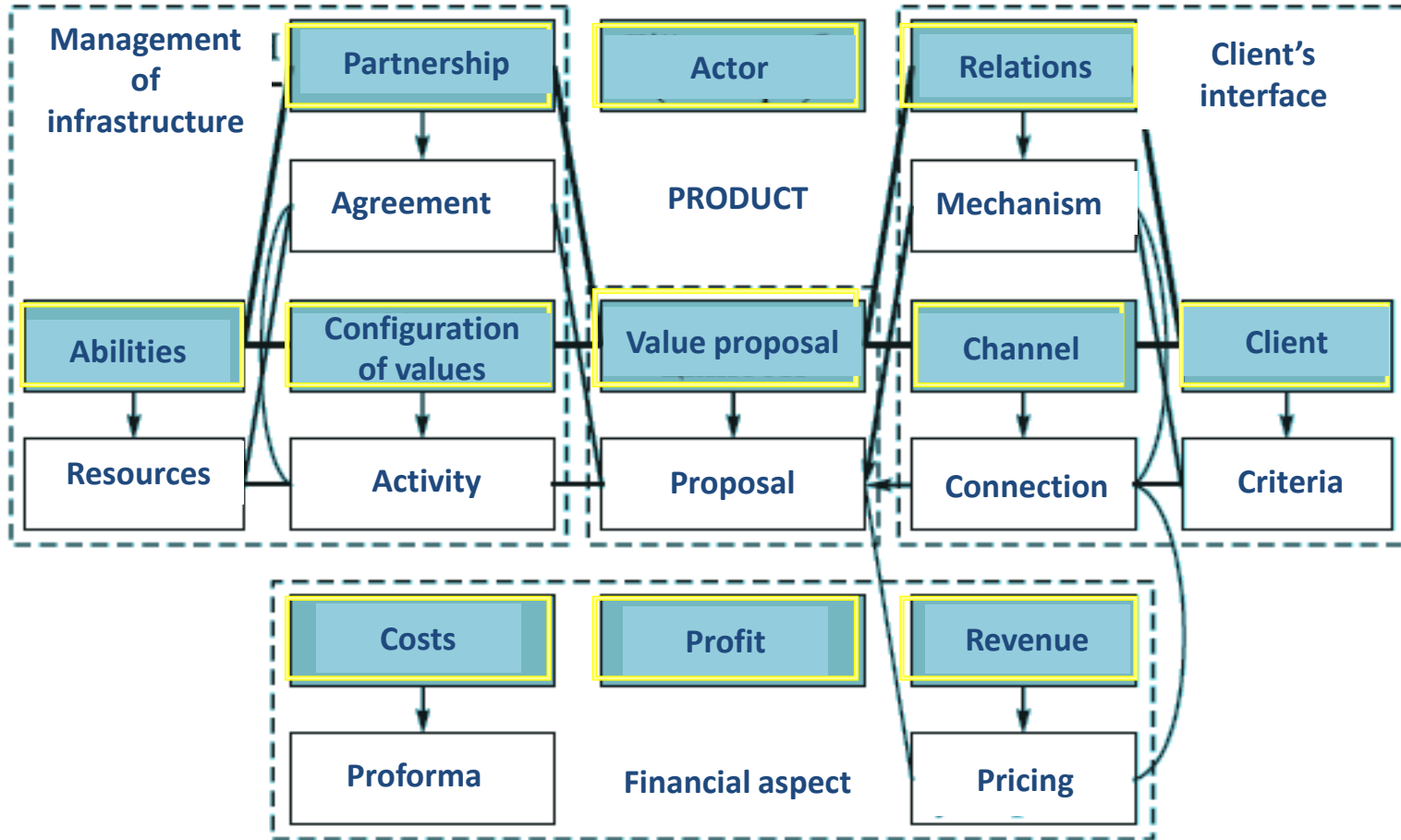
Advantages and disadvantages ^{1; 2}

Advantages	Disadvantages
Priority of social parameters (taking into account the future needs of consumers over a long period of time)	High sensitivity to changes in the external operating environment
Focus on a high level of realization of strategic opportunities and business activity	The need to transform the model when changing the internal parameters of any component
Complexity and uniqueness	
Perspective and long-term non-reproducibility	

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ONTOLOGICAL APPROACH

Ontological approach to business modeling by A. Osterwalder ^{1; 2}



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2. Shydanenko G. O., Revutska N. V. Formation of the business model of the enterprise: training. manual K.: KNEU, 2013. 423 p

ONTOLOGICAL APPROACH

Ontological approach to business modeling by A. Osterwalder ^{1; 2}

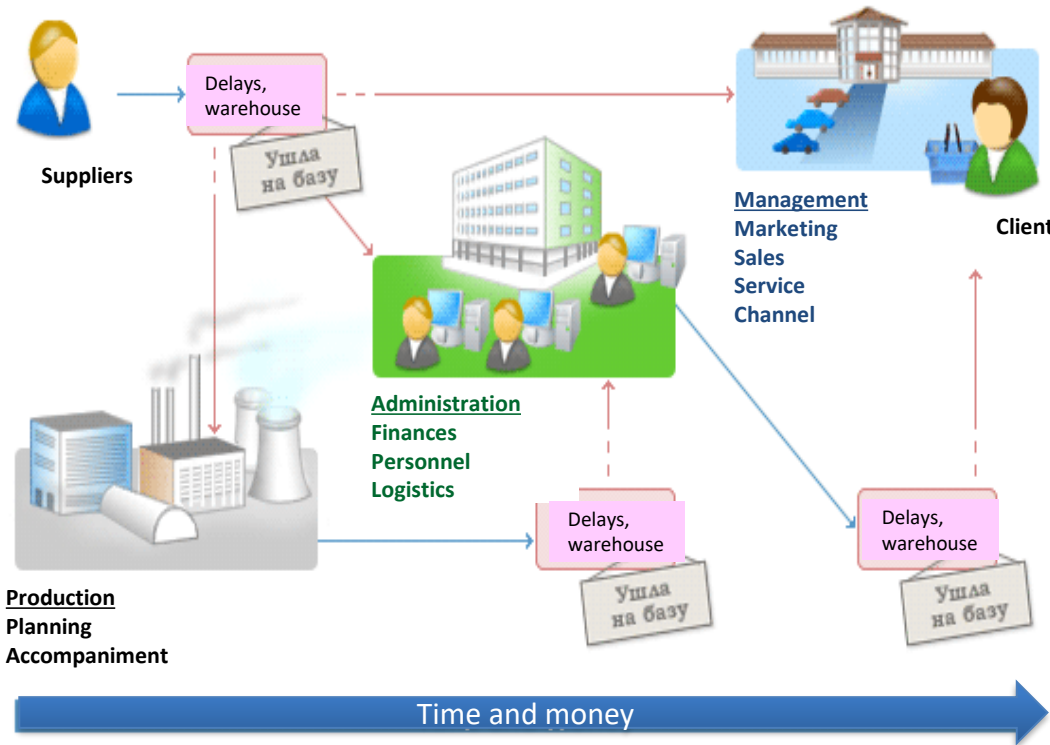
Area	Element	Brief characteristics
Product	Value proposal	characterizes the company's products and services that have value for the customer (consumer)
Client's interface	target customer	the segment of customers to whom the company wants to offer value
	distribution channel	way of contact with the consumer
	relationships with consumers	the type of communication that the company establishes with the client
Management infrastructure of	value configuration	describes the actions and resources needed to create value for customers
	key abilities	the ability to perform repetitive actions that are necessary to create value for customers
	partnerships	voluntarily initiated joint agreements with other market participants to create higher value for customers
Financial aspect	Cost structure	capital structure involved in the business model
	income generation model	the mechanism by which a company generates profit through the totality of all revenue streams

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1. Frolova L. V. Kravchenko E. S. Formation of business models of an enterprise: textbook. K.: Center for Educational Literature, 2012. 384 p.
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MODELS OF BUSINESS MODELS

Business model "From production" ¹



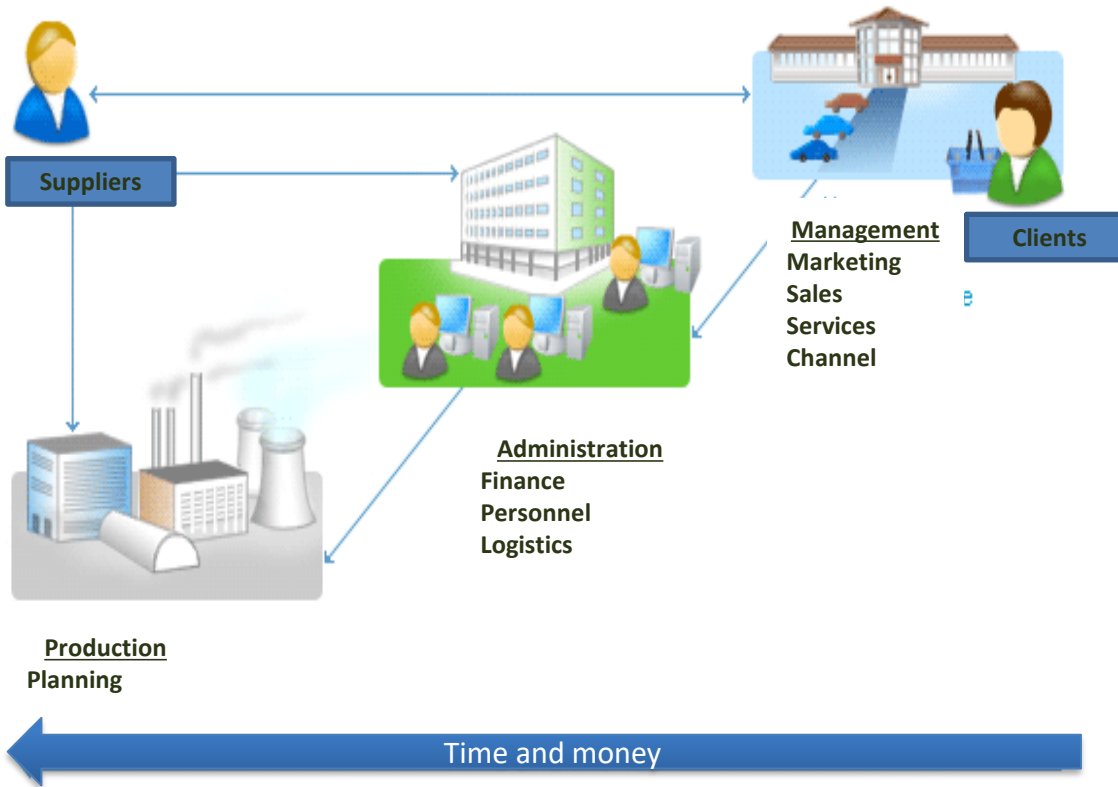
- Production of goods that are not yet in demand in the market is associated with the emergence of costs - you need to pay for services and goods of suppliers (components, raw materials, electricity, etc.) or pay interest on bank loans.
- The need for warehousing and transportation of goods, and not necessarily in the place where it is bought.
- The need for special advertising and marketing campaigns to encourage the customer to buy this particular product (which, perhaps, he does not need).
- The level of customer satisfaction remains very low because he is forced to buy what the market is ready to offer him now.

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1. Frolova L. V. Kravchenko E. S. Formation of business models of an enterprise: textbook. K.: Center for Educational Literature, 2012. 384 p.

MODELS OF BUSINESS MODELS

Business model "From the client" ¹



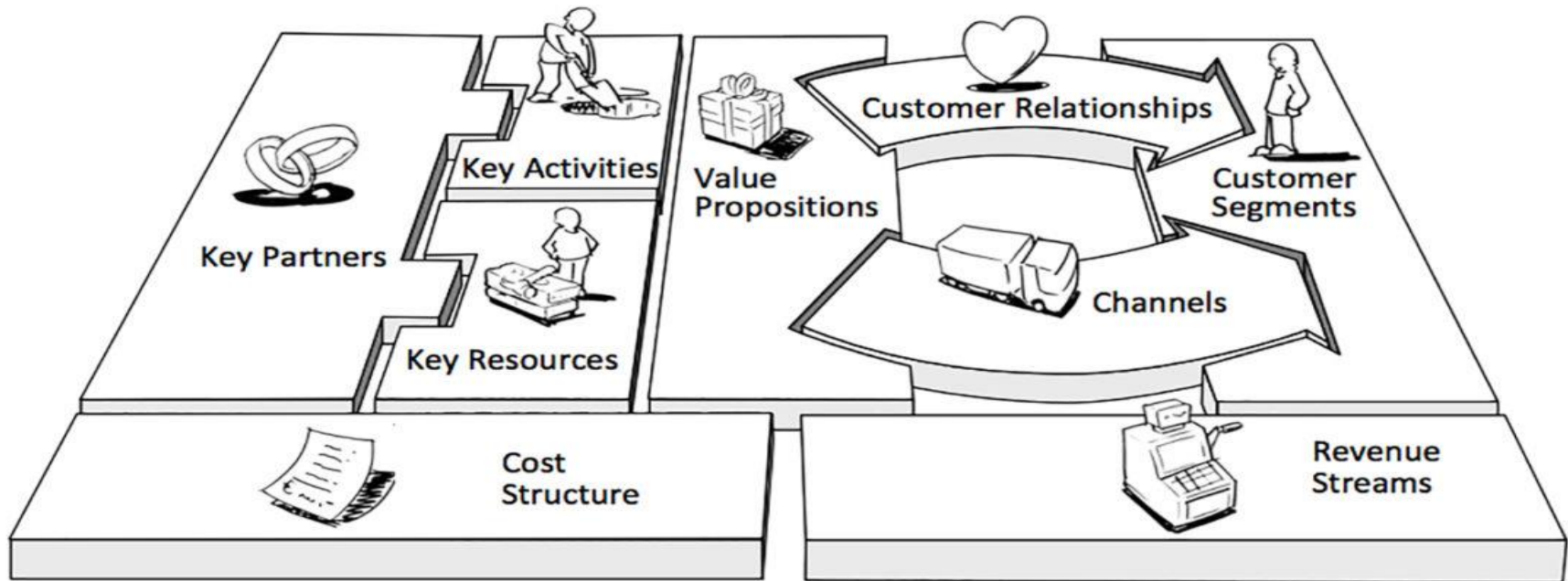
- There is no problem with the sale of goods: what is demanded by the customer and the market is carried out.
- Costs associated with production, overproduction and warehousing are reduced.
- Customer needs are more precisely met.

BUSINESS MODEL CANVAS OF A. OSTERWALDER AND Y. PIGNEUR

DEFINITION

Business Model Canvas – strategic management tool that allows you to describe the project or analyze the business model used from the standpoint of its efficiency and development opportunities ¹

Canvas with 9 structural blocks



Adapted from 'Business Model Generation', Alexander Osterwalder, Wiley 2012.
www.businessmodelgeneration.com
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1. Osterwalder A. and Pigneur Y. Business model generation. URL: <https://assets.strategyzer.com/assets/resources/business-model-generation-book-preview-2010.pdf>

STRUCTURAL BLOCKS OF BUSINESS MODEL 1; 2; 3; 4



Channels

Sales channels that acquaint the consumer with value proposals; provide after-sales service



Key partners

Third-party companies or sole proprietors required to create, maintain, implement and service a value proposition



Key resources

Material, intellectual, human, financial, etc.



Key activities

All activities of the company that are necessary to create, maintain, implement and service a value proposition



Revenue streams

Sale of assets (goods), usage fee, subscription fee, rent, leasing, rent, licenses, brokerage interest, advertising

Cost structure










Two classes:

- with a predominant focus on costs
- with a predominant focus on value

BUSINESS MODEL CANVAS

A. OSTERWALDER AND Y. PIGNEUR ¹

TOPIC 3
4

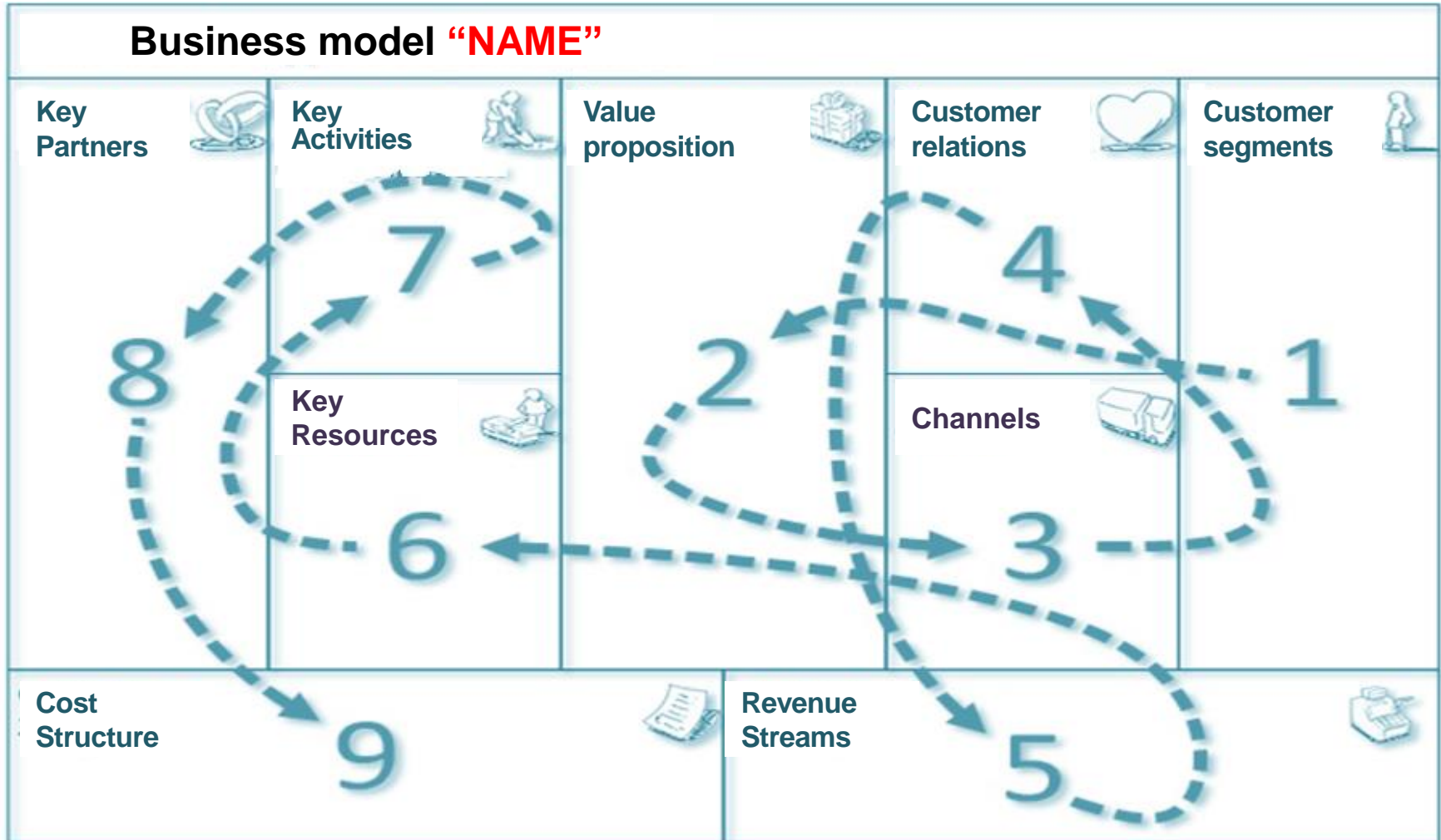
<p><i>Key Partners</i> </p> <ul style="list-style-type: none"> • Who are our key partners? • Who are our key suppliers? • Which key resources are we acquiring from partners? • Which key activities do partners perform? 	<p><i>Key Activities</i> </p> <ul style="list-style-type: none"> • What key activities do our value proposition require? • Our distribution channels? • Customer relationships? • Revenue streams? 	<p><i>Value Propositions</i> </p> <ul style="list-style-type: none"> • What value do we deliver to the customers? • Which one of our customer's problems are we helping to solve? • What bundles of products and services are we offering to each customer segment? • Which customer needs are we satisfying? 	<p><i>Customer Relationships</i> </p> <ul style="list-style-type: none"> • What type of relationship does each of our customer segment expect us to establish and maintain with them? • Which ones have we established? 	<p><i>Customer Segments</i> </p> <ul style="list-style-type: none"> • For whom are we creating values? • Who are our most important customers?
<p><i>Key Resources</i> </p> <ul style="list-style-type: none"> • What key resources do our value proposition require? • Our distribution channels? • Customer relationships? • Revenue streams? 		<p><i>Channels</i> </p> <ul style="list-style-type: none"> • Through which channels do our customer segments want to be reached? • How are we reaching them now? • How are our channels integrated? 		
<p><i>Cost Structure</i> </p> <ul style="list-style-type: none"> • What are the most important costs inherent in our business model? • Which key resources are most expensive? • Which key activities are most expensive? 			<p><i>Revenue Streams</i> </p> <ul style="list-style-type: none"> • For what value are our customers really willing to pay? • For what do they currently pay? • How are they currently pay? • How would they prefer to pay? • How much does each revenue stream contribute to overall revenues? 	

1. Osterwalder A., Pigneur Y. Construction of business models: Handbook of a strategist and innovator / Per. from English. Moscow: Alpina Publisher, 2011. 288 p.

BUILDING BUSINESS MODEL CANVAS

A. OSTERWALDER AND Y. PIGNEUR ^{1; 2}

Business model **"NAME"**



③
TOPIC
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1. Strategic analysis. Business Model Template. Bureau of business engineering: website. http://www.bbe.kiev.ua/db_method/bm_how_to.html

BUILDING BUSINESS MODEL CANVAS

1 Customer Segments



Value Proposition

When beginning the canvas for your business startup ideas, you'll need to start with either the Customer Segment or Value Proposition component.

Understanding the different types of customers your company might have is critical to creating a successful business ^{1; 2}

Value Proposition – a promise of value to be delivered, communicated, and acknowledged.

Value Proposition^{1; 2}

Type	Characteristics
Gain Creator	Businesses that benefit their customers in different ways, such as creating positive emotions, providing high functionality, or creating social gains
Problem Solver	Businesses that develop a course of action for fixing an identifiable problem such as lowering personal costs and keeps existing customers
Pain Reliever	Describes how your product or service solves specific problems for customers

Customer Segments^{1; 2}

Type	Characteristics
Payers	People who pay a bill for your product or service
End Users	People who will actually use your product
Subsidized Users	People who will benefit from your product
Influencers	People who have the power to affect the purchase of your product
Decision Makers	People who may be responsible for business expansion, investments or company acquisition

Key questions² :

- Who will buy your products or services?
- Are the target customers companies or consumers?
- What are the most important characteristics of your customers?

1. How To Go From Startup Idea To Business Model Canvas. URL: <https://thesuccessbug.com/startup-ideas-to-business-model/>

2. Business Model Canvas. URL: <https://businessmakeover.eu/tools/business-model-canvas>

BUILDING BUSINESS MODEL CANVAS

TOPIC 3 4

2 Customer Relationships + Channels

Key questions ² :

- Which communication, distribution and sales channels are used?
- Which sales channels does your company use to reach customers?
- What channels do you use to deliver your products or services to your customers?

Channels

Type	Characteristics
Wholesaler	A person or company that buys a large number of products from vendors and resells them to retailers
Retailer	A company that buys products from wholesalers or manufacturers and resells them to customers.
Distributor	A person or business that sells goods or services to customers or end-users
The Internet	A platform that companies can use to advertise their products and make a sale on.

Customer Relationships

Key questions ² :

- How personal is the relationship with the customer?
- Does your company offer personalized or similar products to all customers?

3 Revenue Streams for Startup Ideas

Understanding how the business will make revenue will allow you to avoid wasting time in unproductive areas. The general rule of thumb for your business startup ideas is to have between two to five avenues of revenue generation.

Key questions
How will the business make revenue?
What is the business's target audience?
Through what method will the company will generate revenue? i.e., (subscription service, brick, and mortar, or online store.)

Describe how the company generates revenues.

Key questions ² :

- For what are the customers currently paying?
- In which ways can customers pay?
- How are customer billed, one time or in instalments?

1. How To Go From Startup Idea To Business Model Canvas. URL: <https://thesuccessbug.com/startup-ideas-to-business-model/>

2. Business Model Canvas. URL: <https://businessmakeover.eu/tools/business-model-canvas>

BUILDING BUSINESS MODEL CANVAS

Key Resources, Activities, and Partners

Key resources are considered the “assets” of your company, which are vital for sustaining and supporting your business. They also allow you to create a compelling value proposition more easily. ^{1; 2}

Key resources ^{1; 2}

Type	Characteristics
Physical resources	These include physical goods like raw goods, buildings, vehicles, machines, etc.
Intellectual Resources	These include goods that come from the mind, like proprietary knowledge, patents, partnerships, etc.
Human resources	These include human qualities like creativity, experience, organizational abilities, etc.
Financial resources	These include commercial entities like cash, credit, stock, etc.



Key Activities

Key activities can vary depending on the type of business model companies use ^{1; 2}

Activities
Manufacturing and delivering a product
Problem-solving activities
Platform, or networking activities.

Key Partners ^{1; 2}

Name	Types of partners relations
Competition	This refers to a strategic partnership between you and a competitor. At first, this might sound like “flirting with the enemy.”
Buyer-Supplier	This is precisely what it sounds like: building a relationship with a buyer or supplier
Joint Ventures	Sometimes, joining forces altogether with a business that offers a similar service can be beneficial
Non-Competitors	This happens when you and a company you have no direct competition with partner up in a way that will benefit both parties

TOPIC 3 4

1. How To Go From Startup Idea To Business Model Canvas. URL: <https://thesuccessbug.com/startup-ideas-to-business-model/>
 2. Business Model Canvas. URL: <https://businessmakeover.eu/tools/business-model-canvas>

BUILDING BUSINESS MODEL CANVAS ^{1;2;3}

Cost Structure for Startup Ideas

The cost structure describes all the costs incurred as a result of doing business.

Understanding the cost structure of your business startup ideas will allow you to grow or sustain your business.

Key questions ² :

- What key resources or key activities cost the most?
- What costs are the most important in my business model canvas?



Components of Cost Structure

Type	Characteristics
Cost-driven	This is the act of minimizing your costs as a business to give you an advantage over your competitors. Examples of companies that utilize this method are TJ Maxx, Marshall's Walmart, or any store that provides value at lower prices.
Value-driven	This type of cost structure focuses more on the design and overall maintenance of a product or service. When using a value-driven cost structure, your goal is to provide as much value with the product itself as possible. For example, Apple sells its products at a premium price but can justify it for its premium features.

1. How To Go From Startup Idea To Business Model Canvas. URL: <https://thesuccessbug.com/startup-ideas-to-business-model/>

2. Business Model Canvas. URL: <https://businessmakeover.eu/tools/business-model-canvas>

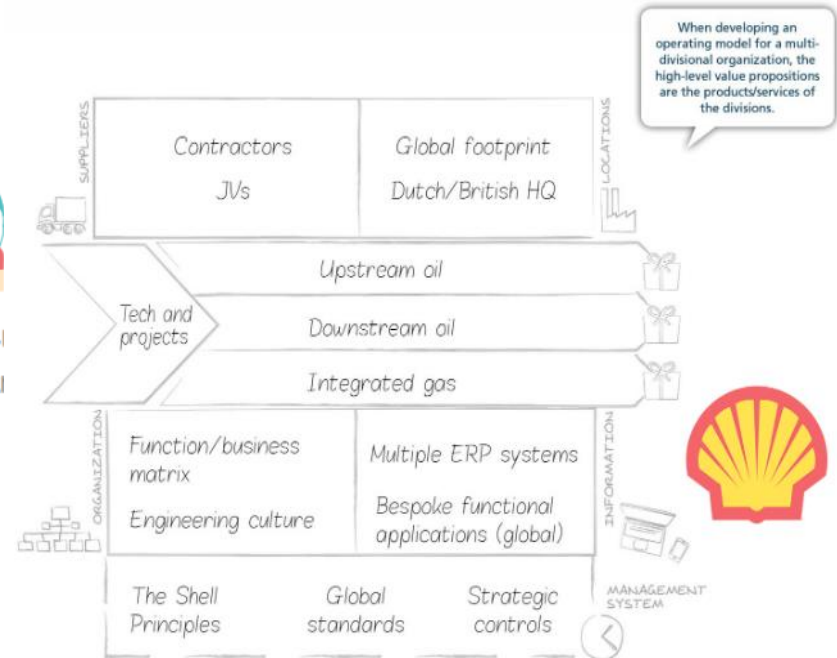
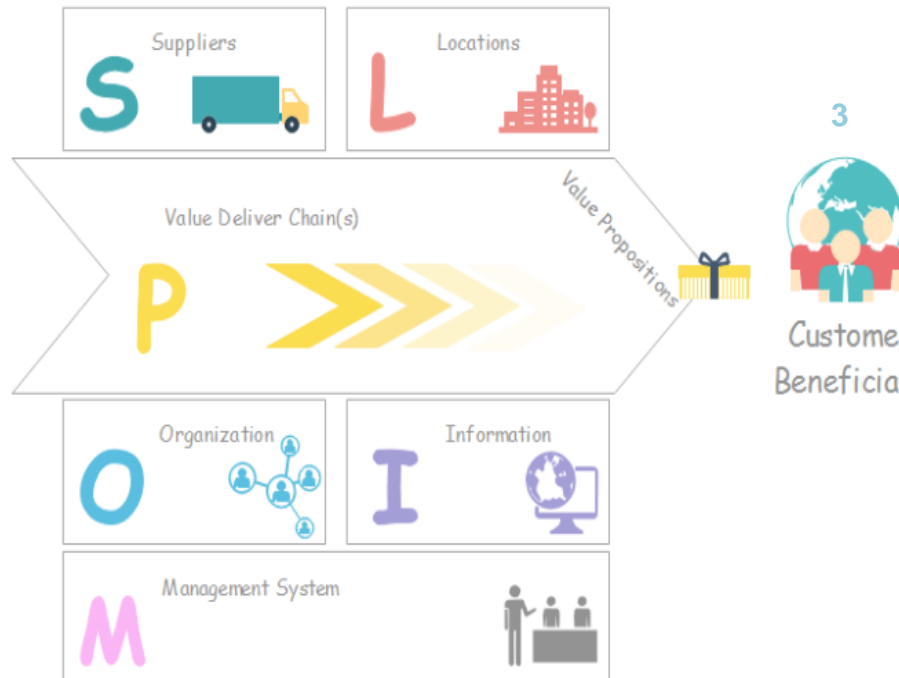
BUILDING AN OPERATING MODEL CANVAS

DEFINITION

Operating model - is a way of summarizing what is important about the organization and the way it works: it is about the how rather than what (value proposition) or for whom (customer/beneficiary). ^{1; 2.}

EXAMPLE

Operating model for Shell ⁴



TOPIC 3 4

1. Will This Replace The Business Model Canvas? *Lionessmagazine*: website. URL: <https://lionessmagazine.com/will-this-replace-the-business-model-canvas>.
 2. Campbell A., Gutierrez M., Lancelott M. Operating Model Canvas, 2017, Zaltbommel, Netherlands: Van Haren Publishing, 224 p.
 3. How to Create an Operating Model — Deliver Values. Medium website. URL: https://medium.com/@Lynia_Li/how-to-create-an-operating-model-deliver-values-10292637419e
 4. The Operating Model Canvas For Shell. *Van Haren*: website. URL: <https://www.vanharen.net/blog/operating-model-canvas-shell/>

BUILDING AN OPERATING MODEL CANVAS

Value Deliver Chain(s)

P Process

The process of operating model shows detailed steps of an organization delivering their core value propositions to customers and beneficiaries. The most practical analytic approach in process stage is valued chains which should be analyzed thoroughly.^{1; 2}

Organization

O Organization

The organization contains people in the organization, structure of organization, relationship inner organization and organizational behaviors.^{1; 2}

Locations

L Location

Choosing a location sometimes determines the degree of recognition and satisfaction of customers and beneficiaries. Location can also influence the required assets and their budgets when delivering the values to customers.^{1; 2}

Information

I Information

Information system plays an important role in supporting the operation. It can be used to collect, store, distribute and communicate massive data rapidly and applied in the organization^{1; 2}

Suppliers

S Supplier

Suppliers of the organization offer input and bring to the organization under the supply chains. How to deliver to the customers sometimes settles the initial image towards the organization^{1; 2}

Management System

M Management

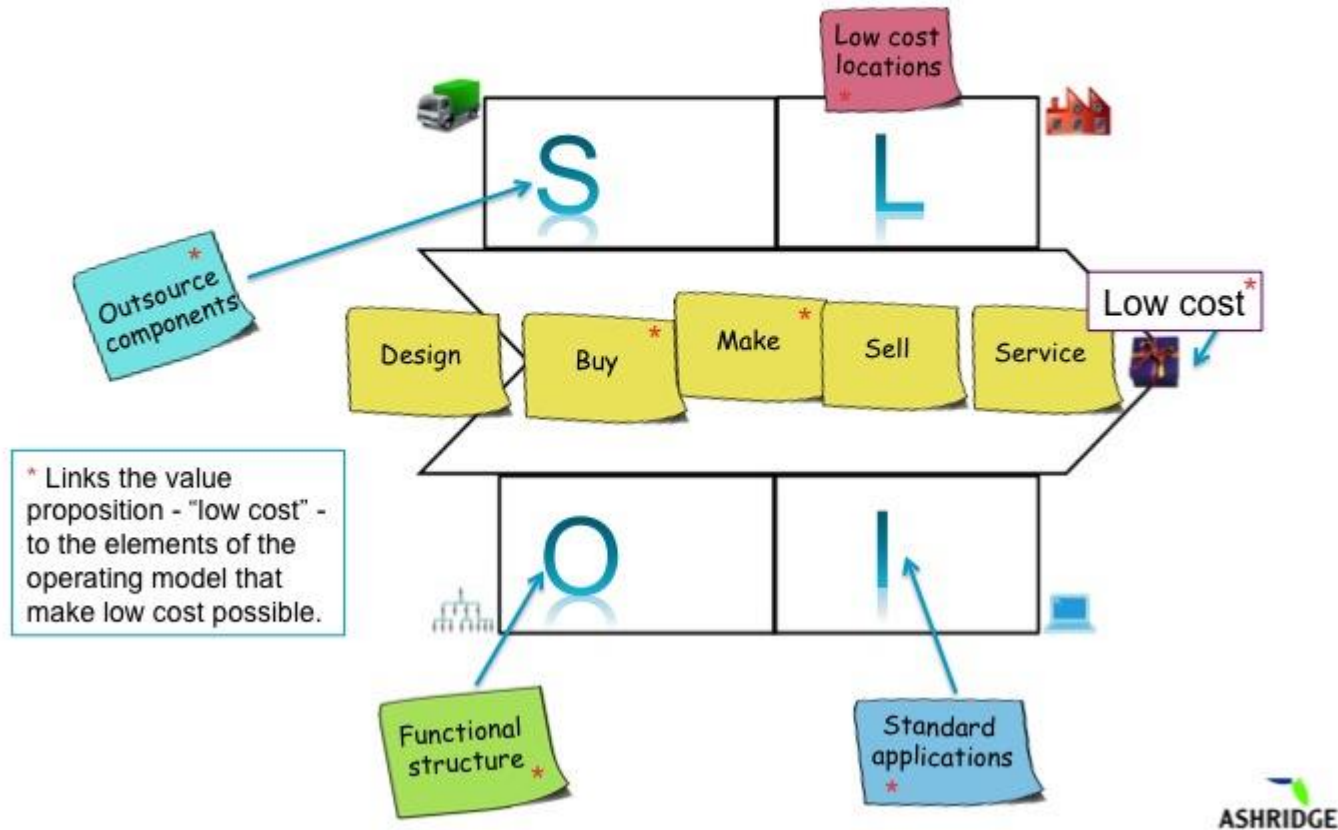
Management system covers the integration of most pivotal issues of management like performance management, financial management, risk management, planning and strategic management etc. The whole procedures are running through within an operating model to control the details.^{1; 2}

1. How to Create an Operating Model — Deliver Values. Medium website. URL: https://medium.com/@Lynia_Li/how-to-create-an-operating-model-deliver-values-10292637419e
 2. Campbell A., Gutierrez M., Lancelott M. Operating Model Canvas, 2017, Zaltbommel, Netherlands: Van Haren Publishing, 224 p.

BUILDING AN OPERATING MODEL CANVAS

1; 2

Choose what to put on the Canvas based on what is important to the value proposition



1. How to Create an Operating Model — Deliver Values. Medium website. URL: https://medium.com/@Lynia_Li/how-to-create-an-operating-model-deliver-values-10292637419e
 2. Operating Model Canvas. URL: <https://operatingmodelcanvas.com/>

BUILDING AN ENHANCED MODEL CANVAS

DEFINITION

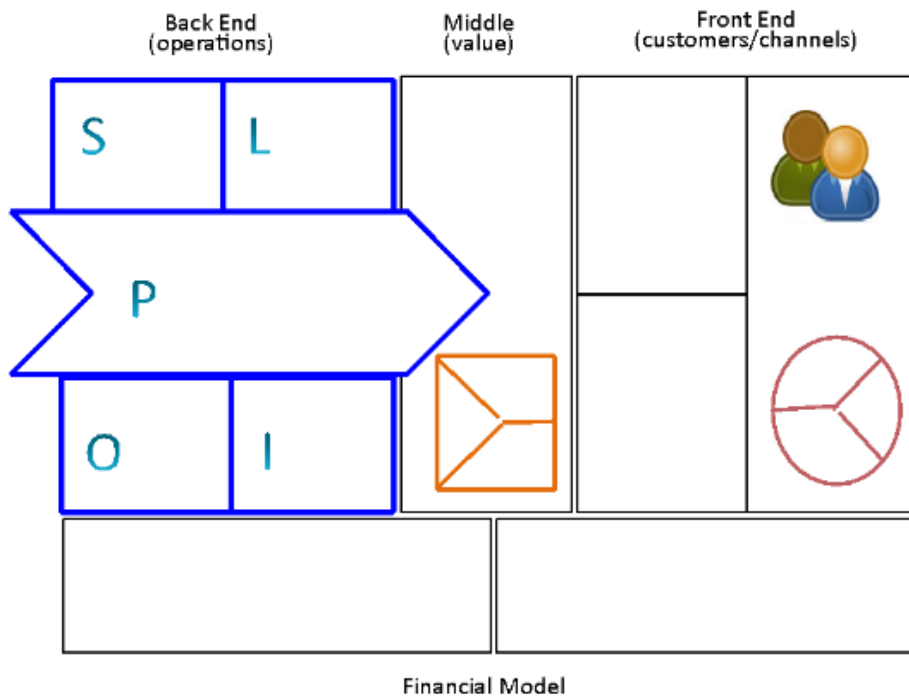
Enhanced Business Model Canvas – combination of the Operating Model Canvas with the Business Model Canvas.

The left-hand side of Key Partners, Key Activities and Key Resources is replaced by five elements – Processes, Organisation, Information, Location and Suppliers.^{1; 2}

Advantages: left-hand side is focused on the processes (the middle arrow) – the value chain of work steps needed to deliver the value proposition².

It is then easy to think about how the other elements – organization, information, location and suppliers (the four boxes around the arrow on the left-hand side) – can be designed so that they support the main work steps in delivering the value proposition².

It directly addresses important issues such as people, organization structure, location and information systems that are critical to the operating model, but often given too little attention when thinking about the business model².



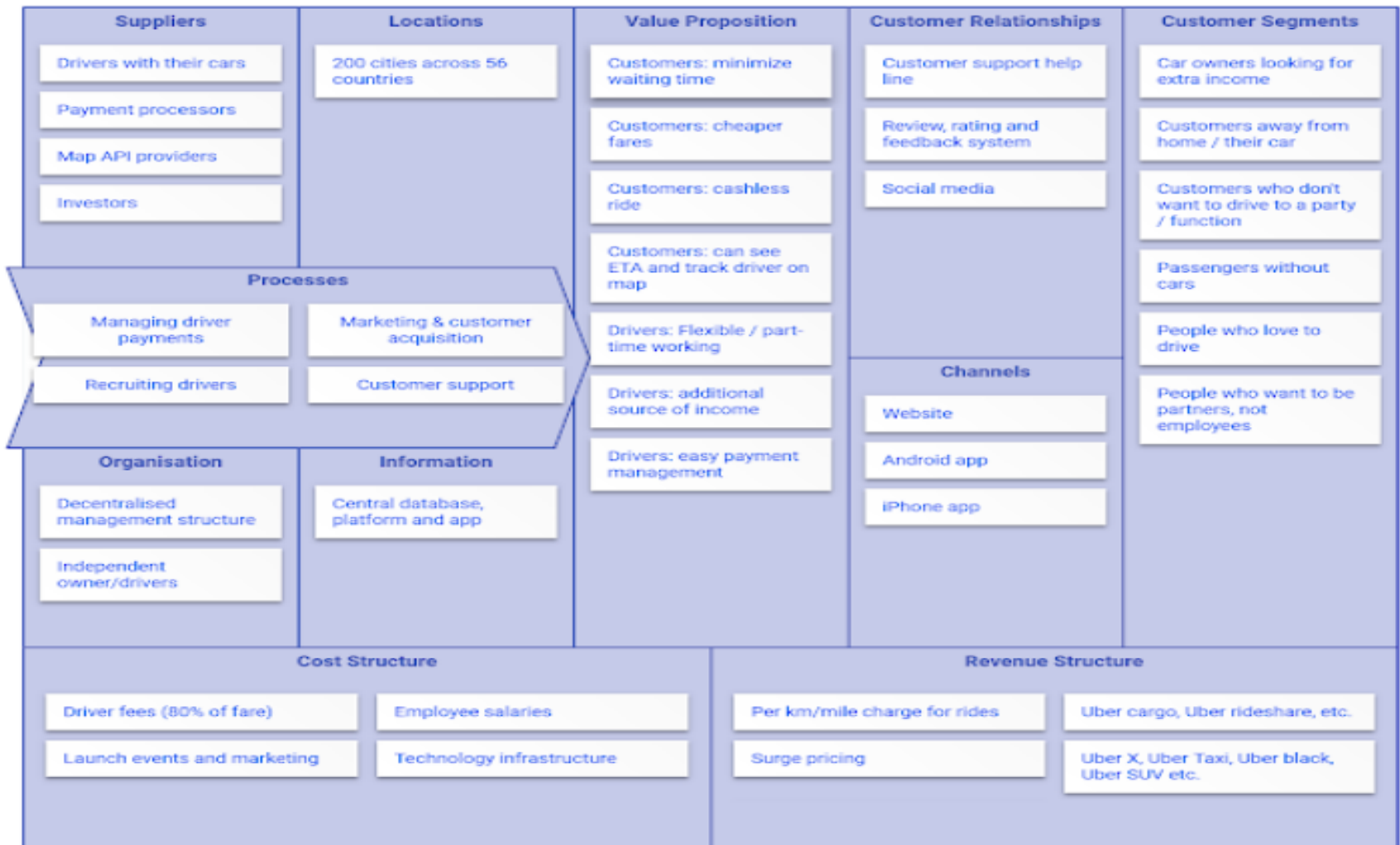
TOPIC 3 4

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1. Will This Replace The Business Model Canvas? *Lionessmagazine*: website. URL: <https://lionessmagazine.com/will-this-replace-the-business-model-canvas>.
 2. Enhanced Business Model Canvas. *Operating model canvas*: website. URL: <https://operatingmodelcanvas.com/enhanced-business-model-canvas>.

BUILDING AN ENHANCED MODEL CANVAS

Enhanced Business Model for Uber¹



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1. Introducing the Enhanced Business Model Canvas. *Strategiccoffee*: website. URL: <https://strategiccoffee.chrisfox.com/2017/05/enhanced-business-model-canvas.html>

FEATURE CANVAS FOR BUSINESS DEVELOPMENT

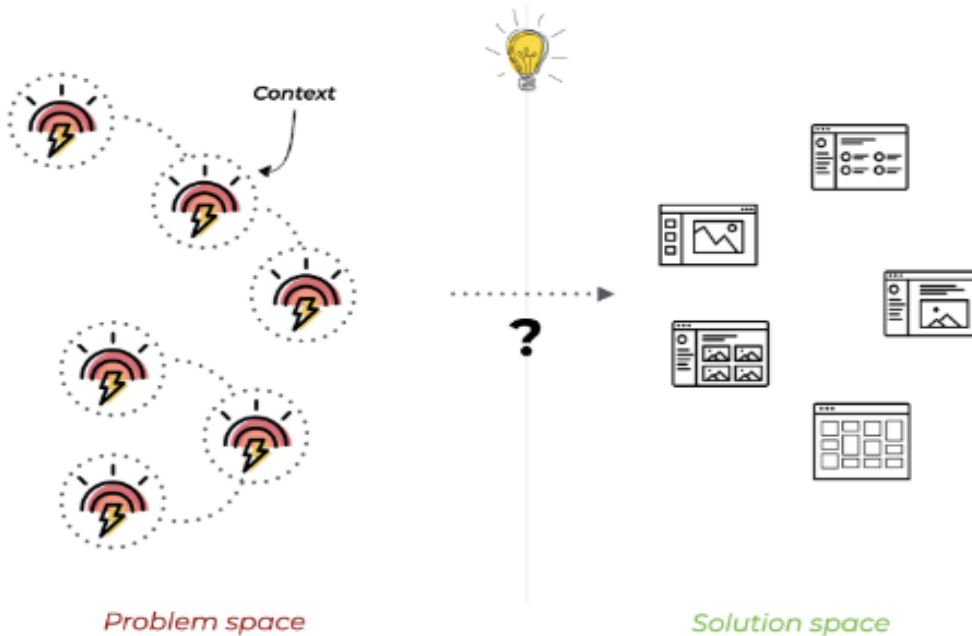
DEFINITION

Feature Canvas – a tool that facilitates decision-making in the problem space¹.

Companies fail because they develop in the so-called "solution space", instead of focusing on the "problem space", which allows you to make sure that the solutions will actually solve customer problems¹.

Feature Canvas provides¹:

- Spend more time researching the "problem space" before starting to make decisions
- Understand and keep in mind the problems and needs of customers when analyzing new ideas
- Place teams, customer issues, and more in the "problem room".
- Identify blind spots in customer knowledge

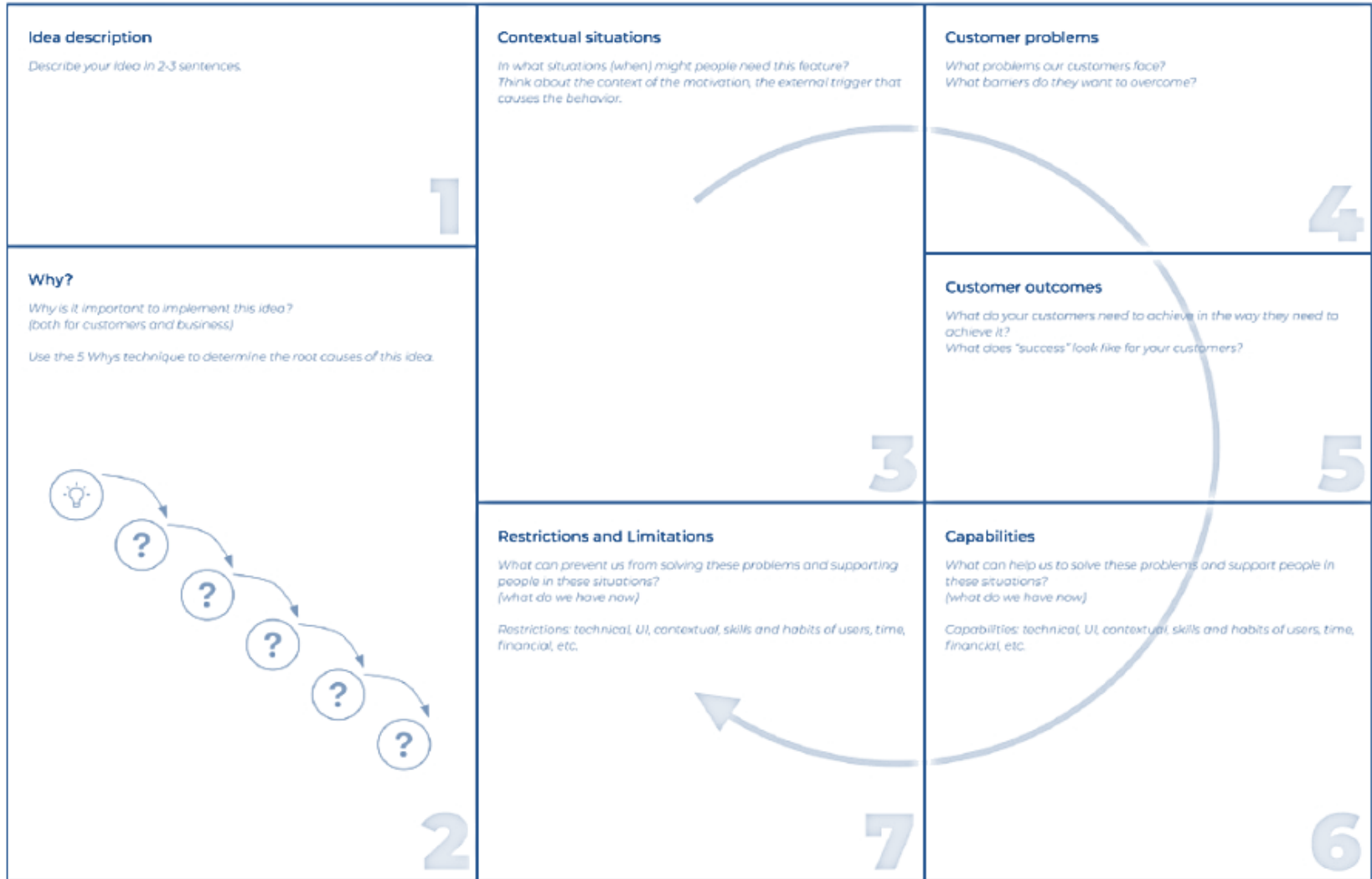


1. Why use Feature Canvas? *Feature canvas*: website. URL: <http://featurecanvas.com>

FEATURE CANVAS FOR BUSINESS DEVELOPMENT

Feature Canvas Basic

1



③ TOPIC 4

FEATURE CANVAS FOR BUSINESS DEVELOPMENT

Feature Canvas

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TOPIC ③ 4

1. Why use Feature Canvas? *Feature canvas*: website. URL: <http://featurecanvas.com>

TOPIC 5

OPERATING PROCEDURES FOR BUSINESS IMPLEMENTATION



- 5.1.** Operating activities and standard operating procedures
- 5.2.** Operating cycle of the enterprise
- 5.3.** Operating efficiency of the business

Operating activities

DEFINITION

Operating activities are the functions of a business directly related to providing its goods and/or services to the market. These are the company's core business activities, such as manufacturing, distributing, marketing, and selling a product or service.¹

Operating activities are the daily activities of a company involved in producing and selling its product, generating revenues, as well as general administrative and maintenance activities¹

Operating activities can be divided into enterprise management and regulated accounting, from which the financial statements are formed²

The company's operating activities include²:

- purchase of raw materials, rent;
- payment for utilities, wages;
- advertising and transportation costs;
- payment of taxes; received revenue



1. Operating Activities. URL: <https://www.investopedia.com/terms/o/operating-activities.asp#:~:text=Operating%20activities%20are%20the%20of%20functions,selling%20a%20product%20or%20service>.

2. What is operational activity? Invest Profit: website. URL: <https://investprofit.info/operating-activities>

CHARACTERISTICS OF OPERATING ACTIVITIES

The main component of all economic activities of the enterprise

The main volume of formed assets, the main number of personnel of the enterprise serve this activity.¹

Is a priority in relation to investment, financial and other activities of the enterprise

The development of any other activity should not conflict with the development of operational activities, but only support¹

The intensity of operational development is the main parameter that characterizes the progressive economic development of the enterprise at certain stages of its life cycle.

Opportunities for efficient use of capital in the operating process at different stages of the life cycle of the enterprise determine the possibilities of implementing the overall economic strategy of the enterprise.¹

Business transactions are regular

Compared with the operations of other activities, the frequency of operations in it is the highest.¹

Focused mainly on the commodity market

Associated with different types and segments of the commodity market, determined by the specifics of raw materials used, the nature of the finished product¹

Along with the general, inherent and specific types of risks, combined with the concept of commercial risk

The level of operating profit generated by the capital used for various alternative uses must be correlated with the level of commercial risk.¹

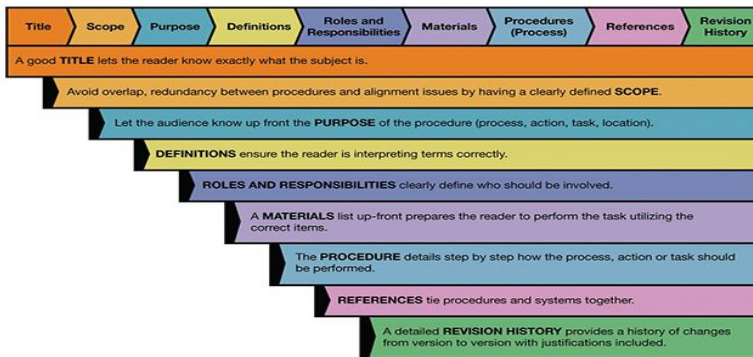
STANDARD OPERATING PROCEDURES

DEFINITION

A **standard operating procedure** (SOP) is a step-by-step instructions guide to help an employee in performing specific operations smoothly¹

Processing of the application from the customer, endorsement and signing of the contract, processing of a guarantee case, reconfiguration of the equipment

THE BASIC ELEMENTS OF AN SOP



Standard Operating Procedures (SOPs) provide the necessary instructions for completing critical processes in a company².

Writing standard operating procedures ensures the smooth running of the business as employees come and go².

Rules¹

1. **Simplicity.** Everything should be described as short, simple and clear as possible. The document should be legible and understandable, easy to remember
2. **Actions** should be written step by step
3. **As much as possible** you need to use photos and drawings, examples of "right" and "wrong"
4. **The required background** information should be easy to find and use
5. **If the document is adopted**, it is necessary to strictly enforce it
6. **It is necessary to explain** why the requirement arose and why it must be met. You can also describe common problems caused by non-compliance.
7. **The document must be relevant.** As soon as something has changed in the real world, it should immediately be reflected in the paper
8. **Before you start working on the rules**, you need to teach people and make sure they understand it
9. **The document** should have a clear and typical structure for the company.
10. **The regulations** should not interfere with the achievement of the company's overall goals

1. Standard operating procedures (SOP, Standard Operating Procedure) - what is it and why are you needed? Point-v.ru: website. URL: <http://point-v.ru/stati/standartnye-operatsionnye-protsedury-sop-standard-operating-procedure-cto-takoe-i-zachem-nuzhny.html>

2. What are Standard Operating Procedures (SOPs)? Definition + Instructions. Headphet: website. URL: <https://uk.headphet.org/what-are-standard-operating-procedures-cms-31294-2130>

TYPES OF STANDARD OPERATING PROCEDURES

Step-by-Step Format

In some cases, it may be sufficient to create a simple numbered or bulleted list of steps to take when completing a process.¹

This format should be used only when the process in question is straightforward and, in the vast majority of circumstances, can be completed without fail.¹

Flowchart Format

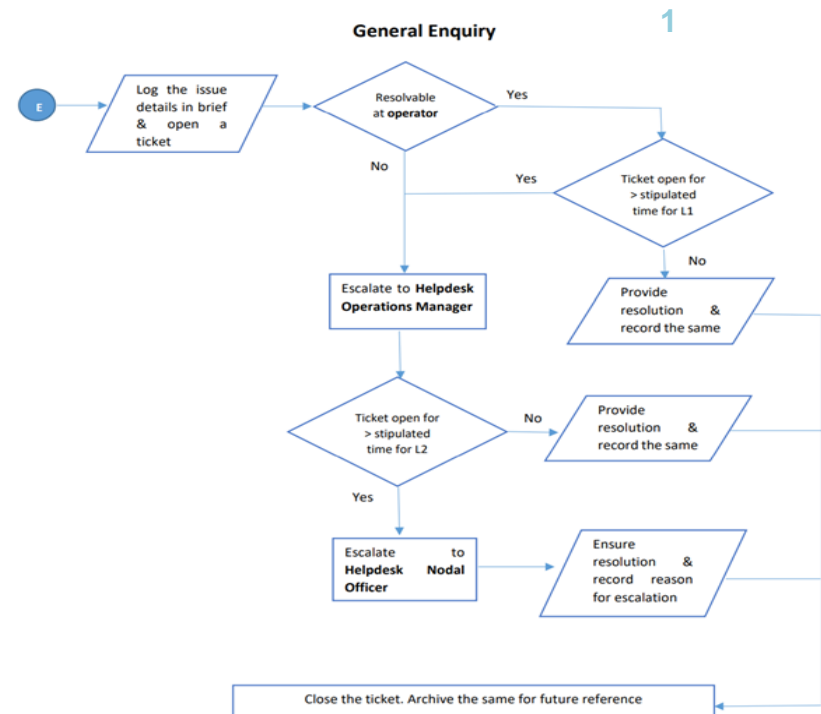
Flowcharts are best used to illustrate SOPs when multiple outcomes are possible at certain points throughout the process.¹

In such cases, the outcome of one step will impact the way in which the team will need to approach each subsequent step.¹

Hierarchical Format

The hierarchical format for SOPs borrows from the above format in that it involves listing the steps of the process to be completed.¹

The **hierarchical format is used** when more instruction may be needed in order to sufficiently complete a given task.¹



PROCEDURE FOR COMPILING STANDARD OPERATING PROCEDURES

1 Choose the SOP Methods

Most large corporations use the ISO-9000 standard. Smaller companies and individuals may use different methods of ensuring their SOP's satisfy all professional needs.¹

Selected: Simple Checklists, Complex Linear Checklists, Flowcharts¹

Employee Onboarding Checklist

Home / Library / Employee Onboarding

Employee Onboarding

Run this checklist every time you employ someone

- 1 Introduction
- 2 Before First Day
- 3 Employee information
- 4 Prepare paperwork
- 5 Define role, goals and projects
- 6 Prepare workstation
- 7 Create accounts
- 8 Prepare required reading
- 9 Prepare benefits package
- 10 Prepare job description
- 11 First Day
- 12 Introduce to the team
- 13 Office tour
- 14 Provide trainer material

Employee information

Assign Set Due Date

Start by entering the employee's basic information in the form fields below.

First Name

Surname

Address

Phone Number

Email Address

Enter Email Address...

Hire Date

Select Date...

Other information

2 Set Up Smart Collaboration

A system of cooperation with employees is created, stakeholders eventually follow standard operating procedures after their final completion¹

3 Objectives

Priorities can range from customer stakeholders or to performance adjustments¹

4 Format

Large corporations may choose formal reports or premade templates decided upon by higher ups. These will undoubtedly start with the cover or reference page, include a list of chapters, and finally a detailed, multi-tier checklist that shares the processes in detail.

Smaller companies may have a single page or a small packet that outlines everything. Startups and team-led groups usually opt for a more informal approach.¹

PROCEDURE FOR COMPILING STANDARD OPERATING PROCEDURES

⑤ Limits and Scope of Every Process

There is a need to determine who benefits from each standard operating procedure and design processes that allow them to do their part of the job efficiently without confusion.¹

One process gets one type of employee from point A to point B. If you need to expand the scope to groups, you may have to make a more complex SOP checklist that defines intersection points as well.¹

⑥ Agreed-Upon SOP Style

Since SOP documents are sometimes quite long, it makes sense to get to the heart of each step from the beginning.¹

Use concise language, do not use frivolous statements, abstract arguments or comments.

⑦ Company-Specific Notation

This only pertains to companies or organizations that have their own in-house notation systems.

Large corporations are more likely to have these precise rules you have to follow when creating new SOP's. The majority adopt a standardized form like BPMN.¹

⑧ Process Steps

The description of the steps is based on cooperation in the step-by-step process of employees and managers.¹

After creating the skeleton of the process, they go back and reveal it with subtasks and other details necessary to get the best results from employees.

PROCEDURE FOR COMPILING STANDARD OPERATING PROCEDURES

⑨ Brainstorm Potential Failure Scenarios

Before you get to those steps, take some time to think of any possible problems that could arise during the process.

The brainstorming session can include everything from hypotheticals to calculations that run possibilities through established models. These types of preliminary tests allow you to tweak things before you put the whole process into action.¹

⑩ How Processes Can Be Measured

The creation of a standard operating procedure checklist or chart means nothing if you have no way of collecting data to show if it is improving work function or not. Define metrics that allow you to determine this objectively.¹

For example: SOP for the sales team, number of leads created, conversion rates, total sales revenue, etc.¹

⑪ Practical Tests for Every SOP

Check standard operating procedures with people who will implement them during the working day.¹

Create an SOP template, run multiple instances of SOP as checklists, and monitor in real time¹

⑫ Feedback from Your Superiors

Owner or the CEO must have superiors who need to sign off on the standard operating procedures you and your team create.¹

if you do run your own small business, you may want an investor, mentor, or even a long-term customer look over the SOP before implementation.¹

PROCEDURE FOR COMPILING STANDARD OPERATING PROCEDURES

⑬ Clear Optimization Process

Although the goal is to create standard operational procedures that work now, next week, and next year, no objectives or methods to reach them remain static forever.¹

SOP's are living documents that can change and grow over time. With this in mind, it is important to figure out how this process happens.¹

⑭ Risk Assessment

Even the clearest and clearest document of a standard operating procedure may not be useful for putting into practice if the process involves too much risk.¹

For example: software development, transport and medical field¹

⑮ Flow Diagram

Some employees understand better with a graphical chart rather than a textual list of steps to follow.¹

After finalizing your standard operating procedures for whatever activities an employee must do to satisfy their job description, transform it into a flow diagram or workflow map.¹

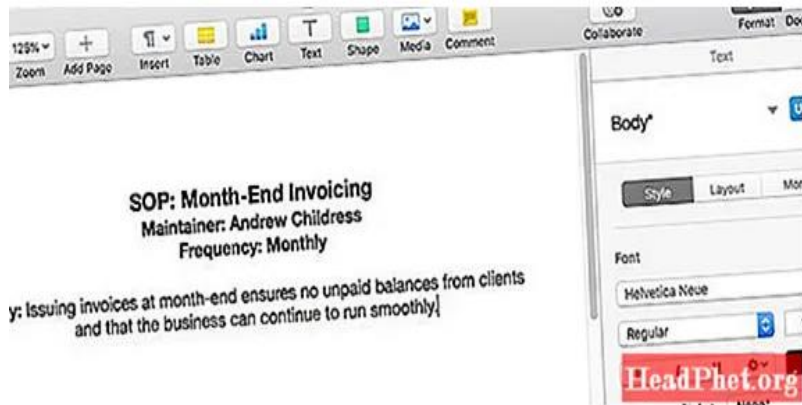
⑯ Implementation of SOPs

Standard operating procedures give employees everything they need to move forward productively and with a defined end goal that helps the company overall.¹

EXAMPLE OF STANDARD OPERATING PROCEDURE TO ISSUE INVOICES TO CUSTOMERS AT THE END OF THE MONTH

① Why?

The purpose of creating invoices is simple: get money¹

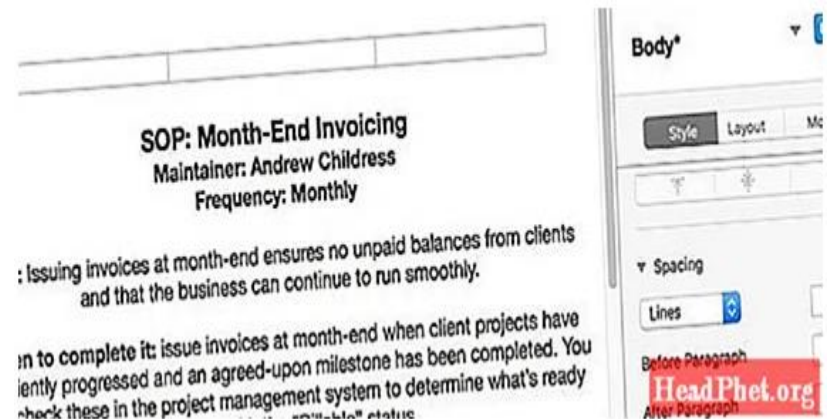


A simple text document should open with a brief description of the process and why it is important for the business.¹

Some administrative details on who should support the SOP should be included, which will determine who will work with the process.¹

② Frame of the process

It is recorded where the documented process fits into the overall business picture¹

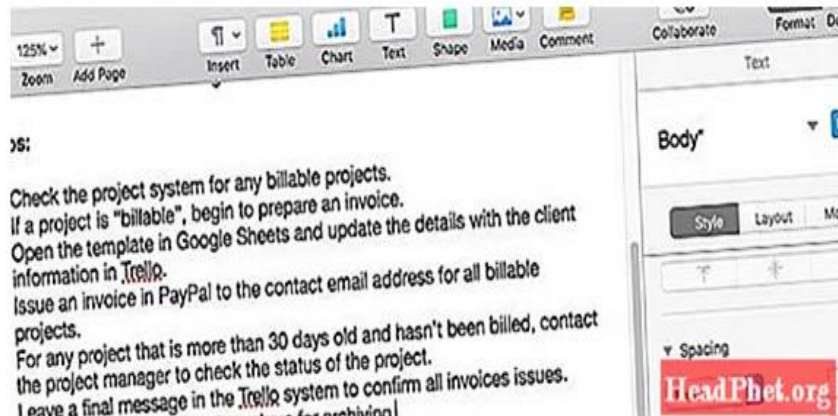


It is necessary to determine the deadlines and stages of implementation, as well as the necessary actions to begin implementation.¹ Part of the When to Complete process, the frequency of the process, is also documented.

EXAMPLE OF STANDARD OPERATING PROCEDURE TO ISSUE INVOICES TO CUSTOMERS AT THE END OF THE MONTH

3 Detailed, specific stages

The stages that each employee can go through are determined¹



The stages related to the process are documented. Stages and steps are described as simply as possible.¹

The steps should be documented so that the standard operating procedure is repeatable.¹

4 Illustrations and screenshots

You should provide screenshots that illustrate the individual stages of the process, especially if the user needs to use a specific application or project management system¹



4 SOP verification

The best way to test the viability of standard operating procedures is to try them for suitability¹

BASIC ELEMENTS OF THE SOP DOCUMENT

Title

A title should be simple and accurately describe the intent of the SOP. The document should capture everything the title conveys.¹

Purpose

Purpose is an opportunity to expand upon the title, explaining to the employee what objective the SOP is intending to achieve. The purpose should be short and typically one sentence.¹

If the purpose covers several topics, this is indicative of the need to consider separating the SOP into additional SOPs.¹

Scope

The Scope of an SOP discusses the range of activities that the SOP applies to, as well any limits or exceptions not covered by the SOP.¹

If the system, equipment, or tasks have additional instructions not within the scope, another SOP may be warranted, or the scope can be expanded.¹

Definitions

Internally, companies may have specific definitions, acronyms, or abbreviations that must be spelled out.¹

The interpretation of a term will have a critical impact on compliance. For instance, Water for Injection is much different than Water for Irrigation.¹

Materials

A materials section, though not commonly used in most operational SOPs, can be very important in test methods, laboratory SOPs, and calibration and maintenance procedures in which specific equipment and/or instruments are required in order to perform the tasks.¹

It should simply list the specific equipment, instruments, weights, gauges, etc. that should be used to execute the SOP.¹

BASIC ELEMENTS OF THE SOP DOCUMENT

Safety

Essential to the company's safety program, a well written SOP should have a safety section in which PPE (Personal Protective Equipment) is listed. This section of a procedure can also list the prerequisite safety training necessary to perform a task safely. The document therefore feeds directly into your EHS program for robust safety compliance initiatives.¹

Procedure

This is the heart of a well written, concise, easy to follow SOP. The procedure section should be instructional. Each step should be in sequential order.

Anyone with the appropriate prerequisite skills and knowledge should be able to pick up the document and complete the targeted task or operation.

The procedure portion should easily translate into a process flow diagram for a visual aid.¹

Roles & Responsibilities

The roles and responsibilities section of an SOP should include a list of the types of employees that are required to perform some or all the tasks within an SOP.¹

For example, QA inspector, Maintenance Tech, Quality Manager, Manufacturing Operator, etc.

Next to each role, a list of the specific activities that are to be performed by each person should be listed. It is common for this section to be in a tabular format.

The Roles and Responsibilities section feeds directly into a good organizational chart, job descriptions, skills, and competencies required, training, and resourcing. This is a vital element of a well written SOP.¹

References

This section can include other SOPs, forms, government regulations, guidance documents, company policies, etc.¹

OPERATING CYCLE

DEFINITION

Operating Cycle – the period of time between the acquisition of inventories and the receipt of money and their equivalents from the sale of products or goods and services produced from them¹

EXAMPLE

The clothing store bought ready-made clothes and sold them to the buyer for cash. The relatively short period of time between buying clothes and selling them reflects a short operating cycle².

Unlike a clothing store, the machine tool manufacturer first purchases materials and components, then direct production, and then provides customers with deferred payment².

As a result, the operating cycle for the machine tool manufacturer is much longer than the operating cycle of the clothing store. There are industries in which this period exceeds a year, for example, shipbuilders²

Operating cycle periods ³ :

- ① **Production cycle** - the period during which raw materials are converted into finished products;
- ② **Financial cycle** - the number of days from investing in the purchase of raw materials or goods for sale to revenue.

Components of the operating cycle⁴:

Inventory turnover cycle is the average time (in days) required to convert inventories from the form of materials (raw materials) to finished products and their sale.

Accounts receivable turnover cycle is the average time required for buyers to repay receivables arising from sales on credit.

Accounts payable turnover cycle is the average time that elapses from the moment of purchase of inventories by the enterprise to the moment of payment of creditors' bills.

②

TOPICS

5

1. NP(S)BO 1 "General requirements for financial reporting" Oblik.press: website. URL: <https://oblik.press/np-s-bo-1-zahalni-vymohy-do-finansovoi-zvitnosti/>
2. Kobyletskyi V. R. Period of the operational cycle. Online magazine "Financial Analysis online". URL: <https://www.finalon.com/slovník-ekonomichnikh-pokaznikov/321-period-operatsijnogo-tsiklu>
3. The operating cycle and its duration are important indicators of management accounting. Moneymakerfactory: website. URL: <https://moneymakerfactory.ru/spravochnik/operatsionnyiy-tsikl-i-ego-prodoljitelnost/>
4. Operational and financial cycle. Analysis of the financial condition of the enterprise: website. URL: https://afdanalyse.ru/publ/finansovyj_analiz/analiz_oborachivaemosti/finansovyj_cikl/33-1-0-215

STAGES OF THE OPERATING CYCLE



OPERATING CYCLE CALCULATION

Operating cycle period = Period of one turnover of inventories + Period of repayment of receivables¹

Operating cycle period = $(360 * \text{Average annual amount of inventories} / \text{Cost}) + (360 * \text{Average annual amount of receivables} / \text{Revenue})$ ¹

It is desirable to reduce the rate during the study period¹

When calculating the indicator, it should be remembered that the turnover of inventories and receivables may be underestimated¹.

If the company uses the classic business year (end of December 31) and the indicator is calculated based on the values at the beginning and end of the year, the indicators may not reflect the real situation. Therefore, it is desirable to use the value at the end of the month or working day¹.

To determine the position of the company, it is advisable to compare the values with the main competitors¹.

Average annual volume of stocks (the most correct way) = Amount of stock at the end of each business day / Number of business days¹

Average annual amount of receivables (the most correct way) = Amount of receivables at the end of each business day / Number of business days¹

Average annual volume of stocks (if only monthly data are available) = The amount of stocks at the end of each month / 12¹

Average annual amount of receivables (if only monthly data are available) = The amount of receivables at the end of each month / 12¹

Average annual volume of stocks (if only annual data is available) = $(\text{Size of stocks at the beginning of the year} + \text{size of stocks at the end of the year}) / 2$ ¹

Average annual amount of receivables (if only annual data are available) = $(\text{Amount of receivables at the beginning of the year} + \text{amount of receivables at the end of the year}) / 2$ ¹

FINANCIAL CYCLE

DEFINITION

Cash Conversion Cycle (Net Trade Cycle) - this is the period during which own working capital makes one full turnover¹

To determine the current state of the company it is necessary to compare the period of the financial cycle with competitors¹.

However, if the value is below zero, it indicates liquidity problems. The company attracts large amounts of accounts payable, which can have negative long-term consequences¹.

Type of financial cycle ²	Accounts receivable (receivables) (excluding advances) ²	Accounts payable (payables) (excluding advances) ²
Classic	Exceeds the received advances	Exceeds the issued advances
Reverse	Advances received exceed receivables	Advances issued exceed accounts payable
Elongate	Exceeds the received advances	Advances issued exceed accounts payable
Reduced	The received advances exceed	Exceeds the issued advances.

Financial cycle period = operating cycle - the average repayment period of accounts payable¹

The positive dynamics is the reduction of the indicator¹

Financial cycle period = Period of one turnover of inventories + Period of repayment of receivables - Period of repayment of accounts payable¹

Financial cycle period = $(360 * \text{Average annual amount of inventories} / \text{Cost}) + (360 * \text{Average annual amount of receivables} / \text{Revenue}) - (360 * \text{Average annual amount of accounts payable} / \text{Cost})$ ¹

Average annual balance sheet volume (most correct method) = Amount of balance item size at the end of each business day / Number of business days¹

Average annual balance sheet item volume (if only monthly data available) = Amount of balance sheet item size at the end of each month / 12¹

Average annual volume of the balance sheet element (if only annual data are available) = $(\text{Size of the balance element at the beginning of the year} + \text{size of the balance element at the end of the year}) / 2$ ¹

1. Kobyletskyi V. R. Period of the operational cycle. Online magazine "Financial Analysis online". URL: <https://www.finalon.com/slovník-ekonomichnikh-pokaznikiv/321-period-operatsijnogo-tsiklu>
 2. Elementarium. Center for additional education: website. URL: <http://www.elitarium.ru/finansovyyj-cikl-oborot-aktivy-debitorskaja-zadolzhennost-rashody-jeffektivnost/>

PRODUCTION CYCLE

DEFINITION

Production cycle - the period during which inventories are converted into finished products¹

Production cycle period = (360 * Average annual amount of inventories) / Cost¹

It is desirable to reduce the figure¹.

Average annual inventory (most correct method) =
Amount of inventory at the end of each business day
/ Number of working days¹

Average annual inventory (if only monthly data available) = Amount of inventory at the end of each month / 12¹

Average annual volume of stocks (if only annual data is available) = (Size of stocks at the beginning of the year + size of stocks at the end of the year) / 2¹

If the value of the indicator is too high, for example, in comparison with competitors, it is necessary to look for possible reserves for its reduction¹.

To do this, you can monitor the production process with a record of all losses of time. Working with weak links will increase the rate¹.

The reduction will mean that the company spends less and less time converting inventories into finished products. Low operating cycle reduces the share of fixed costs in each hryvnia of manufactured goods and services¹.

The value will be different for different industries and business segments. The production cycle at the window plant will be much lower than at the car plant. In order to accurately determine the position of the company - it is desirable to compare it with competitors¹.

OPERATING EFFICIENCY

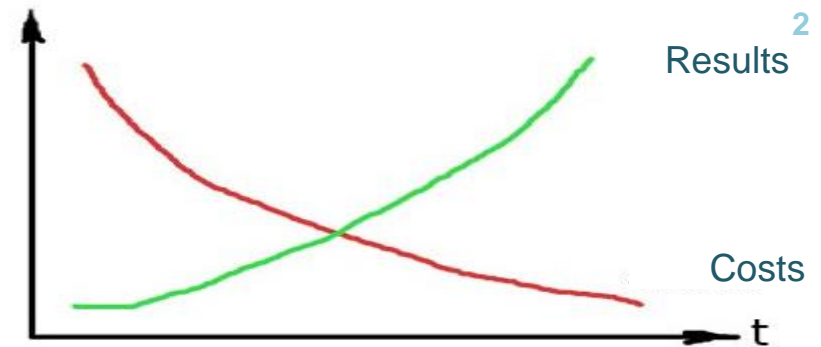
DEFINITION

Operating efficiency of a business organization - a complex ratio of the final results of the operational activities of the enterprise, offered on the market to meet the needs of consumers, to the cost of a set of resources that occurred during a certain period of time¹

DEFINITION

Operating efficiency of business — the ratio between the results obtained from the company's activities and the cost of starting a business operation²

Improving the company's operational efficiency is based on reducing costs while improving results²



Costs ²	Results ²
Funds	Money (income, margin, cash)
Employees	New customers, customer loyalty
Time	Differentiation in the market
Effort	Production, quality
	Speed and flexibility, capabilities

1. Osokina A. V. Operational efficiency: essence and evaluation indicators. Strategic imperatives of modern management: coll. materials of the III International science and practice conf. (March 17–18, 2016) : in 2 hours / Ministry of Education and Science of Ukraine, State Higher Secondary School "Kyiv. national economy University named after Vadim Hetman"; editor: S. M. Sobol (respondent for issue) [etc.]. Kyiv: KNEU, 2016. Part 2. P. 46–53. URL: <https://ir.kneu.edu.ua/bitstream/handle/2010/21006/46-53.pdf?sequence=1&isAllowed=y>

2. Operational efficiency: management and analysis of indicators. Angel investor: website. URL: <https://angel-investor.ru/operatsionnaya-effektivnost.html>

PRINCIPLES OF OPERATING EFFICIENCY ¹

Improving the company's business processes

This is achieved by building an optimal sequence of actions, which allows to achieve the best result with minimal material and human resources. Specific people in the company should be responsible for this¹.

Rational use of staff

Each case should be the responsibility of a specific employee, all bear the load no more and not less than the allowable level, the functions are not duplicated, the organizational structure is clearly correlated with the most successful schemes of staff interaction ¹.

Careful attitude to resources

It is necessary to reduce the percentage of shortages, balanced use of materials and equipment, do not create unnecessary stocks (which can also take up space in warehouses), but at the same time have reserves in case of real need ¹.

Constant monitoring of changes

The manager is obliged to receive timely information on all changes in the company, and, for example, on the editing of legislation, the invention of advanced technologies or the bankruptcy of a competitor. All changes are reflected in the work ¹.

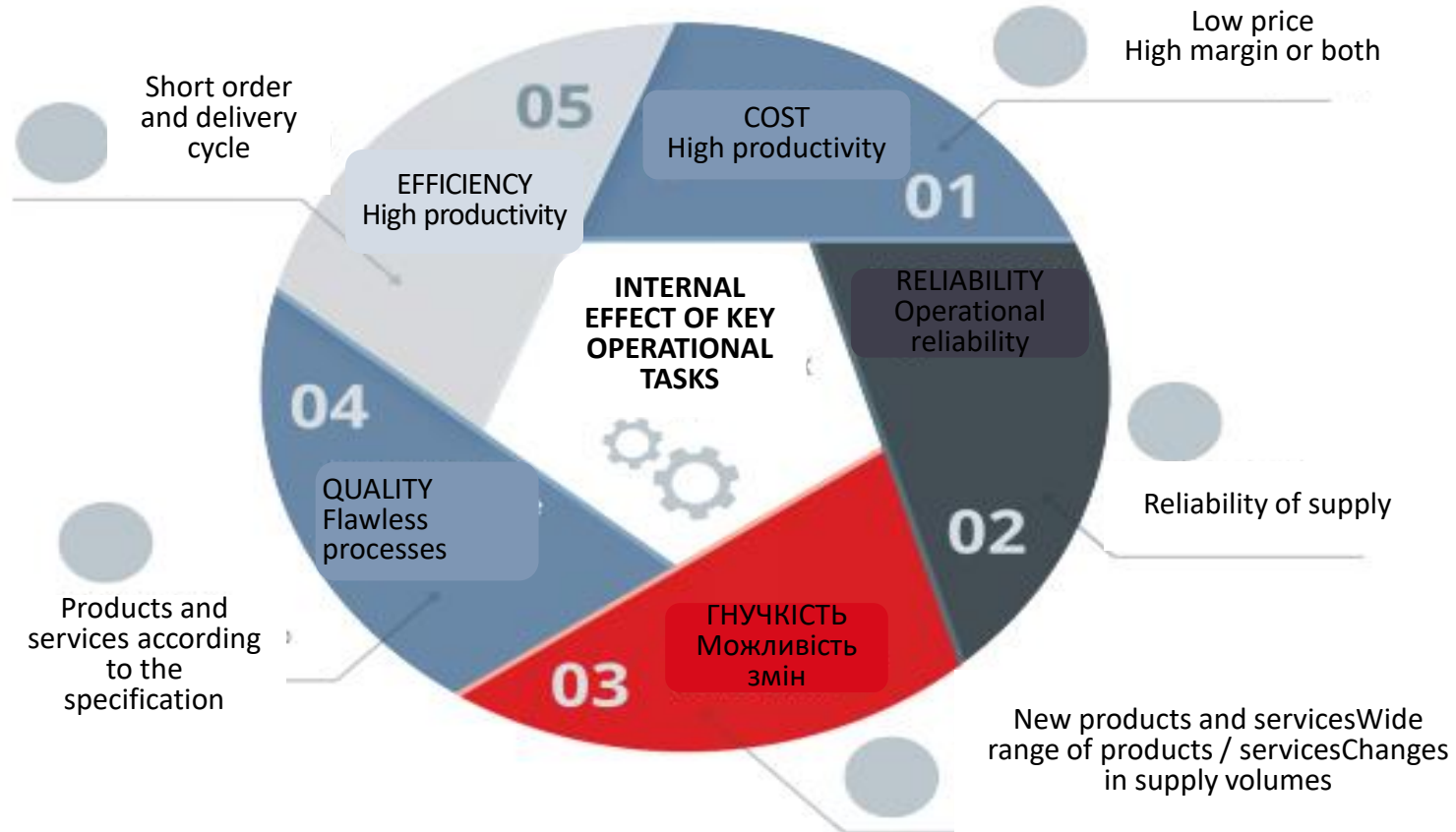
Competently built sphere of control

On the one hand, the need to complete documents and prepare reports should not directly impede the execution of operations. On the other hand, the workflow should not be left to its own devices - there should always be a documentary reflection of key points, which can be studied and analyzed if necessary¹.

OPERATING EFFICIENCY TASKS

EXTERNAL EFFECT OF KEY OPERATING TASKS

1



OPERATIONAL EFFICIENCY MANAGEMENT

1

Reduce costs to get the same result

- **The model is common in the mass consumer sector**

Save costs for better results

- **Process optimization activities aimed at improving the final product**
- It uses the same materials, human resources and time

Increase costs to achieve an even greater result

- **A model typical of expensive, elite brands**
- This approach uses more expensive components, better individual work with customers. And this allows you to create products and services in the premium segment

OPERATING EFFICIENCY

«Process-technological approach»

Operational efficiency is the result of operational processes¹.

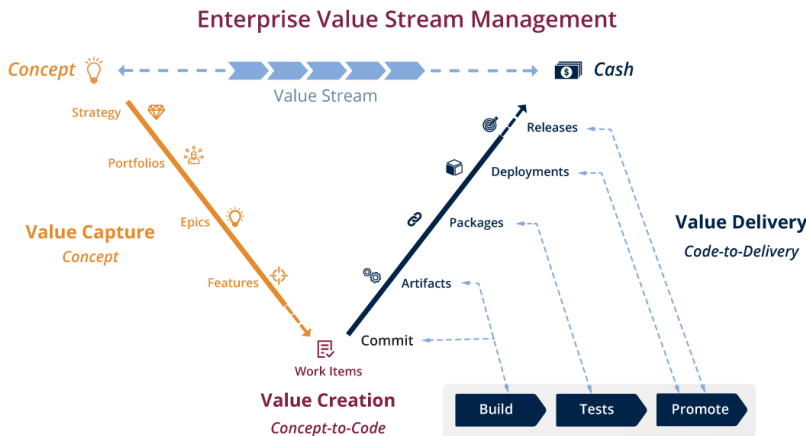
The focus is only on direct production / service operations ("local level" - only operating system units)¹

Performance evaluation - operations localized within the operating system¹.

Logistics supply chain approach

Value Stream Management - operational efficiency reflects the resulting performance of the organization as a whole, which affects all the processes of the enterprise¹.

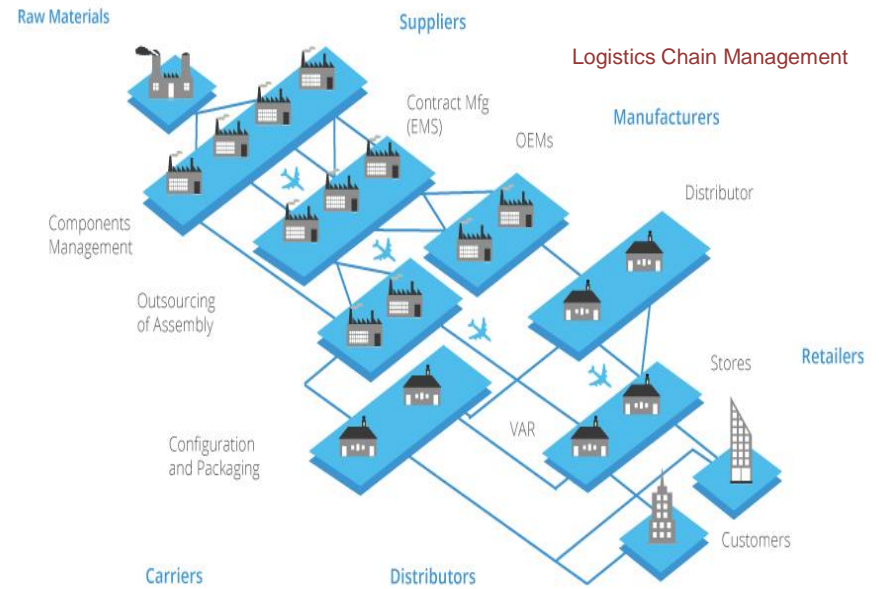
The functioning of the organization is considered as a micrologistics system¹



An approach based on the local value chain of the organization

Logistics Chain Management - operational efficiency is considered as a result of the company's interaction with suppliers and consumers¹.

Operational efficiency depends on the effectiveness of interaction with key external counterparties, is the result of the construction and operation of both internal processes and external relations¹



<https://www.aspaconsulting.com/logistics-chain-management/>

<https://www.collab.net/solutions/value-stream-management>

1. Osokina A. V. Operational efficiency: essence and evaluation indicators. Strategic imperatives of modern management: coll. materials of the III International science and practice conf. (March 17–18, 2016) : in 2 hours / Ministry of Education and Science of Ukraine, State Higher Secondary School "Kyiv, national economy University named after Vadim Hetman"; editor: S. M. Sobol (respondent for issue) [etc.]. Kyiv: KNEU, 2016. Part 2. P. 46–53. URL: <https://ir.kneu.edu.ua/bitstream/handle/2010/21006/46-53.pdf?sequence=1&isAllowed=y>

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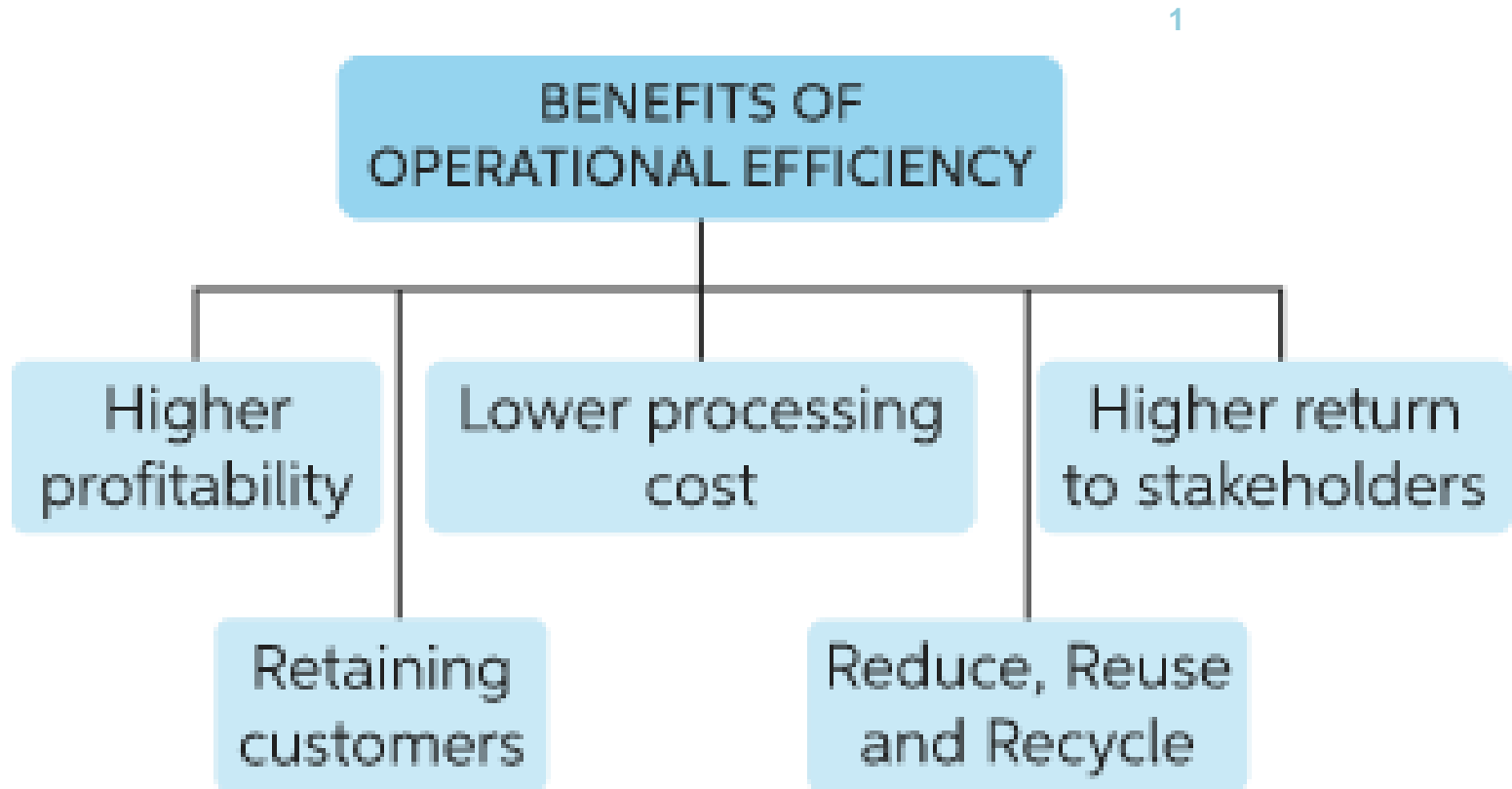
OPERATING EFFICIENCY

Key groups of indicators of measurement of operational efficiency ¹

Approach to operational efficiency of enterprises	The object of management and the focus of management efforts	Results and indicators
Process Technological Approach (local level)	The set of technological operations, the operating cycle as a whole; compliance with established norms and standards of operational activities	Labor productivity Duration of technological operations The duration of the operating cycle as a whole Marriage rate; labor-intensive, material-intensive, energy-intensive products; cost of production
Local Value Chain Approach, Value Stream Management (Enterprise Level)	Customer value flows that are provided at all stages of the movement and transformation of incoming resource flows into the final product supplied to the consumer	<i>Indicators are added:</i> Level of stocks (raw materials, work in progress); the level of stock defects; Reliability and timeliness of raw material supplies Number of customers, customer base structure, customer satisfaction and loyalty, customer service costs
Approach based on logistics chain, Logistics Chain Management (interaction with suppliers and consumers)	Interaction of the enterprise with suppliers of resources, intermediaries and consumers for the purpose of delivery of value for the consumer	<i>Indicators are added:</i> Costs of finding new suppliers and interacting with existing ones Costs of fulfilling the obligations of the manufacturer due to low-quality products Costs of interaction with consumers Costs and changes in the results of the enterprise in the implementation of practices of corporate social responsibility of business and security of supply chain management

1. Osokina A. V. Operational efficiency: essence and evaluation indicators. Strategic imperatives of modern management: coll. materials of the III International science and practice conf. (March 17–18, 2016) : in 2 hours / Ministry of Education and Science of Ukraine, State Higher Secondary School "Kyiv, national economy University named after Vadim Hetman"; editor: S. M. Sobol (respondent for issue) [etc.]. Kyiv: KNEU, 2016. Part 2. P. 46–53. URL: <https://ir.kneu.edu.ua/bitstream/handle/2010/21006/46-53.pdf?sequence=1&isAllowed=y>

OPERATING EFFICIENCY



IMPROVING OPERATING EFFICIENCY

Business process optimization ¹

- Eliminate unnecessary operations
- Ensuring links between processes, completeness and quality of information exchange
- Clear assignment of responsibilities for each stage of the process
- Development of procedures for regular monitoring of business processes and evaluation of performance indicators ¹

Implementation of domestic consumption policy ¹

- Identification of products and services that are necessary for the company
- Identification of suppliers of results within the enterprise and their consumers
- Definition of responsible, formation of requirements to the result
- Regulation of rules of interaction, criteria for evaluation and acceptance of consumer results ¹

Correct support for the functioning of the enterprise in the information system ¹

- Identification and formalization of business requirements for the information system
- Development of optimal IT architecture taking into account the specifics and prospects of enterprise development
- Development of methodology and rules for data processing, reporting and analytics requirements
- Ensuring the end-to-end implementation of business processes, creating a unified information environment ¹

IMPROVING OPERATING EFFICIENCY

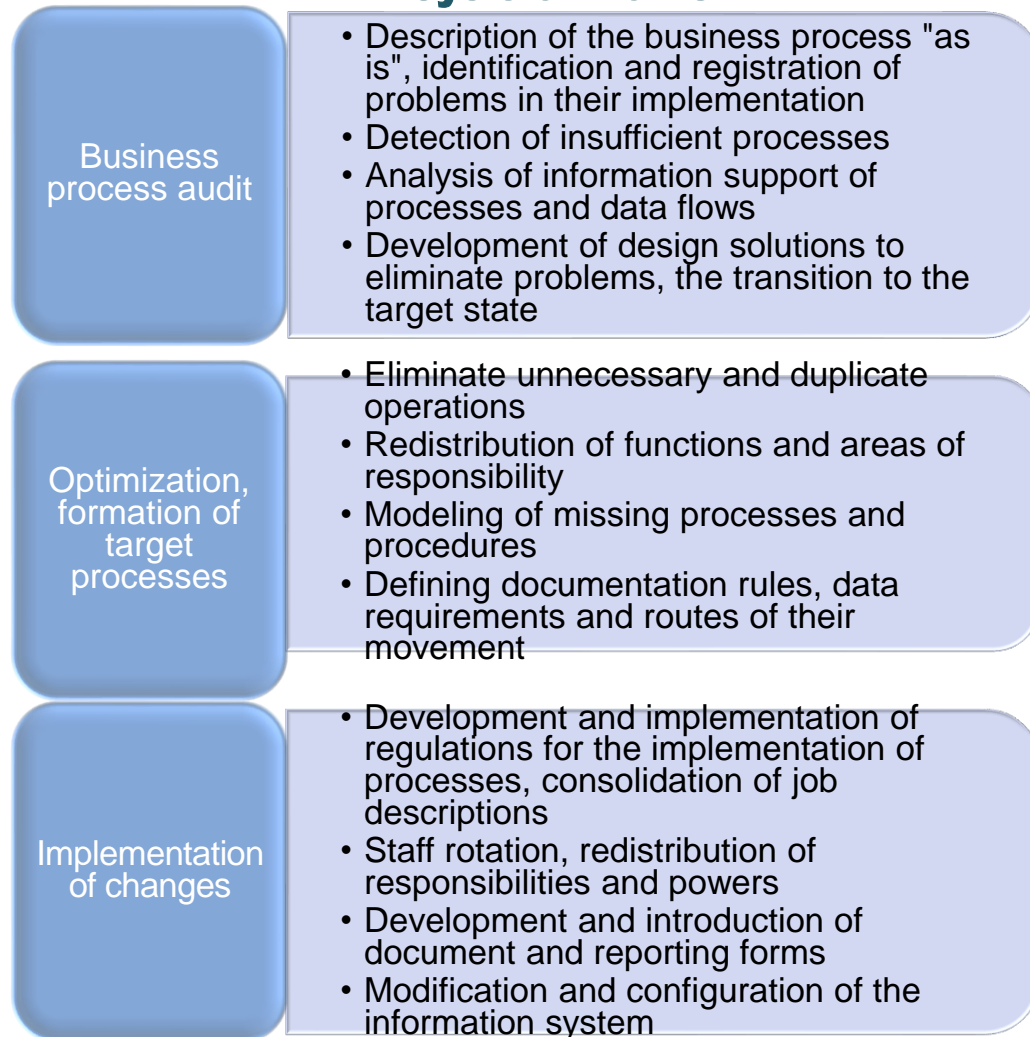
Business process optimization

Business process optimization is aimed at ensuring that all regular activities of the company are performed according to clearly defined rules and with the desired result, external and internal consumers receive the desired product on time and with appropriate quality, and "product suppliers" (ie company units) spend on its creation optimal amount of resources (time, money, materials, labor, etc.)¹.

Work on optimization of business processes¹:

- Optimization of actions performed within the process
- Building information exchange and document support of the business process

Cycle of works¹



1. Improving operational efficiency. Cons-dir : website. URL: <http://cons-dir.ru/raboty-i-uslugi/povyshenie-operacionnoj-effektivnosti/>

IMPROVING OPERATING EFFICIENCY

Business Process Optimization: Step 1. Description "as it is"¹

Tasks	Description of works	Results	Duration
Defining a list of key business processes to be described and analyzed	Interviews with company management and department heads Meeting with the company's management	List of basic (basic) business processes of the company and their contours List of subprocesses that are part of the main processes Agreed list of business processes to be described and analyzed	From 1 to 3 weeks depending on the scale of the company
Formation of a working group of analysts	Reconciliation of the preliminary list of candidates for the working group Interviews and selection of group members Training of the working group on the methodology of description and analysis of business processes and technology of work performance	A working group of analysts from among the customer's specialists has been formed, trained in the methodology of business process description	2 - 3 weeks
Description of business processes "as it is"	Interviews of the customer's specialists Collection and analysis Formation of business process models, their verification for completeness of description and consistency Formation of recommendations for improving the efficiency of business processes	Business process models "as it is" with a list of problems that affect the efficiency of the company's core business, and a set of solutions to eliminate them	From 3 months depending on the scale of the company and the number of described business processes
Coordination of business process optimization solutions	Meeting with management to discuss recommendations for improving the efficiency of business processes	The list of business process optimization solutions has been approved	From 1 meeting depending on the problems

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IMPROVING OPERATING EFFICIENCY

Business Process Optimization: Step 2. Designing "as it should be"¹

Tasks	Description of works	Results	Duration
Optimization of business processes, formation of models "as needed"	Formation of optimal models of business processes: <ul style="list-style-type: none"> ▪ elimination of duplication of operations ▪ elimination of unnecessary subjects ▪ reduction of unnecessary operations ▪ elimination of looping process formation of requirements for input information and resources from other processes ▪ redistribution and / or consolidation of responsibility for operations and procedures 	Business process models "as it should be" Project changes in the organizational structure of the company in accordance with changes in business processes	From 2 months depending on the scale of the company and the number of business processes
Development of indicators for evaluating the effectiveness of business processes and procedures for obtaining them	Identification of: <ul style="list-style-type: none"> ■ key results of each business process ■ indicators of performance evaluation of the business process or procedures within the business process Analysis of fixed costs, determining the method of calculating the efficiency of the business process Development of reporting requirements	List of evaluation indicators: <ul style="list-style-type: none"> ■ efficiency of business processes ■ the effectiveness of key procedures within the process Reporting forms for analyzing the effectiveness of business processes and reporting procedures	From 2 months depending on the scale of the company and the number of business processes
Providing information support for business processes	Forming requirements for the company's information system to support business processes Formation of a functional task for refining the information system	List of functional requirements for the information system required to support business processes List of requirements for completion Project of optimal IT architecture	From 1 to several months
Coordinating the list of decisions based on the results of business process optimization	Meeting with the company's management with approval of the list of changes in business processes and the formation of an action plan for the transition to a new model	Approved list of changes and business process models "as it should be" Action plan for the transition to new business process models	From 1 meeting depending on the problems

1. Improving operational efficiency. Cons-dir : website. URL: <http://cons-dir.ru/raboty-i-uslugi/povyshenie-operacionnoj-effektivnosti/>

IMPROVING OPERATING EFFICIENCY

Business Process Optimization: Step 3. Implementation of business process changes ¹

Tasks	Description of works	Results	Duration
Regulation of activities in accordance with new models	<p>Development of documents that consolidate the work of employees in the framework of changed business processes:</p> <ul style="list-style-type: none"> ▪ Regulations on departments / divisions ▪ Job descriptions ▪ Technological maps and instructions for work 	A set of internal organizational documents governing the implementation of changed business processes	From 2 to several months depending on the scale of changes
Adjusting the motivation system to maintain the efficiency of business processes	<p>Development and approval:</p> <ul style="list-style-type: none"> ▪ indicators for assessing the effectiveness and efficiency of business processes and their optimal values ▪ systems of bonuses for the performance of indicators and where bonuses in case of their reduction 	<p>Approved indicators for assessing the effectiveness and efficiency of business processes</p> <p>Provisions on motivation</p>	From 1 to 3 months
Implementation of changed business process models	<p>Development and implementation of orders approving new rules for business processes, procedures for regular evaluation of their effectiveness and efficiency</p> <p>Pilot testing: implementation of business processes</p> <p>Conducting an audit of the correctness of business processes in accordance with the new rules</p> <p>Adjustment of business process models and regulations, implementation of regulations</p> <p>Display changed rules</p>	<p>Approved and put into effect the documents governing the work according to the changed business processes</p> <p>Procedures for evaluating the effectiveness and efficiency of business processes</p> <p>Execution of works according to new rules</p>	Depending on the scale of changes: from 2 months
Establish procedures for regular monitoring of deviations in business processes and making adjustments	<p>Identify the service that should be responsible for monitoring business processes or creating a service from scratch.</p> <p>Determining the place of service in the management system</p> <p>Development of regular audit procedures and indicators for assessing the effectiveness of business processes, inclusion of indicators in reporting forms</p> <p>Implementation of the business process monitoring service</p>	<p>Approved regulations on the monitoring service</p> <p>Approved and implemented regulations for business process audit and reporting forms with indicators of business process performance</p>	1-2 months

1. Improving operational efficiency. Cons-dir : website. URL: <http://cons-dir.ru/raboty-i-uslugi/povyshenie-operacionnoj-effektivnosti/>

IMPROVING OPERATING EFFICIENCY

Correct support for the functioning of the enterprise in the information system ¹

Tasks	Description of works	Results	Duration
Description and optimization of automated business processes	Depending on the goals set by the management, the work on the description of business processes can be carried out in full (postoperatively) or abbreviated version (decomposition into stages of processes / procedures)	Business process models "as it should be" List of functional requirements for the information system to support business processes	Depends on the scale of the company, the number of described business processes, the depth of the description. It can range from 1-2 months to six months
Comparison of business processes with the information system	Refined modeling of business processes "as it should be" in comparison with the functionality of the future IS: <ul style="list-style-type: none"> ■ Adjustment of process stages, division of responsibilities, information requirements, links between processes, research institutes and process analyst ■ Examination of the model of mapping processes in the IS for the completeness and integrity of the implementation of process support 	Refined models of business processes "as needed" with reflection in the IS The list of functional gaps in the IS and the necessary improvements	Depends on the number of business processes to be automated. On average 2-3 months
Audit of achievements in the information system for completeness and correctness of business process support	Testing of reconfigured ISs before implementation: <ul style="list-style-type: none"> ■ Thorough inspection of business processes ■ Checking the completeness and correctness of the formation of the necessary management reporting 	Compliance of information system settings with company requirements	Depends on the number of business processes to be automated. On average, from a few weeks to a month

1. Improving operational efficiency. Cons-dir : website. URL: <http://cons-dir.ru/raboty-i-uslugi/povyshenie-operacionnoj-effektivnosti/>

IMPROVING OPERATING EFFICIENCY

Implementation of domestic consumption policy: technology of work with internal consumers¹

Each unit produces a product or service that has its own consumer. Such consumers can be not only classic customers, but also their own services.¹

Stage 1. Defining the key results of each service

Each unit identifies and records useful results of its work¹

Results:¹

- formalized products or services of each division are recorded
- products and services produced by several departments - a signal of duplication of functions

Stage 2. Identification of domestic consumers

Each product / service is evaluated for demand.

Results :¹

- Identified consumers of each product and service
- Products and services that do not have consumers - this may be a signal of redundancy

Stage 3. Identification of additional needs and identification of suppliers

Units may have needs for other jobs and services that no one offers.¹

Results :¹

- Additional needs of each division in works or services necessary for regular activity are fixed
- Assigned to those responsible for providing products or services

Stage 4. Harmonization of rules of interaction of suppliers and consumers

Units must agree on:¹

- informing about the need for a product / service
- notification of deviations, if the product or service is provided "just in time".
- product or service requirements
- counter requirements of the supplier

Results :¹

- The matrix of responsibility for products and services is formed, including: the name, the supplier, internal consumers requirements to the order of interaction, suppliers and consumers

STAKEHOLDER MANAGEMENT



- 6.1.** Stakeholders and essence of stakeholder management
- 6.2.** Stakeholder analysis
- 6.3.** Stakeholder management

THE ESSENCE OF STAKEHOLDERS

DEFINITION

Stakeholder - shareholder (interest recipient); pledgee, administrator (trustee) of the disputed, mortgaged or ward property, shareholder¹

In the narrow sense: (shareholder, participant), ie a person who has a share in the authorized (composed) capital of the enterprise¹

In the wide sense: individuals or legal entities interested in the financial and other results of the company: shareholders, creditors, bondholders, members of management bodies, employees of the company, customers (contractors), society as a whole, government ¹

Bradley Googins

Stakeholder - these are groups, organizations or individuals that are influenced by the company and on which it depends. ¹

R. E. Freeman (1984)

Stakeholder - it is a group (individual) that can influence the achievement of the organization's goals or the work of the organization as a whole ¹

Newbould and Luffman (1989)

Divide stakeholders into¹ :

- Influence groups that finance the enterprise (for example, shareholders);
- Managers who manage the company
- Employees working at the enterprise
- Economic partners

Mendelow model(1991)

Natural or legal person directly or indirectly interested in the financial or other results of the company; groups of influence that exist in the company or outside it, whose interests must be taken into account in the process of activity ¹.

1. Description of stakeholders. assessment of the impact of stakeholders on the functioning of the organization. stakeholder analysis of NESTLE. Oddagipermarket: website. URL: <https://oddagipermarket.ru/nalogi-i-platezhi/opisanie-steikholderov-ocenka-vliyaniya-steikholderov-na-funkcionirovanie-organizacii-analiz-steikho.html>

STAKEHOLDER MANAGEMENT

DEFINITION

Stakeholder management - it is the systematic identification, analysis, planning and implementation of actions aimed at influencing stakeholders ¹

Sense

1. **Provides a strong relationship between the business and its stakeholders.** Stakeholder management is a tool for building and building trust ²
2. **Improves the reputation of the organization.** Potential stakeholders will be involved in stakeholder management companies ²
3. **Promotes general age and business development.** Support that uses good relationships that are the right parties ensures the longevity of the business ²



Umbrellas designed by Jardim Araújo, Tag designed by Stephen JB Thomas, Conversation designed by Takao Umetara, all from The Noun Project

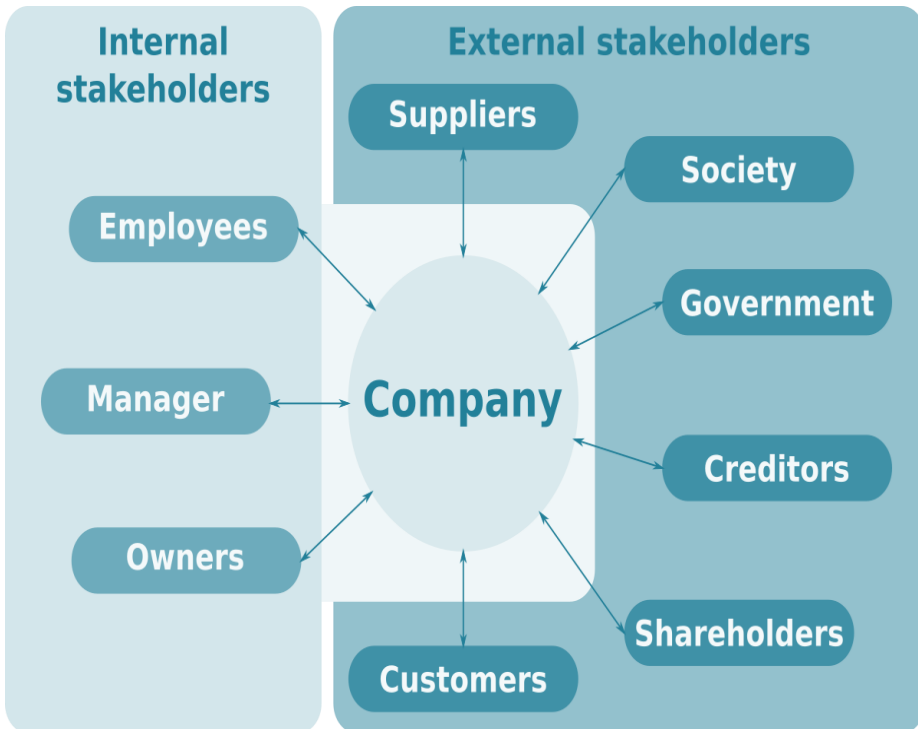
Source: www.sustainet.com/stakeholder-management-umbrella/

Components

1. **Identification of stakeholders.** The whole existence of a business depends on stakeholders. It is necessary to start by identifying large and general groups of stakeholders, and then divide them into more specific groups or units (technologies: "wheel," "PESTLE," "WBS," "Phase") ^{2; 3}
2. **Stakeholder analysis.** Once stakeholders have been identified in the Register, metrics and techniques are used to analyze stakeholders ^{2; 3}
3. **Communication.** A plan is formed and means of communication with stakeholders are selected ^{2; 3}
4. **Interaction and participation.** The goal of stakeholder management is to engage each stakeholder to maximize benefits ^{2; 3}

1. What is stakeholder engagement? Association for project management. web-site. URL: <https://www.apm.org.uk/resources/find-a-resource/stakeholder-engagement>
2. Ultimate Guide To Stakeholder Management. *Cleverism*. web-site. URL: <https://www.cleverism.com/ultimate-guide-to-stakeholder-management/>
3. The (Iterative) Stakeholder Management Process. *The project management blueprint*. web-site. URL: <https://www.theprojectmanagementblueprint.com/blog/stakeholder-management/the-stakeholder-management-process>

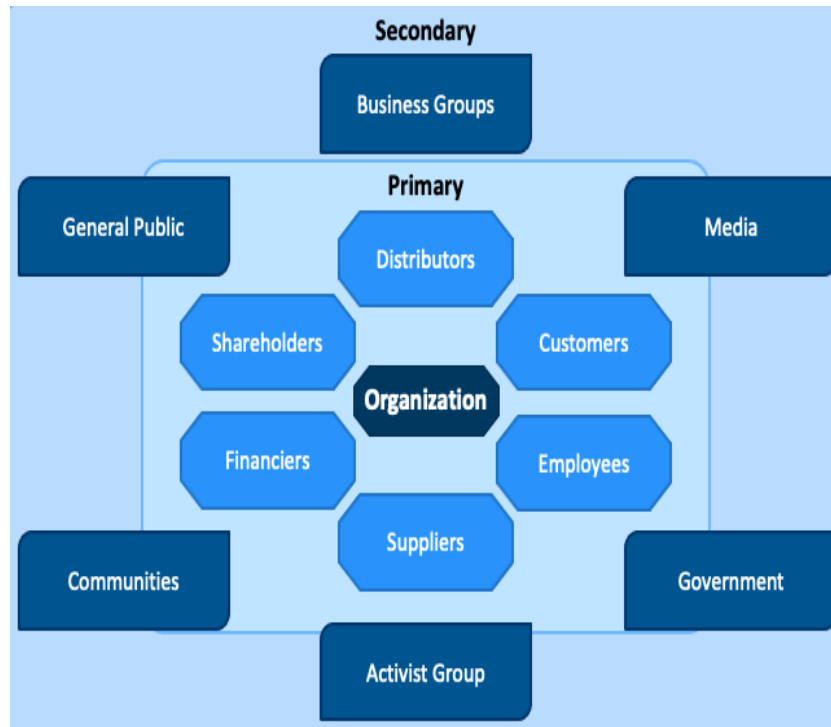
STAKEHOLDER IDENTIFICATION



https://upload.wikimedia.org/wikipedia/commons/thumb/5/56/Stakeholder_%28en%29.svg/1200px-Stakeholder_%28en%29.svg.png

Internal stakeholders operate within the organization ¹

External stakeholders influence the organization from the outside ¹



<https://cdn.sketchbubble.com/pub/media/catalog/product/optimized1/1/d/1d68670e8d13bc0841051022ae79d9d0bab769cad6a00d1e6ac7a6f2661c6e2f/primary-and-secondary-stakeholders-slide3.png>

Primary stakeholders have a legitimate and direct impact on the business (immediate environment) ²

Secondary stakeholders have an indirect impact on business ²

1. WIN-WIN Strategy: how to find a common language with stakeholders. House of Knowledge: website. URL: <https://k-house.in.ua/uk/tag/stakeholders>
 2. Description of stakeholders. Assessment of the impact of stakeholders on the functioning of the organization. stakeholder analysis of NESTLE. Oddagipermarket: website. URL: <https://oddagipermarket.ru/nalogi-i-platezhi/opisanie-steikholderov-ocenka-vliyaniya-steikholderov-na-funkcionirovanie-organizacii-analiz-steikho.html>

TYPES OF STAKEHOLDERS

Shareholders and investors

Shareholders bought the company's shares, invested in its development and expect to make a financial profit. They are also interested in the growth of annual dividends and the growth of the market value of the company's securities ¹



The role of stakeholders: interested in rapid payback and steady growth, risk investment, so interested in stabilizing the investment portfolio ¹.

Deposit	Requirements ²
Financial capital	Dividends, capital growth, access to decision making

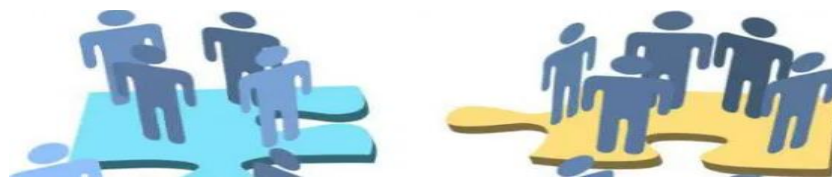
Typical interests¹

Shareholders: annual dividend. Increasing the value of their shares. Rising value of the company and its profits. Fluctuations in share prices

Investors: the size of investments with a high level of risk. Expectations of high profits. Balance of their investment portfolio

Consumers, dealers, partners

The group uses products manufactured by the company. The consumer expects from the company a quality product at an affordable price and fulfillment of warranty obligations ¹.



Dealers and partners sell and supply the company's products to their counterparties. They are interested in the stability of the firm as a commodity and service ¹.

Deposit ²	Requirements ²
Cash	A product that meets the stated qualities

Typical interests¹

Consumers: Desirable and quality products. Reasonable prices. Product safety. New products in a timely manner. Variety of choices

Dealers and partners: After-sales service. Timeliness and reliability of deliveries. Quality of the delivered goods (services)

1. Description of stakeholders. Assessment of the impact of stakeholders on the functioning of the organization. stakeholder analysis of NESTLE. Oddagjpermarket: website. URL: <https://oddagjpermarket.ru/nalogi-i-platezhi/opisanie-steikholderov-ocenka-vliyaniya-steikholderov-na-funkcionirovanie-organizacii-analiz-steikho.html>
 2. Who are the stakeholders? Plancraft: website. URL: <https://plancraft.ru/theory/stakeholders/>

TYPES OF STAKEHOLDERS

Top managers and employees

The manager strives for freedom of action and is interested in the area of responsibility.



Deposit ²	Requirements ²
Time, skills, competencies	Fair wages, favorable working conditions, the possibility of self-realization, raising social status
Typical interests¹	
Guarantees of employment. The level of real wages. Terms of employment. Opportunities for promotion. The level of job satisfaction	

Employees expect timely payment of wages.

Deposit ²	Requirements ²
Time, skills, competencies	Employee requirements + satisfaction of own ambitions and access to decision-making
Typical interests¹	
Amounts of salaries and bonuses, additional income. Social status associated with work in the company. Levels of responsibility. The number and severity of service problems	

Suppliers

Suppliers of raw materials and products are interested in the company constantly making purchases.



Every supplier hopes for the growth and development of the company in order to conclude more profitable agreements and increase the volume of deliveries.

Deposit ²	Requirements ²
Raw materials, infrastructure	Payment on the established requirements
Typical interests¹	
Stability of orders. Payment in time and under the terms of the contract. Creation of relations depending on deliveries	

1. Description of stakeholders. Assessment of the impact of stakeholders on the functioning of the organization. stakeholder analysis of NESTLE. Oddagijpermarket: website. URL: <https://oddagijpermarket.ru/nalogi-i-platezhi/opisanie-steikholderov-ocenka-vliyaniya-steikholderov-na-funkcionirovanie-organizacii-analiz-steikho.html>
 2. Who are the stakeholders? Plancraft: website. URL: <https://plancraft.ru/theory/stakeholders/>

TYPES OF STAKEHOLDERS

Successful structures and social groups

Power structures: expect tax revenues, providing local people with new jobs and legal and transparent business ¹

Deposit ²	Requirements ²
Norms, laws, rules of the game	Compliance with established laws and regulations, including payment of taxes)
Typical interests ¹	
Ensuring employment. Payment of taxes. Compliance with the law. Contribution to economic growth in the region. Contribution to the local budget	

Local community groups want the company to accept their opinion

Deposit ²	Requirements ²
Local infrastructure	Adherence to the interests of residents, including compliance with environmental requirements
Typical interests ¹	
Care for the environment. Support of local public activities. Carrying out of actions of social responsibility. Requirement to listen to groups of influence	

Financial corporations

Financial structures are interested in the stable operation of the company ¹



If the bank has issued a loan to the company, it is also interested in timely monthly payments under the loan agreement ¹

Deposit ²	Requirements ²
Financial capital	Timely return of funds and interest
Typical interests ¹	
Ability to repay loans. Timely payment of interest. Good cash flow management	

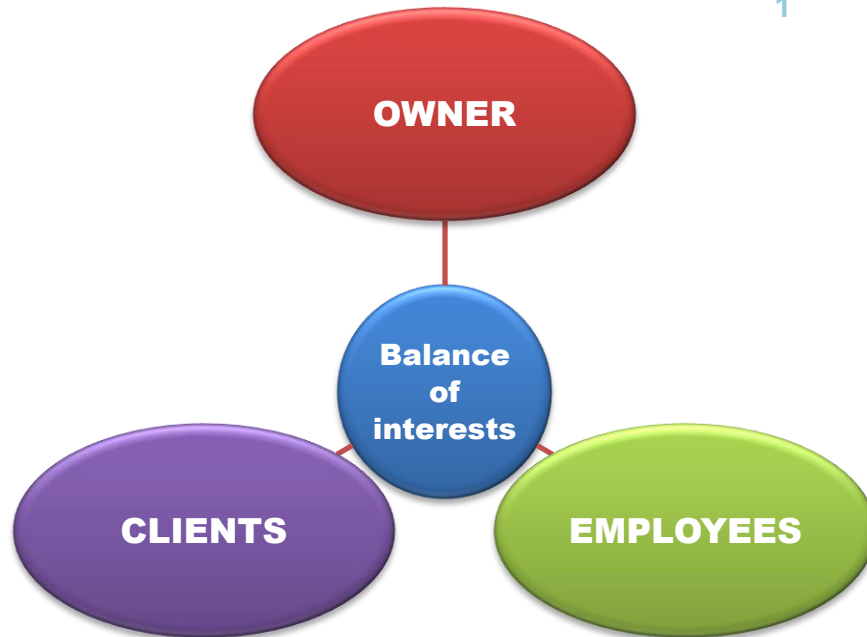
1. Description of stakeholders. Assessment of the impact of stakeholders on the functioning of the organization. stakeholder analysis of NESTLE. Oddagjpermarket: website. URL: <https://oddagjpermarket.ru/nalogi-i-platezhi/opisanie-steykholderov-ocenka-vliyaniya-steykholderov-na-funkcionirovanie-organizacii-analiz-steykho.html>
 2. Who are the stakeholders? Plancraft: website. URL: <https://plancraft.ru/theory/stakeholders/>

KEY STAKEHOLDERS

DEFINITION

Key stakeholders are individuals and legal entities whose neglect of interests poses serious risks to the company's sustainable growth.¹

Basic triangle of key stakeholders for business



Factors of owners 'neglect of key stakeholders' expectations ¹

1. Measurability of contributions

The owner and other stakeholders have different contributions in terms of their measurability ¹

Owner	Client	Employee
Contribution: funds Receipt: funds	Deposit: money invested (payment for the product) - Receipt: what was promised	Contribution: knowledge, skills. Receipt: monetary reward Contribution: knowledge, skills. Receipt: monetary reward
Interest: steady long-term inflow of	Orientation: getting "here and now"	Orientation: getting "here and now"

2. Investment risks

Risk of the owner in terms of return on investment is maximum compared to the risks of other key stakeholders ¹

3. Owner's power

Due to the position in the company, the owner has the opportunity to meet their expectations to a greater extent than the expectations of other key stakeholders ¹

1. Why do owners and managers need to use the concept of stakeholders in managing their business? Vc.ru: website. URL: <https://vc.ru/hr/205765-zachem-sobstvennikam-i-rukovoditelyam-nuzhno-ispolzovat-koncepciyu-steykholderov-v-upravlenii-svoim-biznesom>

STAKEHOLDER MAP

DEFINITION

Stakeholder map - a tool that allows the most adequate identification of stakeholders, is a subjective view (image) of the individual (leader) or group about the business environment or project environment¹

Zone of authority / responsibility

In this area are stakeholders who are directly subordinate to the leader¹

The most primitive strategy of the leader's relationship with the data of stakeholders may be administrative coercion (order)¹

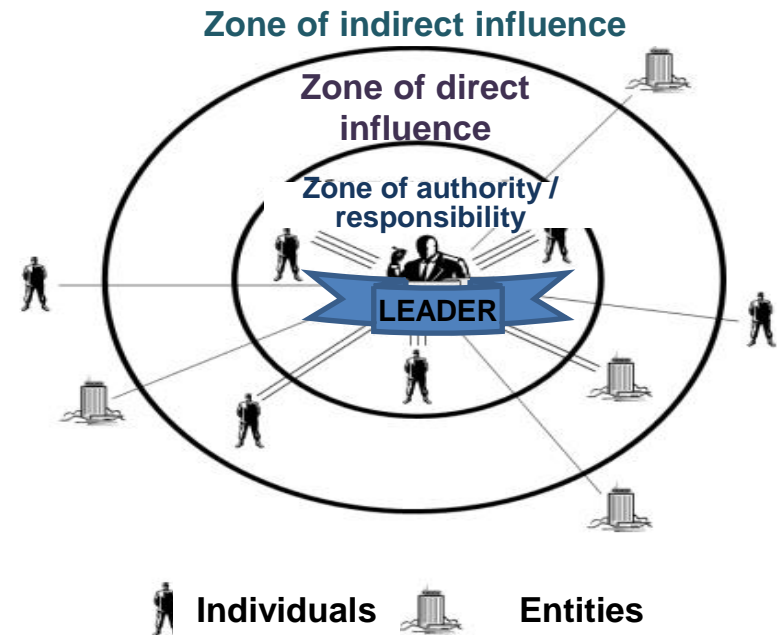
Zone of direct influence

There are stakeholders in the zone who do not obey the leader, but according to their status, the leader can use a strategy of sharing resources ("you - me, I - you") or persuasion when building relationships with them.¹

Zone of indirect influence

It is characterized by the fact that the leader is practically deprived of tools to directly influence the stakeholder¹

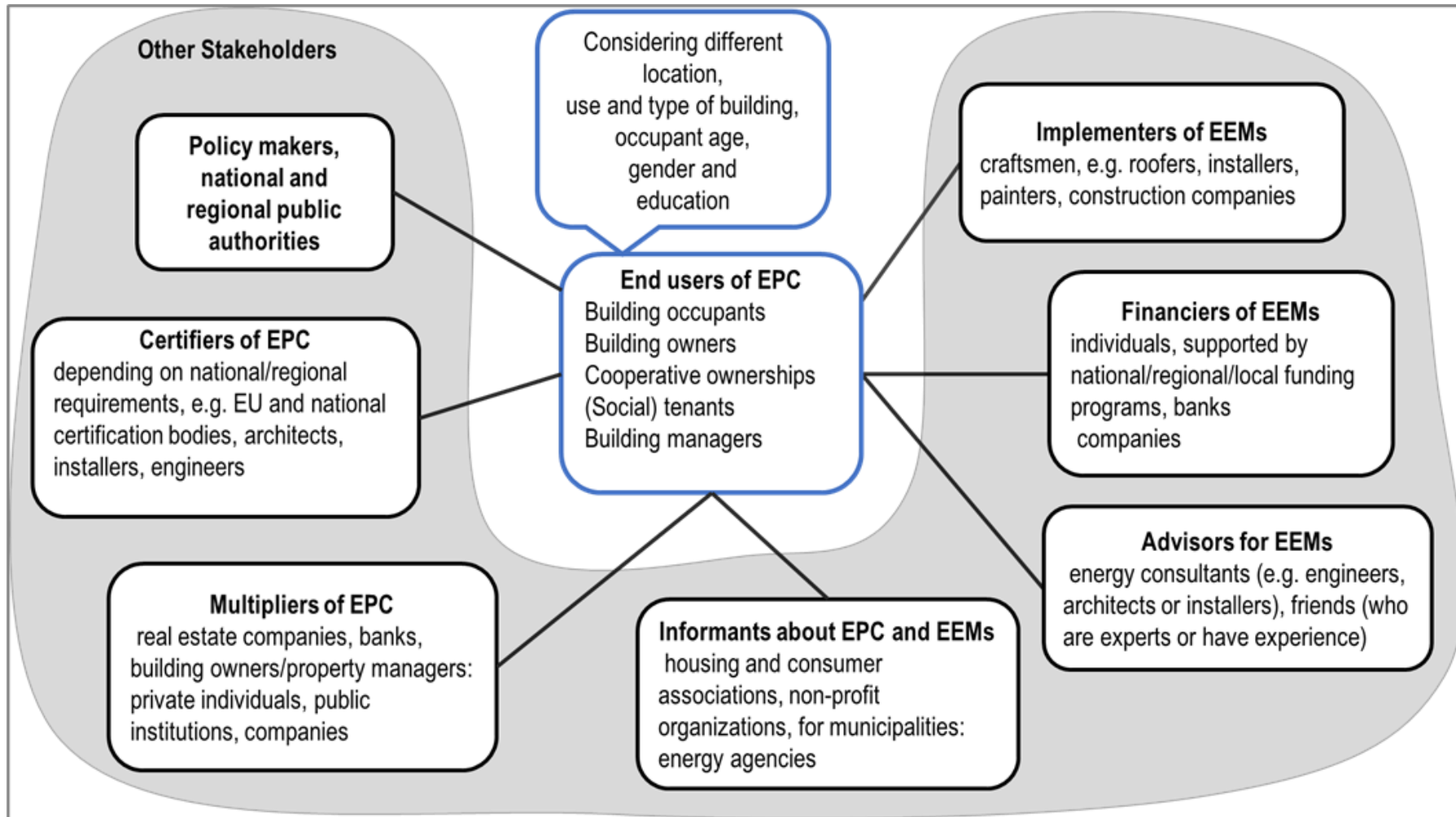
In order to influence stakeholders, he is forced to use the support of an interested person in his area of authority or in the field of direct influence.¹



1. The stakeholder map is a tool for analyzing the project environment and the business as a whole. Formm: website. URL: <https://formm.ru>

STAKEHOLDER MAP

ePANACEA Stakeholder map¹

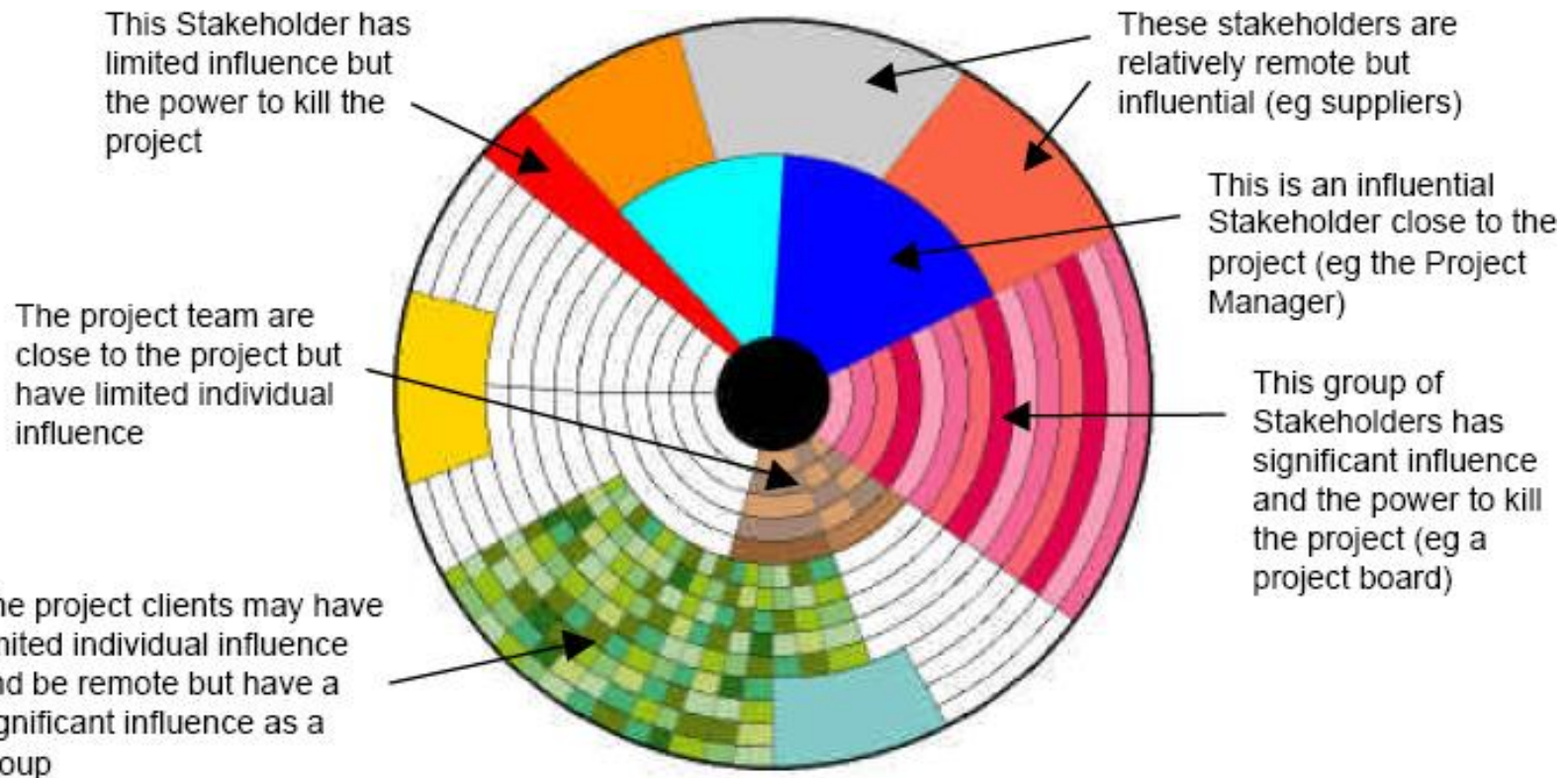


1. ePANACEA Stakeholder map. URL: <https://epanacea.eu/2020/12/01/epanacea-stakeholder-map/>

STAKEHOLDER CIRCLE

The prototype Stakeholder Circle™ comprises two key elements: concentric circles that indicate distance of stakeholders from the project manager. The patterns used for each stakeholder indicate their homogeneity. For example, a solid shade indicates an individual stakeholder, while shading or colourfading can indicate a group.¹

The size of the wedge and its relative area indicate the stakeholder's scale and scope of influence; the radial depth can indicate the degree of the stakeholder's impact or power to kill the project.¹



1; 2

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6

1. Bourne L. Project relationships and the Stakeholder Circle™. Project Management Institute: website. URL: <https://www.pmi.org/learning/library/project-relationships-stakeholder-circle-8092>
2. Weave P., Bourne L. Concepts for a 'stakeholder circle' management tool. URL: https://mosaicprojects.com.au/PDF_Papers/P007_Stakeholder_Circle.pdf

STAKEHOLDER CIRCLE

An example of a stakeholder circle ¹



1. - Customers
2. - Contractors
3. - Investors
4. - Team
5. - Organization
6. - Competitors
7. - University
8. - Ministries
9. - The state
10. - The public
11. - Enterprises
12. - Consumers

*Stakeholders - car segments ¹.
The power of the stakeholder is the radial depth of the segment¹.*

The following tool scales were used in the evaluation procedure of Stakeholder Circle ^{1;2}.

Power ^{1;2}:

- 4 - high ability to make formal changes (ie can stop work);
- 3 - some ability to formally initiate change (for example, need to be consulted or approved ...);
- 2 - significant informal ability to bring about change (for example, suppliers);
- 1 - relatively low level of power (ie, as a rule, can not cause significant changes).

Closeness ^{1;2}:

- 4 - directly involved in the work (for example, team members and contractors who work most of the time);
- 3 - are constantly involved in the work (for example, part-time project team, external suppliers and active sponsors);
- 2 - separate from work, but regularly in contact with various processes (for example, clients and most senior managers);
- 1 - relatively remote from work (ie not directly involved in the work)..

Relevance / importance (required team response) ^{1;2}:

- 5 - immediate action is required, regardless of other work commitments;
- 4 - the necessary urgent measures are justified if they can be implemented within the framework of current commitments;
- 3 - the planned action must be provided in a relatively short period of time;
- 2 - planned actions must be met within the medium term;
- 1 - there is little need for action outside the usual communications.

REGISTER OF STAKEHOLDERS

Example of a stakeholder register ¹

Stakeholder name	Title	Role	Power (H/L)	Interest (H/L)	Requirements	Concerns
Eddie Murphy	Security Manager	Sponsor	H	H	Finish implementing GDPR compliant checkouts by the end of quarter 3	Delays due to the upcoming fiscal year
Iliza Shlesinger	Sr. Developer	Developer	L	H	Security certificates	Migrating data to European servers
Bill Burr	CEO	-	H	L	5% revenue increase	GDPR compliance
Dave Chapelle	Accountant	-	L	L	-	Managing European ledgers

1. Tit M. How to create a stakeholder management plan [+ templates]. Paymo: website. URL: <https://www.paymoapp.com/blog/stakeholder-management-plan>

② STAKEHOLDER ANALYSIS

STAKEHOLDER ANALYSIS

Instead of simply identifying each organization, it is advisable to identify each person in different organizations for more effective communication¹.

Stakeholders should be divided into different groups, as each stakeholder will have different interests and priorities and, ultimately, different opinions¹.

Stakeholder Analysis Template

1

Project Name	BRMS implementation
Project Manager Name	Swapnil Wale
Project Description	BRMS implementation aims at providing the business with the latest business rules en
start date	25/06/2020
Close date	25/09/2020

#	Stakeholder Name	Designation	Role	Stakeholder analysis Group	Category	Expectations	Activities	Status	Date of due	Comments
1	Jim Arthur	Director	Sponsor	Technology	Internal	Project to be delivered on time within	Clear Requirements and timely cor	In progress	30/06/2020	
2	Disha Sharma	Vice President	Project Lead	Technology	External	Develop responsive UI	UI is responsive No quality	Working	5/7/2020	
3	Thomas Atkins	Associate	QA Manager	Technology	Internal			Pending	25/7/2020	
4	Deepak Patel	Manager	PMO	Technology	Internal			In progress		
5	Luke Wilson	Director	Product Manager	Technology	Internal			Pending		
6	John Matthew	Vice President	Infrastructure Team Lead	Technology	Internal			Working		
7	Suzie Barker	Manager	QA Manager	Technology	Internal			Working		
8										
9										
10										

2 STAKEHOLDER ANALYSIS

MAP OF STAKEHOLDERS

«Importance" is assessed on two scales (x / y), where¹

**x = -5 ÷ +5, with step 1
(or smaller)**

characterizes the degree of support / opposition of stakeholders of the business as a whole or the leader personally¹

● -5 - extreme degree of resistance, ● +5 - higher level of support), y = 0 ÷ 5 with step 1 (or smaller) characterizes the degree of influence of stakeholders on the project, business or leader.

For small companies:¹

- y = 5 - first persons of the company (president, general director, members of the board of directors)
- y = 4 - second person of the company (vice presidents)
- y = 3 - heads of functional units
- y = 2 - middle managers
- y = 1 – linear managers

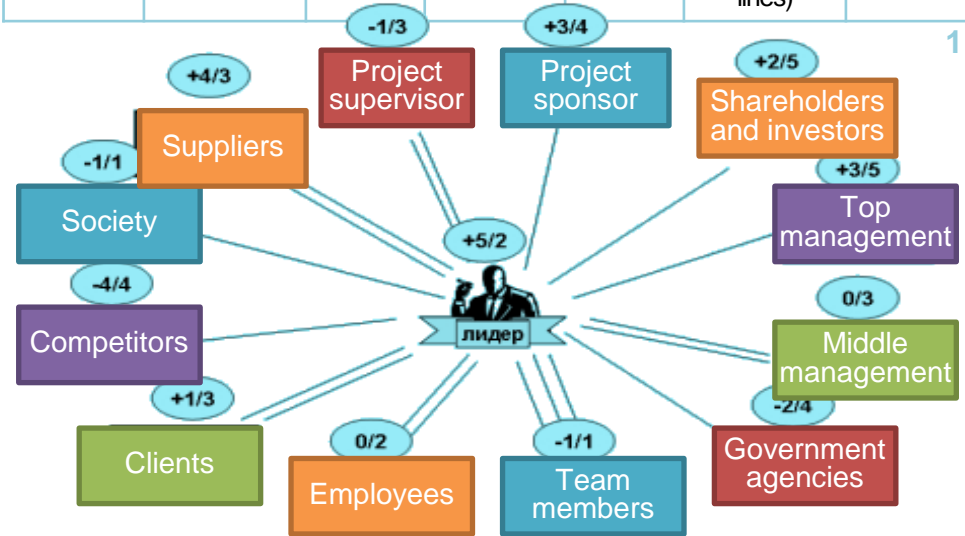
Zone of authority / responsibility - triple lines

Zone of direct influence – double

Zone of indirect influence - single lines

Table of Stakeholder interest¹

Stakeholders / groups	Degree of support /Counter-actions	Interests / motives	Strength of influence	Tools of influence	Sphere of influence of the leader (organization)	Interaction strategy
PrSC	-5 ÷ +5	Description	0 ÷ +5	Description	1, 2, 3 (number of lines)	Description



x / y, x = -5 ÷ +5 Support force /opposition y = 0 ÷ 5 Strength of influence

n = 1,2,3; Leader's area of influence number (degree of possibility of the organization's influence on the stakeholder)

1. The stakeholder map is a tool for analyzing the project environment and the business as a whole. Formm: website. URL: <https://formn.ru>

TOPIC 2

② STAKEHOLDER ANALYSIS

MATRIX "SUPPORT-POWER OF INFLUENCE"

DEFINITION

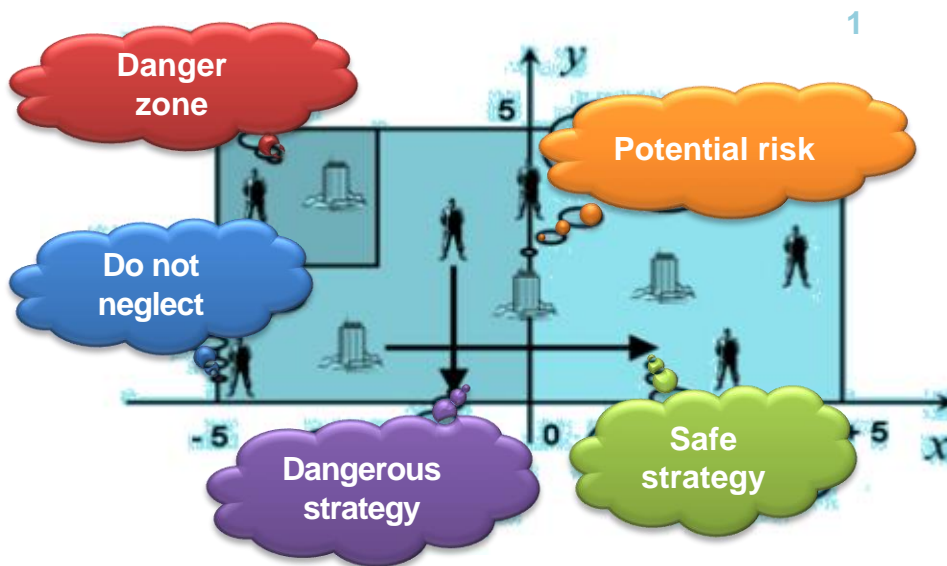
The matrix "support × force of influence" is a coordinate system xy on the plane on which inside the rectangle $-5 \leq x \leq +5$, $0 \leq y \leq 5$ in the form of symbols are placed stakeholders¹

Stakeholders located in the upper left corner of this matrix ($-5 \leq x \leq +2$, $2,5 \leq y \leq 5$) is the biggest threat to the organization¹.

Impact - the extent to which stakeholders can influence the development or reduction of business efficiency¹

Support – as stakeholders support and are interested in business¹

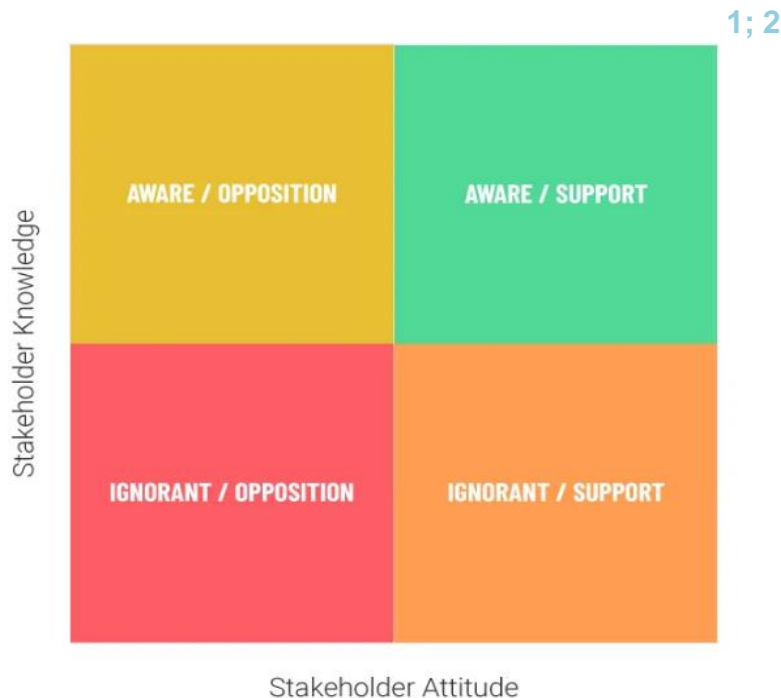
"Minor" stakeholders can be used as a tool to put pressure on the leader by other stakeholders. Zero values of "importance parameters" x and y can signal potential risks¹.



1. The stakeholder map is a tool for analyzing the project environment and the business as a whole. Formm: website. URL: <https://formm.ru>
 2. Grégoire P. Stakeholder Analysis: Definitions, Tools and Techniques. Boreal: web-site. URL: <https://www.boreal-is.com/blog/what-is-stakeholder-analysis>

STAKEHOLDERS ATTITUDE AND KNOWLEDGE MAP

The map of stakeholder attitudes and knowledge visually outlines the knowledge and attitudes of stakeholders about the project / organization ¹



Quadrant 1. Stakeholders who know about the project / business and support it

"Champion" stakeholders. As a rule, they do not require special attention, but this should not be taken for granted ¹

Quadrant 2. Stakeholders who know about the project / business but against it

They may never support, and contingency measures may be needed to manage the risks that these negative stakeholders may pose to the project / business. ¹

Quadrant 3. Stakeholders who do not know the project / business but against it

They should be the main focus, as their attitudes can often be changed according to the relevant information ¹

Quadrant 4. Stakeholders who support the project / business but do not know it

You need to educate them so that they are not lost ¹

1. Grégoire P. Stakeholder Analysis: Definitions, Tools and Techniques. Boreal: web-site. URL: <https://www.boreal-is.com/blog/what-is-stakeholder-analysis>
 2. Stakeholder matrix – key matrices for stakeholder analysis. Stakeholdermap: web-site. URL: <https://www.stakeholdermap.com/stakeholder-matrix.html>

② STAKEHOLDER ANALYSIS

STAKEHOLDER INTERESTS (MANDELOW'S MATRIX)

DEFINITION

The **Mendelow Matrix** is a space where stakeholders are distributed according to their level of interest and level of power.^{1;2}

Level of power (B) - the ability to influence the strategy of the organization or resources of the project³

Degree of interest (I) - the degree of interest of stakeholders in the success of the organization or project³

EXAMPLE

The director is likely to have high authority and high interest in the organization, while the government will have high authority to influence the strategy through regulation, but potentially less interest³

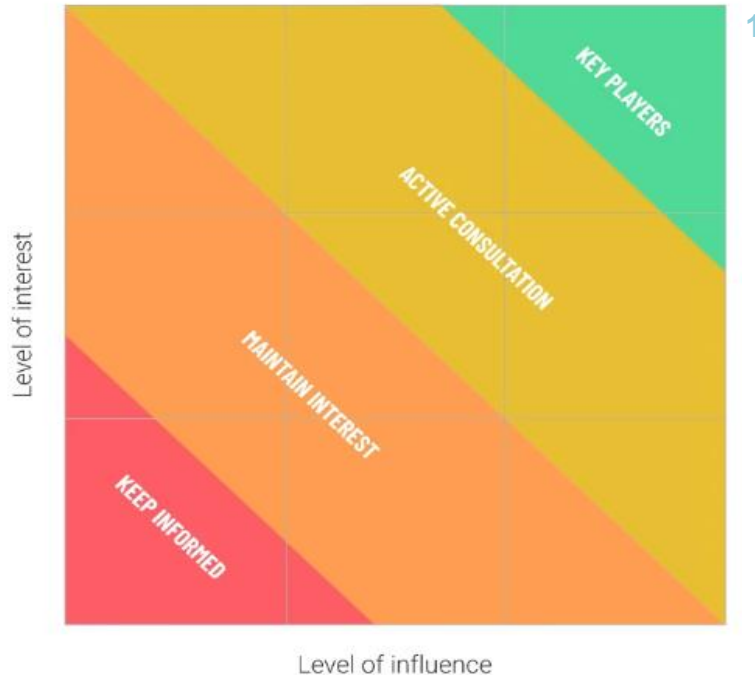
Johnson's recommendation groups^{1;4}

Group	I	B	Recommendations
A. Minimal Effort	H	H	Respond to the request, but spend a minimum of resources
B. Keep Informed	B	H	Inform and support communications, assess needs and monitor the dynamics of interests
C. Keep Satisfied	H	B	Satisfy the interests of this group and study their tools to influence the organization
D. Key Players	B	B	Focus your efforts on building collaboration with stakeholders in this group



1. Who are the stakeholders? Plancraft website. URL: <https://plancraft.ru/theory/stakeholders/>
2. Mendelow A. Environmental Scanning: The Impact of Stakeholder Concept // Proceedings of 2nd Interanional Conference on Information Systems. Cambridge, MA, 1981.
3. What Is Mendelow's Matrix And How Is It Useful? Oxford college of marketing. web-site. URL: <https://blog.oxfordcollegeofmarketing.com/2018/04/23/what-is-mendelows-matrix-and-how-is-it-useful>
4. Johnson, G., Scholes, K. and Whittington, R. (2008) Exploring Corporate Strategy (8th edn), Harlow, FT Prentice Hall.

STAKEHOLDER INFLUENCE / INTEREST MATRIX

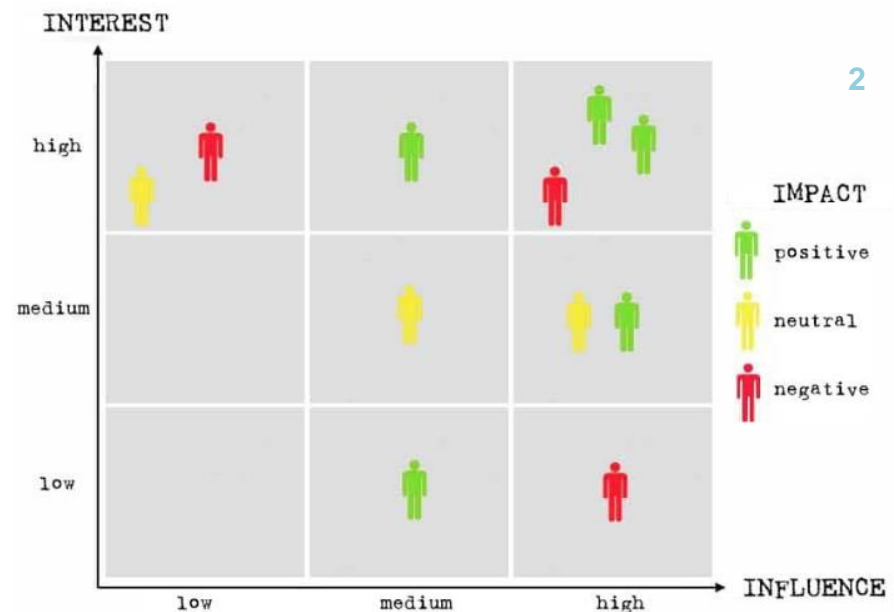


A stakeholder with a high level of influence, as well as a high level of interest, should be taken care of as best as possible ².

Stakeholders who have a high interest but limited power should be "only" regularly informed about the progress of development ²

Remember "weak opponents", support "weak supporters" ²

- High interest and great influence are key stakeholders ¹
- Low interest and medium / high impact - stakeholders need active consultation ¹
- High / medium interest and low impact - it is important to maintain the interest of these stakeholders ¹
- Low interest and low influence - stakeholders should be aware of events ¹



STAKEHOLDER INFLUENCE / INTEREST MATRIX

Interests and influence of internal stakeholders ¹

The name of Stakeholder	Interests / needs	Impact / Contribution
Top managers	Profitability, survival, growth of the organization	Influence through authority, leadership, motivation
Members of the procurement team	Fair and ethical attitude, receiving rewards	The potential to create added value through highly professional, motivated, flexible work
Production function	Strict implementation of the specification	Key internal customer: efficiency is measured by the right quality, the right quantity, at the right time, in the right place at the right price
Sales function	Quality, satisfaction levels of end users Fulfilling the promises made to consumers	Uniform principles of value for the final consumer and procurement
Financial function	Carry out budgetary control Set the basic terms of the contract Cost reduction support	Control and influence on budget allocation Payments to suppliers

1. WIN-WIN Strategy: how to find a common language with stakeholders. House of Knowledge: website. URL: <https://k-house.in.ua/uk/tag/stakeholders>

STAKEHOLDER INFLUENCE / INTEREST MATRIX

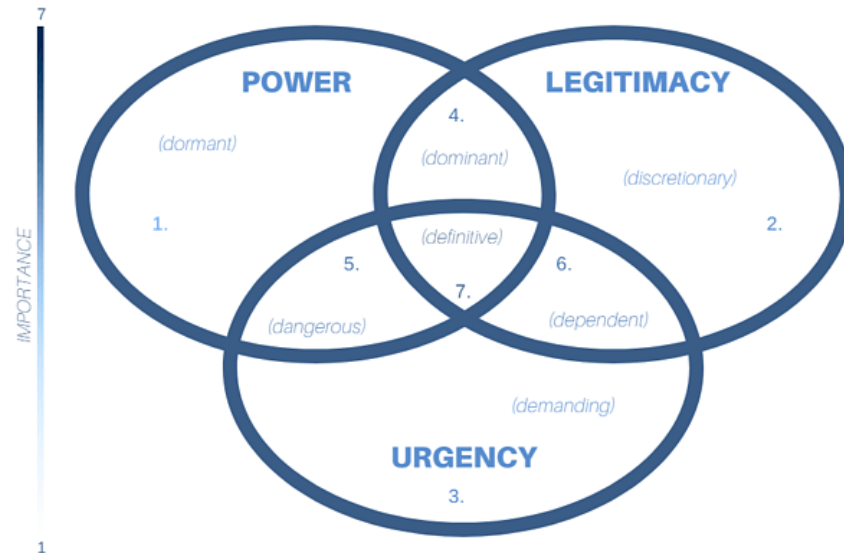
Interests and influence of internal stakeholders ¹

The name of Stakeholder	Interests / needs	Impact / Contribution
Shareholders	Dividends Transparency, clarity, consistency of business	The actual owners of the company finance it
End users	Satisfying a complex set of needs	Satisfying a complex set of needs
Financial institutions	Financial stability and stability of the company Return on investment	Short- and long-term loans for business support and development
Suppliers	Honest supplier identification procedures Opportunities for profit	Providing key "inputs" for further production (price, quality, time)
Government and regulators	Taxation Reporting	Ensuring compliance through the legislature, regulatory, fines
Society	Security, availability of goods / works / services Responsible business: minimizing damage to the environment	Ability to mobilize the attention of regulatory authorities and consumer opinion

1. WIN-WIN Strategy: how to find a common language with stakeholders. House of Knowledge: website. URL: <https://k-house.in.ua/uk/tag/stakeholders>

MODEL OF R. MITCHELL, B. AGLE AND D. WOOD

Power, Legitimacy, Urgency ¹



Stakeholder groups ^{1; 2} :

1. **Directorate** (stakeholders who do not have "urgency" or "power" - educational institutions).
2. **Inactive group** (stakeholders who do not have "legitimacy" and "urgency" - sponsors).
3. **A group that demands** (stakeholders who do not have "power" and "legitimacy" but want to receive information and resolve issues immediately).
4. **Dominant** (stakeholders who have "power" and "legitimacy", but do not have "urgency" - the official management of the enterprise).
5. **Dangerous** (stakeholders who have "power" and "urgency", but do not really have the right to make decisions, such as activists protesting against the company's actions).
6. **Dependent** (stakeholders who do not have "urgency" and "power" - people who suffer from environmental pollution).
7. **Final** (stakeholders with signs of "power", "legitimacy" and "urgency" - key team members)

Power - the ability of stakeholders to get the desired result from the business (the ability to make management decisions, financial reward) ^{1; 2}

Legitimacy - the degree of compliance with legal norms and norms of behavior adopted in a particular society ^{1; 2}

Urgency - the relationship between the company and stakeholders in terms of urgency to meet the requirements of a particular stakeholder ^{1; 2}.

MODEL OF R. MITCHELL, B. AGLE AND D. WOOD

Table of stakeholders¹

Stakeholder	Power	Legitimacy	Urgency	Classification group
Subcontractors, suppliers and B2B organizations	-	+	-	Controlling
Partners	-	-	+	Demanding
Employees of the organization	-	+	+	Dependent
Supervisory boards, audit organizations and government agencies	+	+	+	Definite
Mass media, public organizations, local communities	-	-	+	Demanding
Shareholders and investors	+	+	+	Categorical
Consumers of products	+	-	+	Unsafe

1. Financial and analytical instruments of sustainable development of economic subjects. Bstudy.net: website. URL: https://bstudy.net/765301/ekonomika/finansovo-analiticheskie_instrumenty_ustoychivogo_razvitiya_ekonomicheskikh_subekti

INFLUENCE AND IMPORTANCE OF STAKEHOLDERS

DEFINIION

Influence is the power of stakeholders in running a business¹.

The influence includes¹:

- the ability of stakeholders to influence the level of investment and participation in budgeting;
- influence on people who make decisions on key issues

DEFINIION

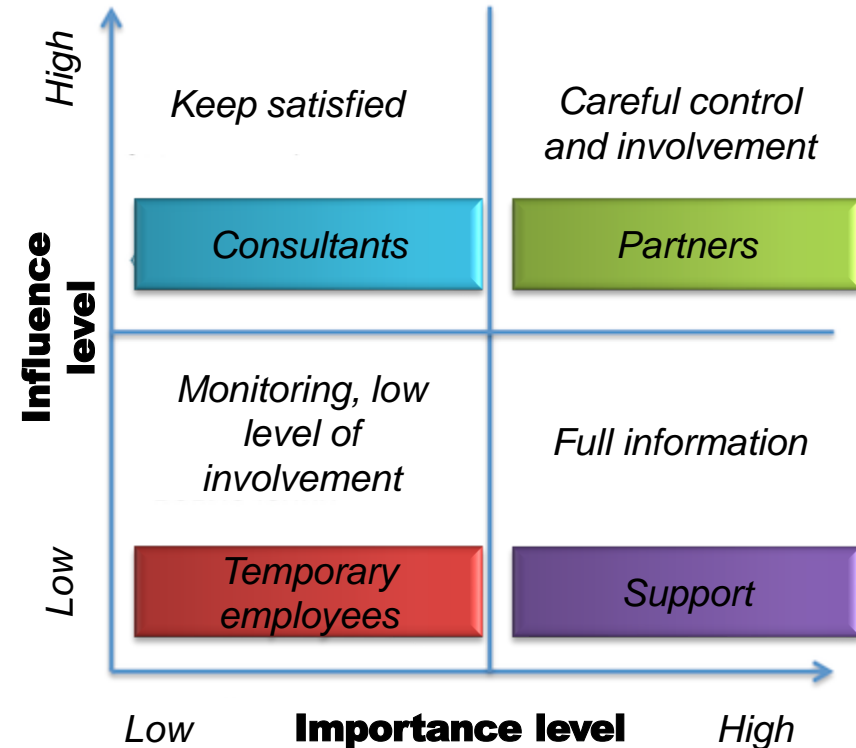
Importance is the contribution of stakeholders to the functioning of the enterprise¹.

Importance is determined by the extent to which the satisfaction of needs, solutions to problems and interests of each stakeholder can affect the outcome of the business¹.

The importance includes¹:

- special knowledge or skills of the stakeholder
- interests / needs that must be met for the activity to be effective

The matrix - a map of stakeholders¹



1. How to work with stakeholders? (Stakeholder Analysis). Powerbranding: website. URL: <http://powerbranding.ru/biznes-analysis/stakeholders/>

INFLUENCE AND IMPORTANCE OF STAKEHOLDERS

Consultants

The strategy is advisory in nature and applies to stakeholders with a high level of influence, but low importance, secondary stakeholders. It is recommended to involve them as consultants and agree with them only important strategic decisions ¹

Temporary workers

The strategy is to ignore and is used for low-impact and low-importance stakeholders, secondary stakeholders. It is recommended to exclusively involve the group in the necessary tasks without details and to use the lowest level of information. ¹

Partners

The strategy is to maximize involvement and apply to stakeholders with a high level of importance and influence.

This group is the main stakeholder of the project and should be involved as much as possible in decision-making in the project.

It is necessary to increase the group's interest in the project and fully meet its needs. It is recommended to use the principle of partnership in communication when negotiating a project with this group ¹

Support

The strategy is to gain project support and apply to stakeholders with low impact but high importance, secondary stakeholders ¹

This group of stakeholders should be familiar with all key project decisions, despite the fact that it is not directly involved in project decisions ¹

It is recommended to involve the group in the discussion of problems and to enlist the support of additional support for important decisions. ¹

STAKEHOLDERS AND MANAGEMENT OBJECTS

The subject of relationship management with stakeholders is the management of the enterprise, the management decisions of which depend on the formation and maintenance of relationships with each individual stakeholder ¹

3 TOPIC 6



1. Management of relations with stakeholders at an industrial enterprise: thesis. ... doctor of philosophy: special. 073: field of knowledge 07 / Salim Ghosn; of science head N. S. Krasnokutskaya; National technical University "Kharkiv Polytechnic Institute". Kharkiv, 2020. 213 p. URL: <http://repository.kpi.kharkov.ua/handle/KhPI-Press/45295>

2. Relations with our stakeholders. *Iberdrola*: web-site. URL: <https://www.iberdrola.com/about-us/stakeholder-engagement>

COMMUNICATION STRATEGY WITH STAKEHOLDERS



Submission of transparent information

The more information is presented in a factual and easy-to-understand format, the more likely it is that stakeholders will be willing to cooperate, as they will understand the intentions, their role and how it may affect them ¹



Methods of communication and interaction

You should offer different options for communication and information: e-mail, online platforms, social media, telephone or personal group meetings ¹



Stakeholder value factors

Adherence to an open attitude will help to understand the history and problems of stakeholders, which will help both parties to overcome obstacles, reconcile values and interests in the process of interaction ¹



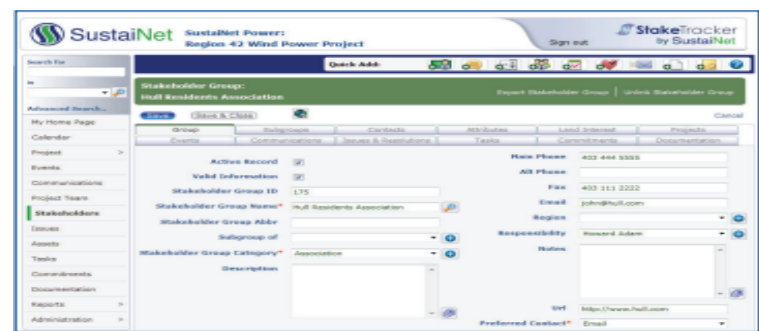
Providing feedback

Feedback should also be provided on how their interests and problems are being addressed. Commitments, information sharing, assignments, and follow-up should be monitored ¹



Accounting for all aspects of communication

All aspects of communication with stakeholders should be carefully considered. This includes appointments, phone calls, emails, and commitments. In particular, StakeTracker can be used as a tool ¹



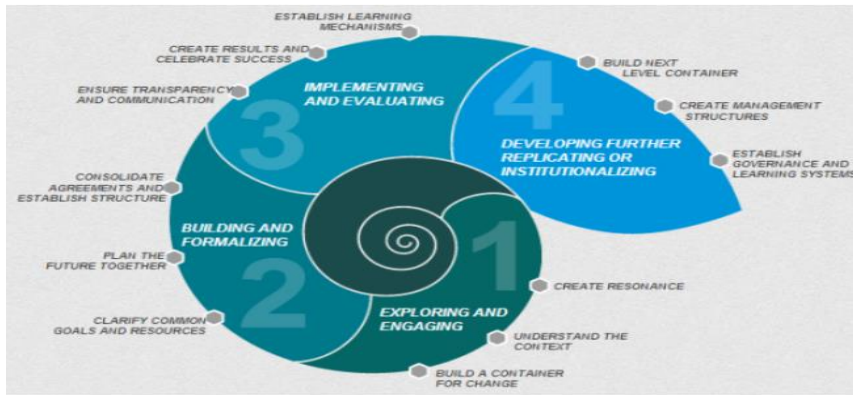
Source: sustainet-esp.com/wp-content/uploads/Sustainet-StakeTracker-Brochure.pdf

1. 5 tips for an effective communication strategy for stakeholder engagement. Sustainet Software International Inc.: web-site. URL: <https://www.sustainet.com/communication-strategy-for-stakeholder/>

3 STAKEHOLDER MANAGEMENT

COMMUNICATION MODEL WITH STAKEHOLDERS

The **model of dialogical change** is a structured way of organizing the planning and implementation of communication initiatives with stakeholders¹



1 Research and involvement

The context of communication is investigated¹ :

- What factors may influence the dialogue?
- Who are the primary and secondary stakeholders?
- What systems exist and how can they influence stakeholder participation?

Expected results¹ :

- Identification of stakeholders
- Building stakeholder trust
- Gaining the trust needed to implement
- Understanding of the project context / stakeholder issue
- Identification of external influences

2 Construction and formalization

The stage focuses on strengthening the process of communication with stakeholders and the transition to formal recognition of commitments.

Expected results¹ :

- Cooperation agreements
- Project plans
- Implementation agreements
- Official organizational units (committees, special groups, working groups)

3 Implementation and evaluation

Actual implementation phase - key performance indicators are "results"

Expected results¹ :

- Exchange / publication of successful stages
- Creating reports on project implementation
- Public communication and media coverage
- Communications monitoring system

4 Further development, replication or institutionalization

Transition from a more freely structured initiative

Expected results¹ :

- Ongoing stakeholder participation
- Setting advanced goals
- Institutionalization of the program of communication with stakeholders
- Informing other processes or projects

METHODS OF COMMUNICATION WITH STAKEHOLDERS

Reporting

Demonstrates the correctness of business management, respect for stakeholders with its growth¹

- Project status reports
- Reports of the board of directors

PR and marketing

A robust PR strategy and marketing strategy not only ensures that you can constantly share your brand developments with both your stakeholders and customers, but it also helps give the company a strong identity¹

Social media marketing: interacting with stakeholders on platforms, building relationships beyond reports and meetings¹

Email: links to blogs, case studies and other information that demonstrates how the organization is evolving¹

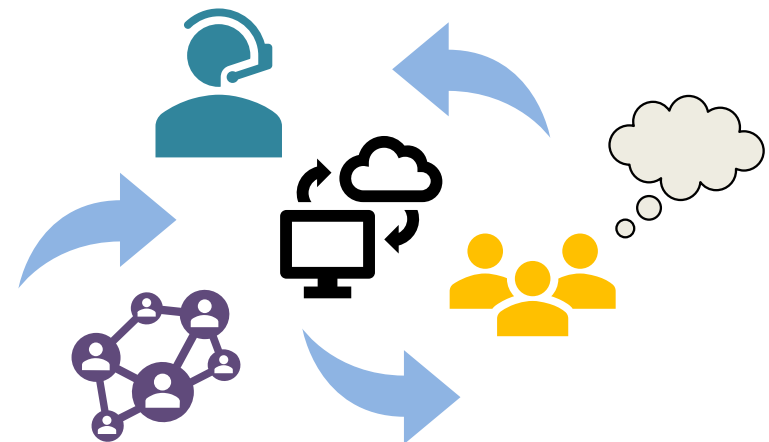
Publication of feedback: use of recommendations to demonstrate how goods and services add value¹

Network: attending conferences and events that encourage interaction with customers and stakeholders¹

Purposeful communications

Purposeful communication is a carefully structured way of communication that can affect the organization and provide the necessary information to get a positive result¹

- Coordinating the communication with the objectives of the stakeholders, for the communication taking into account their requirements¹
- Submission of information (a way to convey an opinion to shareholders, present information in a different way or adhere to a proven format)¹
- Language (use of industry jargon, simplification of the message)¹



BUILDING A COMMUNICATION PLAN WITH STAKEHOLDERS

1 Determining the total number of potential communication channels

Shiv Shenoy formula¹:

$$\text{The total number of communication channels} = n \times (n-1)/2$$

where n – number of stakeholders

2 The level of involvement of stockholders

It is determined on the basis of the Mendelow's matrix¹

3 Determination of owners

Owners add an extra level of trust and transparency to the entire communication plan, indicating who is responsible for updating each stakeholder¹

In most cases, this will be the project manager. But in some cases, they may delegate this responsibility to other team members, such as the product manager¹

3 Select a communication channel

- 1. Push** - Where information is pushed to the stakeholder either manually in the form of emails, memos, written agreements. Or automatically, through a work management software like [Paymo](#), where email notifications are sent every time a project action has been performed.¹
- 2. Pull** - Where information like the project management plan, resource load chart, and various reports are kept in central storage for the stakeholder to retrieve. This can either be the company wiki or a dedicated project files area.¹
- 3. Interactive** - These are group and one-on-one meetings, training sessions, phone calls, video calls, anything that implies a direct human touch. Although great for brainstorming, building trust, and resolving conflicts in general, their informal character makes it hard to document and follow in retrospect¹

4 Communication frequency settings

It is advisable to use the Mendelow Matrix - daily communication with key stakeholders, short messages to managers about the main stages of the project and a weekly or biweekly digest of "fans"¹

EXAMPLE OF A STAKEHOLDER COMMUNICATION PLAN

Stakeholder communication plan ¹

Stakeholder	Influence	Key interests and questions	Means of communication	Frequency	Comments

Stakeholder communication plan ²

Stakeholder name	Engagement action *	Owner	Channel	Frequency
Eddie Murphy	Manage closely	Project manager	Personal check-in meetings, email notifications from software	Daily
Iliza Shlesinger	Keep informed	Project manager	Memos + agenda summaries	Weekly
Bill Burr	Keep satisfied	Product manager	Top of the line emails about the overall budget/timeline progress	Monthly
Dave Chapelle	Monitor	Project manager	Newsletter	Monthly

1. Stakeholder Analysis | Templates to Analyse and Communicate Stakeholders Effectively. Techno-pm: web-site. URL: <https://www.techno-pm.com/2020/06/stakeholder-analysis-template.html>

2. Tit M. How to create a stakeholder management plan [+ templates]. Paymo: web-site. URL: <https://www.paymoapp.com/blog/stakeholder-management-plan>

EXAMPLE OF A STAKEHOLDER COMMUNICATION PLAN

Stakeholder communication plan ¹

Stakeholder	Communications Method	Frequency	Responsibility	Notes
Key Stakeholders	Project Kickoff Meeting	Start of project	Program Management Office	•Both Team and Client Kickoff meetings recommended
	Extranet	ongoing	Program Management Office	•Include project schedule, key project deliverables, meeting minutes, change request log, issues log
Client Executive	Executive Steering Committee	Monthly – first Wednesday of each month	Account Manager	•Review status, milestones met, earned value indicators, key issues
Client Sponsor	Status Meetings Status Report (email)	Weekly – Friday 2 pm	Project Manager	•Review project status, schedule, change requests, issues
Development team	Status Meetings	Weekly – Friday 11 am	Project Manager	•Provides input for subsequent meeting with client sponsor
Client managers	Newsletter (email)	Weekly – Friday	Project Management Office	
Client Sponsor/ Key Client Stakeholders	Client Satisfaction Survey	Monthly/End of each phase	Account Manager/ Project Manager	•Informal (monthly) •Formal (end of each phase)

1. What do I share with stakeholders? Quora: web-site. URL: <https://www.quora.com/What-do-I-share-with-stakeholders>

STAKEHOLDER ENGAGEMENT

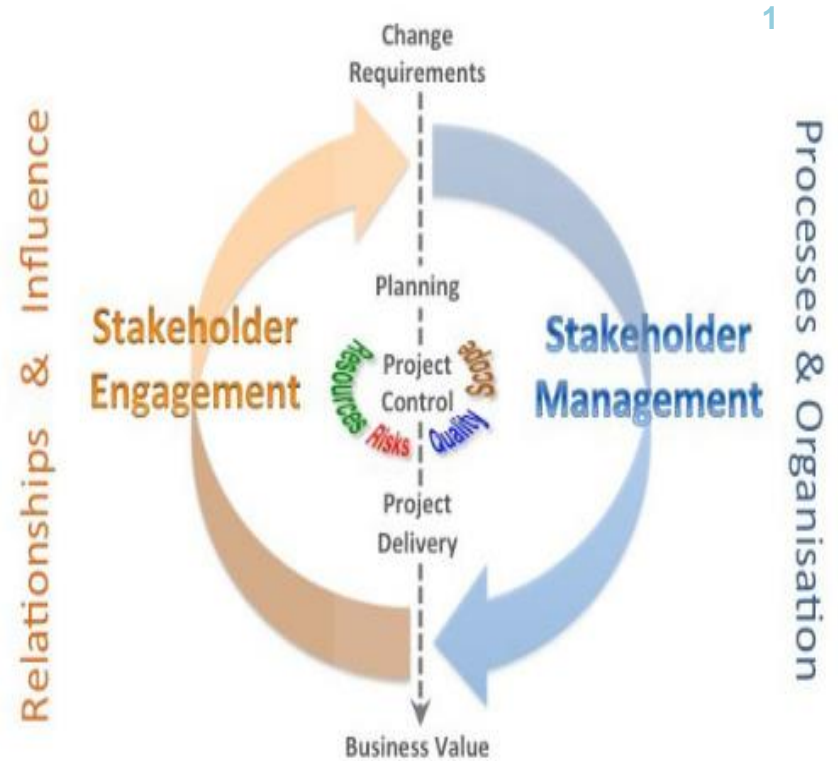
DEFINITION

Stakeholder engagement - this is a systematic detection, analysis, planning and actions aimed at impacting interested parties¹

Stakeholder engagement differs from stakeholder management¹

Stakeholder management – this is a systematic detection, analysis, planning and actions aimed at interacting with stakeholders (APM BoK)¹.

Stakeholder engagement - it is the practice of influencing different outcomes through consultation, communication, negotiation, compromise, and relationship building¹.



Stakeholder Engagement complements stakeholder Management
Both are needed for project success
Source: Laurence Davidson 2017

1. What is stakeholder engagement? Association for Project Management: web-site. URL: <https://www.apm.org.uk/resources/find-a-resource/stakeholder-engagement>

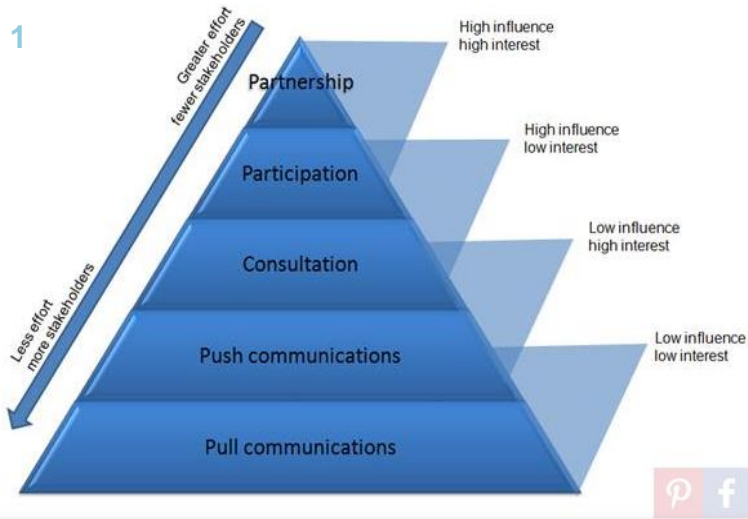
STAKEHOLDER ENGAGEMENT LEVELS

Stakeholder engagement levels ¹

BENEFITS OF ENGAGEMENT	LEVEL OF ENGAGEMENT			
	Inform	Consult	Involve	Collaborate
BENEFITS TO RESEARCH TEAMS	<ul style="list-style-type: none"> Higher profile and enhanced reputation Useful contacts for future engagement Improved dissemination of results Enhanced impact of research Increased support for the research 	<ul style="list-style-type: none"> Improved chances of funding success Better knowledge Opportunities for learning Better quality data 	<ul style="list-style-type: none"> More resources provided Potential to improve methods 	<ul style="list-style-type: none"> Improved research questions Better analysis Increased potential to leave a legacy
BENEFITS TO STAKEHOLDERS	<ul style="list-style-type: none"> Opportunities for learning Better access to knowledge Improved decision-making Improved policies 	<ul style="list-style-type: none"> Access to better technologies Business opportunities Sense of inclusion and involvement 	<ul style="list-style-type: none"> Opportunities to be paid for providing data or facilities 	<ul style="list-style-type: none"> Opportunities to influence or drive research A sense of ownership
BENEFITS TO WIDER SOCIETY	<ul style="list-style-type: none"> Better knowledge applied in policy and practice Reduced barriers between science and society 	<ul style="list-style-type: none"> Improved trust and respect Access to opportunities 	<ul style="list-style-type: none"> Better evidence 	<ul style="list-style-type: none"> Shared responsibilities and decision-making More relevant and more inclusive research

1. Stakeholder engagement Handbook. BiodivERsA. Paris, 2014. 108 p. URL: <https://www.biodiversa.org/706/download>

STAKEHOLDER ENGAGEMENT APPROACHES



Partnership

Shared responsibilities, training, decision making¹

Participation

Part of a team that performs tasks or is responsible for a specific area / activity. Bilateral interaction within the limits of responsibility¹

Consultation

Limited two-way interaction: the organization asks questions, answers of stakeholders¹

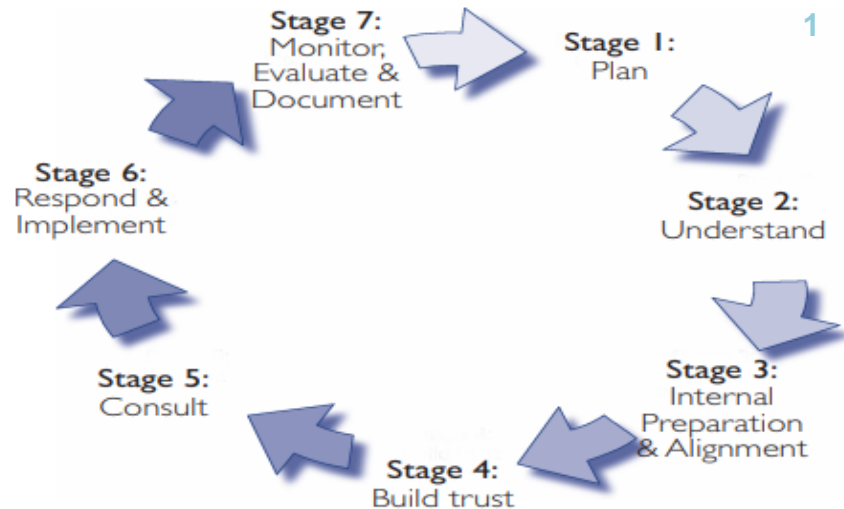
Push-communications

An organization can communicate information to all stakeholders or target specific stakeholder groups using a variety of channels, such as emails, emails, webcasts, podcasts, videos, and flyers.¹

Pull- communications

Information becomes available and stakeholders choose whether to interact with it, such as web pages¹

STAKEHOLDER ENGAGEMENT PROCESS



Key questions¹

- What do we want to achieve?
- What are the key issues to be addressed?
- Does the organization have experience of involving stakeholders in the past and what can be learned from this experience?
- What level of resources can be allocated for this?
- What level of support is there in the organization to attract?
- What is the time scale for achieving results?
- Who are the relevant representatives of the consultation?
- Is there a positive experience, positive and negative, interactions with certain stakeholders and what can be learned from this experience?
- What tools and formats for consultation will be most effective?
- What is the probable date of the consultation and discussion?
- Are there any legal obligations that need to be considered and how can this affect involvement?
- What are the potential barriers?

Stage 1. Plan¹

Defining the main goals and problems of the organization and stakeholders¹

Depends on the nature of your organization, business sector, current priorities and business model, as well as the level (local or global) of stakeholder involvement¹

1. Jeffery N. Stakeholder Engagement: A Road Map to Meaningful Engagement. #2 in the Doughty Centre 'How to do Corporate Responsibility' Series. Doughty Centre, Cranfield School of Management. 2009. 48 p. URL: <https://www.fundacionseres.org/lists/informes/attachments/1118/stakeholder%20engagement.pdf>

2. Expanded and Adapted from 'pre-consult where possible', Sequeira, Debra et al. Stakeholder Engagement: A Good Practice Handbook for Companies Doing Business in Emerging Markets. International Finance Corporation. 2007. URL: <https://www.ifc.org>

STAKEHOLDER ENGAGEMENT PROCESS

Stage 2. Understand¹

Legitimacy of stakeholder interests, strength of influence on the organization, needs and their relationship with the needs of the organization. Understanding the motivation, goals and problems of stakeholders contributes to their profiling ¹

SWANS and OWANS: Performance prism²

Elements	Questions
SWANs	What do stakeholders the organization needs to do?
Strategies	What strategies does the organization follow to meet the needs?
Processes	What processes need to be implemented to achieve the strategy?
Opportunities	What capabilities are needed to manage processes?
OWANs	What the organization needs from stakeholders to interact

Creating a basic profile of local stakeholders ¹

Characteristics of stakeholder groups	-3 years	Nowadays	+ 3 years
Sex(% , Male, Female)			
Age profile (% for 10 years)			
Religious profile (% on religion or non-religious)			
Ethnic profile (% by ethnic group)			
Livelihoods (% per occupation / sector)			
Average income level (for the whole group)			
Distribution of wealth (by groups)			
Achieved secondary education			
Homogeneity of the group			

1. Jeffery N. Stakeholder Engagement: A Road Map to Meaningful Engagement. #2 in the Doughty Centre 'How to do Corporate Responsibility' Series. Doughty Centre, Cranfield School of Management. 2009. 48 p. URL: <https://www.fundacionseres.org/lists/informes/attachments/1118/stakeholder%20engagement.pdf>
 2. Neely A The performance prism in practice. Measuring Business Excellence. 2001. № 5 (2). URL: https://www.researchgate.net/publication/228602984_The_performance_prism_in_practice

STAKEHOLDER ENGAGEMENT PROCESS

Stage 3. Internal preparation and alignment¹

Identify possible commonalities between the organization and stakeholders¹

The highest level of success can be achieved when the interests and goals of the organization and stakeholders are agreed¹

It is worth solving problems¹:

- Desire and understanding at the management level, but lack of resources and skills at the local level
- Lack of support from senior management due to remoteness from interaction with stakeholders, resulting in no perceived potential impact of their participation
- A global stakeholder group may have a greater impact in one region than in another

Stage 4. Build trust¹

Building trust is a key part of the engagement process¹

Stage 5. Consult¹

Counseling methods¹:

- Personal interviews
- Workshops
- Focus groups
- Public meetings
- Poll
- Participation tools
- Stakeholder panels

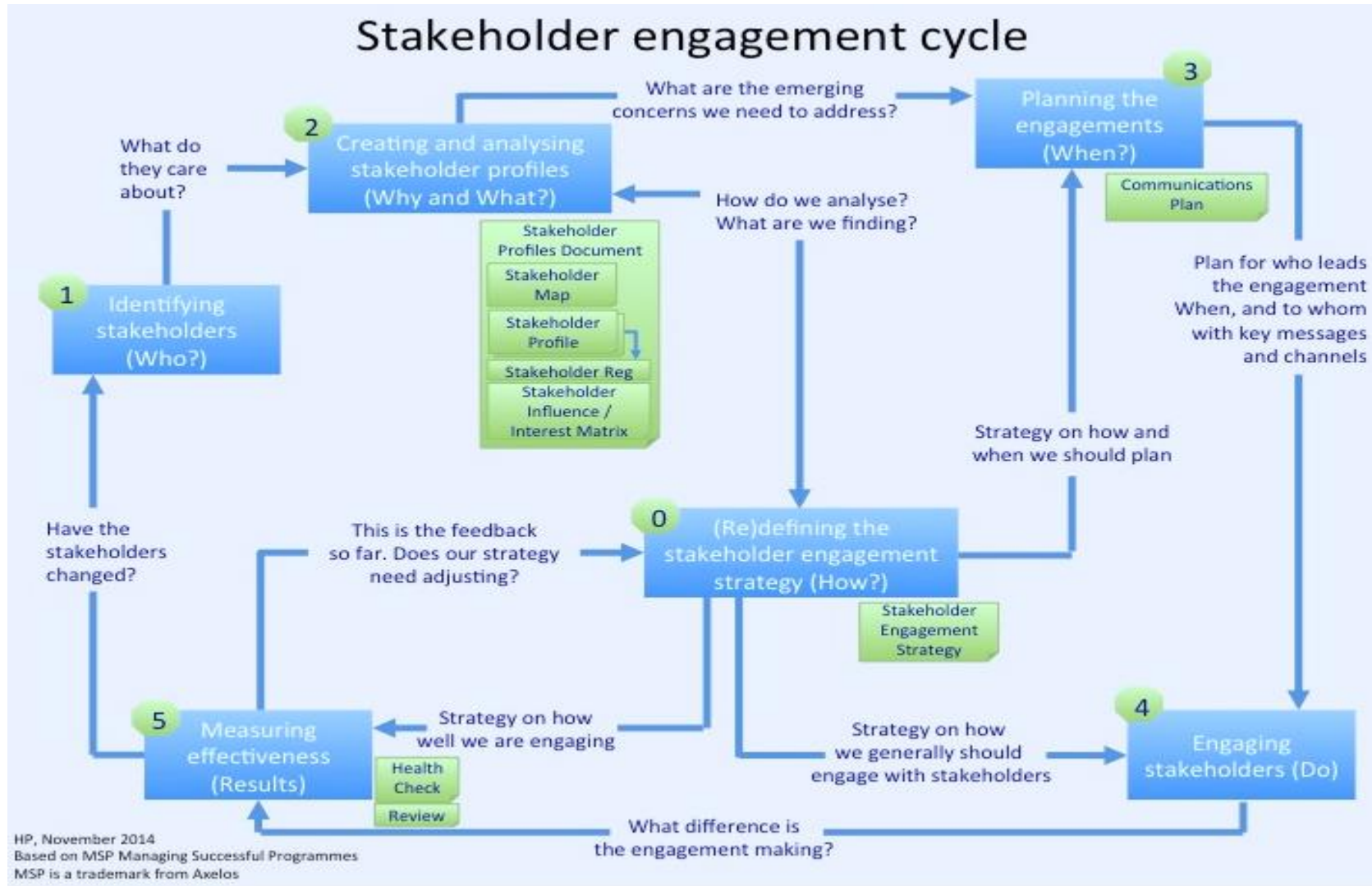
Stage 6. Respond and implement¹

Proposals for action are formulated as probable responses from stakeholders to each proposal¹

Stage 7. Monitor, evaluate, document¹

Accurate documentation, especially if your organization reports stakeholder engagement¹

Stakeholder engagement cycle¹



1. Portman H. MSP: Stakeholder management, a refresh. Henny Portman's Blog: web-site. URL: <https://hennyportman.wordpress.com/2014/11/21/msp-stakeholder-management-a-refresh>

STAKEHOLDER ENGAGEMENT MATRIX¹

Stakeholder	Risk	Influence Project Level	Interest Project Level	Project Phases					Engagement Level
				Initiation	Planning	Execution	Control	Close	
Ricky Point				RESPONSIBLE	CONSULTED	CONSULTED	INFORMED	CONSULTED	
Martin Keg				CONSULTED	RESPONSIBLE	INFORMED	INFORMED	CONSULTED	
Zehar Ram				CONSULTED	RESPONSIBLE	RESPONSIBLE	INFORMED	CONSULTED	
Zucker Tag				CONSULTED	RESPONSIBLE	CONSULTED	INFORMED	CONSULTED	
Suman Meher				CONSULTED	CONSULTED	ACCOUNTABLE	INFORMED	CONSULTED	
Mohan Tashe				RESPONSIBLE	ACCOUNTABLE	CONSULTED	RESPONSIBLE	RESPONSIBLE	

= High = Medium = Low

= High = Medium = Low

1. Stakeholder Analysis | Templates to Analyse and Communicate Stakeholders Effectively. Techno-pm: web-site. URL: <https://www.techno-pm.com/2020/06/stakeholder-analysis-template.html>

INTERACTION WITH STAKEHOLDERS ¹



Inclusion can be achieved by adhering to key principles ¹

● **Significance:** requires knowledge of what is really important to the organization and its stakeholders..

● **Completeness:** requires an understanding of the complex consequences of the organization and management, as well as an understanding of the needs of stakeholders, the ability to influence their expectations and restore results.

● **Response:** requires adequate action appropriate to stakeholders and the organization

1. Stakeholder Engagement/Volume 2: A Practical Guide to Stakeholder Engagement (TRANSLATED FROM ENGLISH) ACCOUNTABILITY, UNEP and stakeholder research associates, 2005, 148 pp. URL: https://urbaneconomics.ru/sites/default/files/2528_import.pdf

INTERACTION WITH STAKEHOLDERS: STAGE 1. THINK STRATEGICALLY¹

Objective: to identify strategic priorities for stakeholder engagement for the organization ¹

Actions: to consider stakeholders who may have an impact on the organization and who are affected by the organization ¹

1 Identification and specification of stakeholders

Method: Stakeholder map¹

Tools: ¹

- Organization of an inter-functional group of employees who know the organization, project, problem (departments of risk management, external communications, supply, labor protection and environment, personnel, etc.)
- Involvement of external consultants and specialists
- Brainstorming and determining the categories of stakeholders
- Forming a stakeholder map (see section 6.2)

Strategic changes in the nature of relationships with stakeholders ¹

Who are the stakeholders of the organization?		
Traditional business (employees, suppliers, investors)	→	Large broad groups (local groups, supplier organizations, etc.)
What issues need to be addressed with stakeholders?		
Legal issues, concluding agreements (marketing, industry relations, business planning, procurement)	→	New problems and new types of responsibilities (economic development, working conditions, impact on the environment)
How to do it?		
One-way communications (marketing research, corporate communications, advertising, media)	→	Dialogue and partnership (Stakeholder advisory commissions, online feedback, forums and partnerships, stakeholder network building)

3 TOPIC 6

1. Stakeholder Engagement/Volume 2: A Practical Guide to Stakeholder Engagement (TRANSLATED FROM ENGLISH) ACCOUNTABILITY, UNEP and stakeholder research associates, 2005, 148 pp. URL: https://urbaneconomics.ru/sites/default/files/2528_import.pdf

INTERACTION WITH STAKEHOLDERS: STAGE 1. THINK STRATEGICALLY¹

2 Strategic goals

Methods: Materiality test. Matrix of stakeholders' influence on the organization and dependence on it. Prioritization ¹

Strategic goals and objectives of interaction with stakeholders ¹

External motivations for interaction with stakeholders in business	Advantages of interaction with stakeholders in business implementation
<p>Example: Complex and dynamic development of markets in region x. Changing customer expectations about the importance of maintaining a "license" New large-scale opportunities in emerging markets. Strengthening regulation of the market for products and services. Decreased morale of employees and negative media attention in connection with the closure of enterprises</p>	<p>Example: Understanding the market and finding a partner that is important for success. Better understanding of customer expectations and requirements. Guarantee that the license will be renewed Strengthening the ability to anticipate and influence the actions of regulators. Raising the morale of employees</p>
Risks	Strategic goals and objectives of interaction
<p>Example: Make a mistake in determining the prospects for development and fail to establish relationships with those counterparties that are necessary for success in the market Inconsistency of customer expectations Loss of license Missing opportunities for business expansion in developing countries Non-compliance of products and services or R&D activities Loss of attractiveness as an employer and less and less friendly attitude of local communities.</p>	<p>Example: Study and understand long-term trends in the behavior of stakeholders specific to the market Build relationships that are key to success Understanding customer expectations Management of risks associated with licenses Establishing partnerships with those stakeholders on whom development depends Participate in the process of making current and potential clarifications to legislation, participate in the development of markets for products and services. Strengthening the reputation of responsible employment policy and governance</p>

1. Stakeholder Engagement/Volume 2: A Practical Guide to Stakeholder Engagement (TRANSLATED FROM ENGLISH) ACCOUNTABILITY, UNEP and stakeholder research associates, 2005, 148 pp. URL: https://urbaneconomics.ru/sites/default/files/2528_import.pdf

INTERACTION WITH STAKEHOLDERS: STAGE 1. THINK STRATEGICALLY¹

Materiality test ¹

- **A.** Short-term consequences for the financial condition (problems related to business strategy and plans, business model, risk assessment, lobbying, fines and penalties, ..)
- **B.** Political Commitments (Corporate Policies and Existing Stakeholder Commitments)
- **C.** Generally accepted norms (competition policy and practice, issues raised by industrial associations and organizations responsible for corporate responsibility)

- **D.** Behavior of stakeholders, their fears (what we know, what they tell us, what they tell us)
- **E.** Social norms (regulatory areas, draft laws, international agreements, voluntary codes of conduct and multi-stakeholder organizations / initiatives)

- **Green** – does not correspond
- **Yellow** – low level of compliance
- **Orange** – middle level
- **Red** – high level

Matrix "Goals - problems - stakeholders" ¹

Goals of strategic cooperation with stakeholders	Problems	Significance test (consideration of the problem by signs*)					Group of stakeholders 1	Group of stakeholders 2	Group of stakeholders 3	Group of stakeholders 4
		A	B	C	B	E	<i>The level of concern of stakeholders about the problem</i>			
							List of stakeholders	List of stakeholders	List of stakeholders	List of stakeholders
1. Extinguish significant stakeholder concerns with reason to push sales through the pandemic	Decreased financial independence	Red	Yellow	Yellow	Orange	Orange	3	4	3	5 (high level of general concern about the problem)
	Loss of markets	Green	Yellow	Yellow	Yellow	Orange	1	2	1	1
	Decreased solvency	Orange	Green	Red	Green	Green	1 (little is known and there is no real interest in the problem)	2 (awareness is higher, but interest in the problem is low)	3 (significant concern among the minority)	4 (significant concern among the majority)

1. Stakeholder Engagement/Volume 2: A Practical Guide to Stakeholder Engagement (TRANSLATED FROM ENGLISH) ACCOUNTABILITY, UNEP and stakeholder research associates, 2005, 148 pp. URL: https://urbaneconomics.ru/sites/default/files/2528_import.pdf

TOPIC 3

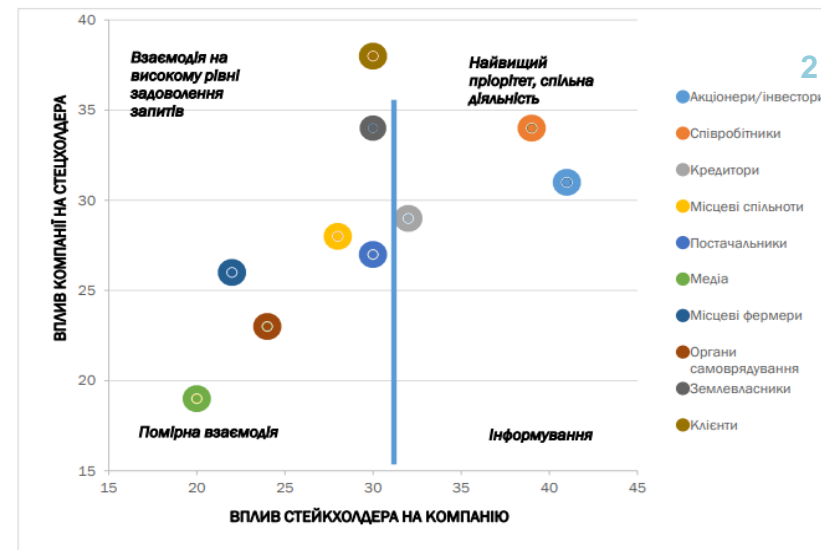
INTERACTION WITH STAKEHOLDERS: STAGE 1. THINK STRATEGICALLY¹

Matrix of stakeholder influence on the organization and dependence on it¹

		Influence of stakeholders on the organization	
		High	Low
Dependence of stakeholders on the organization	High	Be honest - stick to your obligations to stakeholders in line with company policy, general and industry standards, strive to meet the requirements of stakeholders within the balance of profits and expenses	Strategic opportunities and threats - invest in stakeholder interaction processes to understand and solve problems
	Low	Low priority - provide stakeholders with access to shared information and feedback channels.	Strategic opportunities and threats - invest in stakeholder engagement processes to understand and solve problems

The matrix needs to be specially "adjusted" for each specific company or problem - then it will correctly reflect the criteria for prioritization¹

For example, instead of dependence on stakeholders, the company as a whole can take into account the dependence of individual strategic business goals or individual divisions. This will allow to more clearly determine the priority of stakeholders¹.



1. Stakeholder Engagement/Volume 2: A Practical Guide to Stakeholder Engagement (TRANSLATED FROM ENGLISH) ACCOUNTABILITY, UNEP and stakeholder research associates, 2005, 148 pp. URL: https://urbaneconomics.ru/sites/default/files/2528_import.pdf

2. Plan of interaction with stakeholders of Astarta-Kyiv agro-industrial holding. Astarta-Kyiv Agroprom Holding: website. URL: <https://astartaholding.com/>

INTERACTION WITH STAKEHOLDERS: STAGE 1. THINK STRATEGICALLY¹

Prioritization

Stakeholder groups¹

Have a significant impact, capable of¹:

- Remove, grant or influence an "activity license"
- Restrict access to resources
- Damage or, conversely, build the company's reputation
- Facilitate or hinder companies from receiving information and implementing innovations
- Restrict or provide access to investment funds
- At an early stage to prevent or distract attention and time management input to the core business

Highly dependent¹:

- Direct financial dependence (dependent on salaries, purchases, grants)
- Indirect financial dependence (whose livelihood depends on the contribution of the organization).
- Non-financial dependence (recipients of services) Insufficient choice / lack of choice (employees facing forced layoffs, people living near the production plant, people who are addicted to addictive products)

At will and ability to interact¹:

- Enemies; unknown; disinterested; included in the process through formal mechanisms; ready to cooperate; competitive

Stakeholder influence / dependence matrix¹

		No influence	Low influence	Some influence	Formal power / high influence
Dependence of stakeholders on the organization (project, business)	High dependence - no choice				
	There is no direct relationship, stakeholders have a wide choice of behaviors				

1. Stakeholder Engagement/Volume 2: A Practical Guide to Stakeholder Engagement (TRANSLATED FROM ENGLISH) ACCOUNTABILITY, UNEP and stakeholder research associates, 2005, 148 pp. URL: https://urbaneconomics.ru/sites/default/files/2528_import.pdf

INTERACTION WITH STAKEHOLDERS : STAGE 2. ANALYZE AND PLAN¹

Objective: to create an information-analytical base of understanding of the organization and its stakeholders in order to build priorities and further develop a plan of interaction¹

Actions: increasing understanding of problems and significant stakeholders, analysis of their solutions and the experience of other organizations, reviewing the current state of relations with stakeholders¹

Methods: Stakeholder profile, resource / constraint profile, interaction plan¹

Levels of interaction and involvement of stakeholders (beginning)¹

Level	Goal	Communications	Type of relations	Approach to Engagement
Passive	No goals No interaction	No active communications	No relations	No attempts to cooperate by the company.
Monitoring	Monitoring of views	One-way communication from stakeholders to the company	No relations	Media Tracking Online. Reports from other stakeholders
Informing	To inform	One-way communication from the company to stakeholders	Short-term or long-term relationships at the level of information	Newsletters and newsletters. Brochures, reports and Internet sites. Press releases
Concluding agreements	Jointly on a contractual basis, where one of the partners provides funding	Limited bilateral: definition and monitoring of indicators in accordance with the terms of the contract	Terms of the relationship established by the contract	Private-public partnerships, initiatives of private financiers, Grants

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INTERACTION WITH STAKEHOLDERS : STAGE 2. ANALYZE AND PLAN¹

Levels of interaction and involvement of stakeholders (finishing)¹

Level	Goal	Communications	Type of relations	Approach to Engagement
Consultations	Receive information and feedback	Limited bilateral: the company asks questions and stakeholders answer.	Short-term or long-term participation	Reviews, focus groups meetings Consultative forums of stakeholders Online discussion forums
Exclusions	Work directly with stakeholders, taking their views into account when making decisions	Bilateral or multilateral interaction between the company and stakeholders. Both sides are studying and taking the first steps	One-time or long-term interaction is possible.	Advisory Voting Forums Joint decision-making process.
Cooperation	Collaborate with stakeholders or create boundaries to develop agreed solutions and joint plans	Bilateral or multilateral interaction between a company and its stakeholders	Long-term interaction	Joint projects, voluntary initiatives
Authorization	Delegate decision-making to stakeholders on certain issues	New organizational forms of reporting: stakeholders have a formalized role in management	Long-term interaction	Democratic governance with stakeholders

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INTERACTION WITH STAKEHOLDERS : STAGE 2. ANALYZE AND PLAN¹

Stakeholder profile (beginning)¹

Structural elements	Information
Primary topic / question for interaction with the group	
The goal of stakeholders	
The predominant level of interaction with this group	
Stakeholder profile	
Specific representative / representative of the organization	
Man for internal contacts	
A general view of stakeholders on the issue Expectations related to the issue of business. Interaction history / approaches to interaction Ordinary or desired by stakeholders the highest level of approach to interaction	
Source of stakeholder funding	
Relationships / conflicts with other stakeholders	
Knowledge of the issue (opinion of leaders / level of knowledge)	
Legitimacy (high, limited, low, no)	
Attitude to the idea of interaction (moderately interested, but friendly, disinterested, hostile)	
Existing and / or potential impact of stakeholders on business, risks and opportunities	
The scale at which stakeholders operate (global, regional, national, subnational, local)	
Cultural issues to consider	
Practical issues to consider (ability to attract resources, employees, etc.)	
Is it really necessary to interact with this stakeholder?	

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INTERACTION WITH STAKEHOLDERS : STAGE 2. ANALYZE AND PLAN¹

Stakeholder resource / constraint profile ¹

Structural elements	Information
Stakeholder groups involved in the interaction	
Subject of interaction	
Waiting for stakeholders	
Business sense of interaction	
What the organization seeks to achieve	
What is the subject of discussion with stakeholders? / What is not the subject of discussion with stakeholders?	
Possible results from Engagement	
Possible results of interaction	
Possible consequences in case of refusal to interact	
Actions / opportunities and resources needed to get results	
Company capabilities and availability of resources to implement potential results	
Opportunities and available resources at the moment	
There are obvious opportunities and resources that are not enough	
There are currently no opportunities and resources, but there is a commitment to the idea of development	

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INTERACTION WITH STAKEHOLDERS : STAGE 2. ANALYZE AND PLAN¹

Stakeholder interaction plan ¹

Stakeholders	Objectives of interaction	Goals of stake holders	Current level of interaction (if necessary, leave unchanged)	Promising level of interaction for business	Events	Responsible	Documentation	Result

Recommendations for the organization of the process ¹

- Conduct a seminar or one-on-one interview with senior managers and those on whom budget allocations depend, with representatives of the appropriate level headquarters.
- Make sure you include all internal players who can significantly influence the process itself and the implementation of its results.
- Discuss the possible outcomes of interacting with stakeholders, as well as the possible consequences of refusing to interact with them.
- Consider the worst and best scenarios and record possible outcomes.
- Find out what resources you can use to interact with stakeholders
- Discuss business goals and plans for the issues you intend to engage with.
- Agree with all individual employees or departments on stakeholder engagement
- Plan to interact with stakeholders

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INTERACTION WITH STAKEHOLDERS : STAGE 3. DEVELOPMENT OF CAPACITY FOR INTERACTION

Objective: To develop a set of individual skills and organizational systems necessary for an effective process of involving stakeholders in interaction¹

Actions: analysis of own organization, stakeholders, determination of skills and characteristics for interaction with stakeholders, development and implementation of a plan to strengthen the skills needed for effective interaction¹

Key mechanisms to ensure adequate response to stakeholder requests¹

Participation of the board of directors and management in solving the problem

Senior management is well aware of the problem, the resources needed, understands the relationship with business strategy, and is aware of the opportunities and risks associated with attracting stakeholders¹

Ways to improve the mechanism¹ :

- Senior managers can draw attention to it at a high level.
- The material remuneration of persons holding managerial positions may be related to the specific results of their work
- Key budget owners need to be involved in the dialogue on required budgets and the availability of financial resources.
- It is desirable that the Board of Directors and management take the lead in resolving the issue.

Agreed strategies and procedures related to the problem

A policy formulated through dialogue between those responsible for its implementation, those affected and those responsible for allocating the resources needed for implementation¹

Ways to improve the mechanism¹ :

- Not all internal units will be involved in the development of the initial draft policy, but they should be involved in finalizing the final version through, for example, participating in dialogues with stakeholder groups or consultations.
- Corporate responsibility standards or standards developed by other companies can be used to shape stakeholder expectations.

INTERACTION WITH STAKEHOLDERS : STAGE 3. DEVELOPMENT OF CAPACITY FOR INTERACTION

Key mechanisms to ensure adequate response to stakeholder requests ¹

Ongoing activities to organize interaction with stakeholders

Stakeholder engagement activities are related to corporate governance and management processes ¹

Ways to improve the mechanism ¹ :

- The schedule of interaction with stakeholders should be made taking into account cycles of internal reporting, planning and budgeting
- Management processes should include special mechanisms to control the quality of the organization's response

Intra-corporate responsibility and competence to work on the problem

The staff involved has the necessary skills, qualities and qualifications ¹

Ways to improve the mechanism :

- Integrate skills into recruitment policy requirements, develop job responsibilities and performance appraisal systems. For employees in contact with external stakeholders and managers with significant influence on internal stakeholders. ¹

Performance indicators and problem targets

Performance indicators, various dimensions and objectives clarified in the dialogue with stakeholders ¹

Ways to improve the mechanism ¹ :

- An initial internal discussion about indicators and targets, especially those considered in the context of other business objectives and measurement systems, can provide a basis for discussion with a wider range of internal and external stakeholders.

Analytical and educational processes related to solving the problem

There are processes that provide situation analysis and training aimed at developing processes to solve problems ¹

Ways to improve the mechanism :

- Knowledge sharing mechanisms, discussion forums and networks of contacts both within the company and between different companies or stakeholders ¹

INTERACTION WITH STAKEHOLDERS : STAGE 3. DEVELOPMENT OF CAPACITY FOR INTERACTION

A plan to improve the system of interaction with the stakeholder ¹

Key mechanism	Measures to improve the mechanism	Priority	Temporary limits	Resources (eg tools, standards, examples of success, stakeholders)

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INTERACTION WITH STAKEHOLDERS : STAGE 3. DEVELOPMENT OF CAPACITY FOR INTERACTION

Improve stakeholder interaction skills ¹

Project management and analysis

Skills ¹	Improvement
<ul style="list-style-type: none"> ■ Efficiency and timeliness of interaction, compliance with budget limits ■ Ability to review and interpret results in a way that reveals key facts and figures as well as instructive information 	<ul style="list-style-type: none"> ■ Recommendations and trainings in the field of project management ■ Individual skills should be complemented and guided by appropriate policies and procedures

Understanding the problem

Skills	Improvement ¹
<ul style="list-style-type: none"> ■ Experience in the areas of interaction. ■ Creating a team that brings together professionals of different profiles ■ Involvement of specialists from outside 	<ul style="list-style-type: none"> ■ A database of problems that could be used by employees from different departments. ■ Advising and supporting specialists to improve their skills

Trust

Skills	Improvement ¹
<ul style="list-style-type: none"> ■ The ability to gain the trust of stakeholders depends on the employees who work with them 	<ul style="list-style-type: none"> ■ Trust requires a proper understanding of the social environment. ■ Involvement of people or organizations "from outside"

Individual behavior

Skills	Improvement ¹
<ul style="list-style-type: none"> ■ Demonstration of such individual traits as the integrity of the individual, the ability to concentrate on solving problems, the presence of motivation, creativity, etc. 	<ul style="list-style-type: none"> ■ Develop ethical attitudes and policies related to individual behavior, as well as internal programs to promote and improve them

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INTERACTION WITH STAKEHOLDERS : STAGE 3. DEVELOPMENT OF CAPACITY FOR INTERACTION

Improve stakeholder interaction skills ¹

Engagement technologies

Skills ¹	Improvement
<ul style="list-style-type: none"> ■ Knowledge of appropriate approaches to engage stakeholders ■ The set of skills required for closer interaction, such as partnership, community development or conflict resolution, differs from more "traditional" and sometimes one-sided market research techniques, such as surveys, focus groups, etc. Application of an integrated team of specialists in various fields 	<ul style="list-style-type: none"> ■ Internal self-study groups provide an opportunity to share experiences among those who interact with stakeholders in different divisions of the same company ■ Numerous organizations provide training services and assistance in improving the competence of professionals ■ Accountability has developed trainings, certification system (IRCA) and quality standards for attracting stakeholders who are in line with the AA1000 series

Personnel development matrix ¹

Skills	Development measures	Priority	Time limits	Resources
Project management and analysis				
Individual behavior				
Engagement technologies				
Knowledge of problems				

TOPIC 6

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INTERACTION WITH STAKEHOLDERS : STAGE 4. PROCESS DESIGN AND INVOLVEMENT IN INTERACTION¹

Choosing a method of interaction with a stakeholder¹

Written feedback from stakeholders

Reception of written feedback and suggestions during official consultations is organized¹

- Gives a low level of response, but provides individual stakeholders with mechanisms to express their views¹
- Helps to compile a list of addresses for sending information to stakeholders¹



Shell invites the public to take part in the "Talk to Shell" campaign, where you can ask any questions, comment and express your opinion with detachable leaflets in brochures containing a report on the company's development, as well as letters and e-mails¹

Telephone hotlines for individual stakeholders

Obtaining stakeholders information about any problems or projects¹

- Available, allows you to provide a response with minimal effort¹
- Allows stakeholders to obtain information / respond in a short time¹



HP collects information from consumers on issues related to "global corporate citizenship" through its "customer support hotlines". This allows you to identify the content and degree of concern of stakeholders to better understand consumer priorities and assess issues in a particular market¹

INTERACTION WITH STAKEHOLDERS : STAGE 4. PROCESS DESIGN AND INVOLVEMENT IN INTERACTION¹

Choosing a method of interaction with a stakeholder ¹

Individual meetings

Individual meetings with leaders of public opinion, representatives of organizations ¹

- Meetings can be used to gather information, research issues, get feedback, build trust with key stakeholders ¹
- One-on-one meetings create a "safe" environment where stakeholders are not required to accept or defend their position publicly ¹



Telefonica, adopting socially and environmentally responsible investment criteria, it regularly meets with investors and analysts to discuss performance, risks, and the strategic importance of the company's corporate responsibility system. ¹

Virtual interaction

Discussions based on the use of Internet sites or e-mail ¹

- Helps to cover long distances and allows stakeholders to participate in discussions and consultations of non-physical presence at meetings ¹
- Usually do not provide reliable statistical results ¹



Microsoft, has created a number of online technical communities to provide users with the opportunity to communicate with employees and experts, as well as with each other to discuss the company's products and technologies ¹

INTERACTION WITH STAKEHOLDERS : STAGE 4. PROCESS DESIGN AND INVOLVEMENT IN INTERACTION¹

Choosing a method of interaction with a stakeholder

Involvement in policy making, research, reporting

Stakeholder groups are involved in writing reports or comments¹

- Requires significant time on the part of stakeholders / experts¹
- The procedure for involvement should be reflected in the reporting¹
- The range of participants is limited to stakeholder experts¹



Secretariat of the International Organization **Global Reporting Initiative** in Amsterdam, asked 30 stakeholders, both staff and outside the organization, to provide detailed written or oral (telephone) feedback on their draft report on sustainable development. This led to significant changes both in the presentation of the report and in the action plan of the organization¹

Focus groups

Meetings of small groups to gather information and opinions on a particular issue¹

- An effective and flexible way to get information on how other companies solve different problems and get an idea of the range of opinions of stakeholders¹
- Careful selection of focus group participants¹



Nedbank held a workshop with a small diversified stakeholder group to review the sustainable development strategy. Sustainable development experts as well as analysts, investors, consumers and suppliers were invited¹

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INTERACTION WITH STAKEHOLDERS : STAGE 4. PROCESS DESIGN AND INVOLVEMENT IN INTERACTION¹

Choosing a method of interaction with a stakeholder

Open meetings

Large-scale meetings open to representatives of various stakeholder groups¹

- Such meetings can be organized by the company itself or by a third party. The participation of other organizations already familiar to stakeholders is trusted by them¹
- The process should be designed to meet the goals of the organization, the interests of stakeholders and the essence of the issue¹



Swedish IT companies **Telia, Ericsson i AP Fastighegter** used the innovative method of "World Cafe" to hold discussions on sustainable development with CEOs, officials and managers¹

Survey

Mass surveys of entire groups of stakeholders or a representative sample¹

- Surveys are an expensive mechanism and provide excess data¹
- If the surveys are well planned and the sample is adequate, statistically significant can be obtained¹
- The results obtained and the reaction to them by the company should be brought to the attention of the interviewed stakeholders¹



Barclays plc commissioned a survey of many stakeholders to receive feedback on the corporate social responsibility report and the company's strategy in this area. Various experts provided information on the report and strategy. The results were then published online along with Barclays' response to key issues raised by stakeholders.¹

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INTERACTION WITH STAKEHOLDERS : STAGE 4. PROCESS DESIGN AND INVOLVEMENT IN INTERACTION¹

Choosing a method of interaction with a stakeholder

Advisory committees

Stakeholders are invited for consultations on the project, a set of issues, to analyze the company's activities and conduct independent verification.

- Advisory groups may consist of stakeholders belonging to different groups or of several persons representing one group of stakeholders
- Suitable for working on long-term and complex issues and processes
- Require a lot of time from stakeholders / experts



Nike set up a group of stakeholder advisers to help prepare a report on social responsibility. "When stakeholder engagement is superficial, you don't critically rethink what you've taken for granted." This has raised Nike's level of transparency.

Multilateral forums

One-time or ongoing dialogue focused on common issues

- Useful in solving complex problems that can not be resolved by a single organization
- On the one hand, it should be as open as possible to all stakeholders, always open to new participants. On the other hand, it is unacceptable to allow him to become a "chatterbox"



Gap Inc. organized a series of stakeholder forums in Washington and London to discuss supplier relations issues. Representatives of trade unions, multilateral alliances, and government agencies came together to explore ways to work together to improve the well-being of employees in global supply chains.

INTERACTION WITH STAKEHOLDERS : STAGE 4. PROCESS DESIGN AND INVOLVEMENT IN INTERACTION¹

Choosing a method of interaction with a stakeholder

Multilateral alliances, joint projects, partnerships

Stakeholders representing state organizations, public associations act jointly through joint ventures or jointly committed¹

- The costs and benefits to each participant should be taken into account when developing partnership initiatives.
- Partnerships often grow and include new members if it meets the needs of stakeholders
- Require a lot of time from stakeholders / experts



Ethical Trading Initiative - partnership of food, clothing and trade unions. It has developed a basic set of labor standards for supplier members of the partnership. The partnership also has an ongoing program of cooperation to develop a methodology for monitoring compliance with standards and their impact on the work of companies.¹

Test questions to evaluate the methods of involvement

Goals and needs¹

1. Will this method help us establish the relationship we are striving for?
2. Can this lead to the short - and / or long - term results we need to achieve our strategic goals?
3. Will it provide the qualitative or quantitative information needed to make decisions in our business?
4. Do I have enough resources and time?

Stakeholders profiles¹

1. Given the need for travel and the degree of mobility of stakeholders, is this acceptable given their current location?
2. Is this not in line with the current level of awareness and understanding of the situation by stakeholders?
3. What practical issues do you need to think about and what do you need to solve to make the interaction process accessible / attractive?

The content of the relationship¹

1. Do we already have relationships with stakeholders that allow us to apply this approach?
2. How long have we been acquainted with stakeholders?

The content of the problem¹

1. Does this approach meet the problem?
2. Does this approach fit into the policies and legislation applicable to stakeholders or problems?
3. If multilateral cooperation is needed, will the chosen approach be appropriate in this case?

INTERACTION WITH STAKEHOLDERS : STAGE 4. PROCESS DESIGN AND INVOLVEMENT IN INTERACTION¹

Stakeholder interaction plan ¹

Events	Activities and resources	Responsibility	Time limits
Time limits			
Invitation/publication			
Previous informing			
Logistics			
Transport, food, accommodation, etc..			
Equipment, etc.			
Reward to participants			
The process that leads to the desired results			
Agenda / event plan			
Basic rules, areas of competence and powers of participants			
Current roles and facilitation			
Logging and verification			
Certification procedure			
Feedback from participants			
Bringing results to a wider audience			
Signs of success (indicators "at the entrance" and "at the exit")			
Satisfaction system for participants' satisfaction			

3 TOPIC 6

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INTERACTION WITH STAKEHOLDERS : STAGE 5. ACTIVITY, ANALYSIS, REPORTING¹

Objective: To translate new knowledge, ideas and agreement into action and bring it to the understanding of stakeholders ¹

Actions: planning and monitoring of approved strategic and operational changes, the use of information obtained to improve the validity of decisions, cassation strategic intentions, as well as products and processes ¹

Reporting and feedback with stakeholders directly involved in the interaction and with other stakeholders ¹

Analyze the process of interaction itself over time to learn from their own successes or failures and identify areas where further interaction with stakeholders is needed. The results of this analysis will form the basis of preparation for the next cycle of interaction ¹

Matrix of practical application of interaction results ¹

Strategic goal	Results	Strategic and operational consequences	«Owner" of the process / responsible person	Next step/ SMART-мет	Responsibility for monitoring and reporting within the company	Schedule

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INTERACTION WITH STAKEHOLDERS : STAGE 5. ACTIVITY, ANALYSIS, REPORTING¹

Checklist of questions to evaluate the report to stakeholders¹

Materiality

The report shows¹ :

- How does an organization decide how important its stakeholder issues are to its business?
- What are the criteria used for materiality decisions?
- Why are certain stakeholders / questions important or not?
- Does the awareness of contradictions between different views on the significance of problems?
- How formulated goals and reporting indicators can be used in the process of strategic and operational decisions, or how they are already used in this process?

Reaction

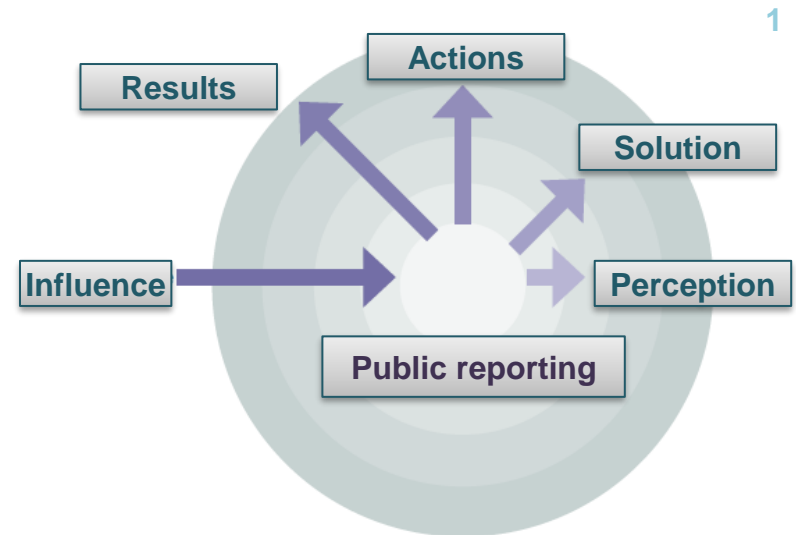
The report shows¹ :

- How does the organization allocate resources to implement its commitments and respond to significant stakeholder challenges?
- Does the analysis include deficiencies and corrective actions?

Completeness

The report shows :¹

- How does the organization understand the activities and its results in the context of issues relevant to stakeholders?
- How does the organization integrate performance indicators into the core processes of management, corporate governance and change management?
- Does the report present information so that stakeholders can interpret it in the light of their own interests and decisions?



1

INTERACTION WITH STAKEHOLDERS : STAGE 5. ACTIVITY, ANALYSIS, REPORTING¹

The resulting assessment of interaction with stakeholders ¹

Overall assessment of interaction			
Process goals / signs of success		Did what was planned really happen?	
Tasks of interaction		What have you achieved? Do the results meet the objectives?	
How successful the interaction was	<div style="display: flex; justify-content: space-between; align-items: center;"> The worst option ← → The best option </div> <p style="text-align: center; margin-top: 5px;">Analysis of practice</p>		
What happened according to plan?			
What didn't go according to plan?			
What do you need to do next time?			
Did the interaction affect the views and / or behavior of stakeholders?			
Did the interaction affect the views and / or behavior of the organization?			

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PROCUREMENT AND SUPPLIER RELATIONS MANAGEMENT



7.1. Procurement activities of the enterprise

7.2. Building relationships and managing suppliers

7.3. Negotiations and conclusion of agreements with suppliers

DEFINITION

Procurement - is the receipt of goods (services) of the required quality in the required quantity from the required source at the required price, delivered to the desired location on time.¹

Pulling procurement system

Procurement and logistics departments ensure timely delivery and transportation of the required range in the required time, determined by the marketing department²

- It is typical for a customer-oriented company
- A sales plan is usually not formed.
- The emphasis is on meeting customer needs²

Advantages	Disadvantages
<ul style="list-style-type: none"> ▶ maximum coverage of potential customers; ▶ customer loyalty; ▶ minor illiquidity (buy only what is necessary)² 	<ul style="list-style-type: none"> ▶ high delivery costs and suboptimal stocks; ▶ poor predictability, resulting in an emergency type of work; ▶ the difficulty of building relationships with suppliers²

Pushing procurement system

The marketing department provides sales, and the logistics department stores and transports what the procurement department has supplied²

- It is formed at the organization of a branch of sales by the manufacturing company
- The management of the branch forms a sales plan without comparing it with the real possibilities. The emphasis is on sales, not profits.
- Noticeable influence of one or more suppliers.
- There are no costs for stocks, but there are warehouses to maintain the balance, they are borne by the branch²

Advantages	Disadvantages
<ul style="list-style-type: none"> ▶ Loyalty of the branch to the strategic supplier; ▶ The branch has ample opportunities for trade credit; ▶ Ability to position the branch as a representative office of the supplier² 	<ul style="list-style-type: none"> ▶ Shifting storage costs to the branch, which is not always reimbursed by the supplier - reduced profitability ▶ Loss of some segments of potential customers and with them - possible profits ▶ It is not always optimal to replenish stocks ▶ Slow reaction to market changes - loss of competitiveness²

1. Purchasing department as the profit center of the company. Anton Piskun: website. URL: <https://www.antonpiskun.pro/otdel-zakupok-kak-czentr-pribyli-kompanii>
 2. Interaction of the supply department with other divisions of the enterprise. Studfiles: website. URL: <https://studfile.net/preview/5375502/page:7>

Balanced system

All three departments take into account each other's tasks and strive to solve them together based on the best results and optimization of total costs¹

The logistics department is responsible for accounting for direct and indirect costs at all stages and making final management decisions.¹

- Formed by the organization of the distribution company (when this activity is the only or main source of income of the company)
- It is formed from the extraction system while increasing competition in the company's niche market
- Provides an emphasis on forecasting and planning sales, procurement, inventory movement
- Requires the use of a system (usually automated) that connects all departments and processes of the enterprise¹

Advantages

- ▶ Minimum cost per unit of output
- ▶ Optimal stocks and how to replenish them
- ▶ Consciously profitable activity (all strategic goals have their "price", and, allowing in some cases unprofitable tactics, the company does it meaningfully and for a specific purpose)¹

Disadvantages

- ▶ The company can suffer serious losses in the absence of coordination or support for management decisions by different departments
- ▶ Sophisticated systems for calculating the indicators required for work
- ▶ Cumbersome automated control systems that require quality support from the information technology department¹

PROCUREMENT METHODS ¹

Purchase of goods in one batch

Is to purchase a large batch of goods at once (wholesale) ¹

Advantages	Disadvantages
<ul style="list-style-type: none"> ▶ Guarantee of delivery of the whole party ▶ Opportunity to get a discount¹ 	<ul style="list-style-type: none"> ▶ Large areas of warehouses are needed ▶ Capital turnover is slowing down¹

Daily (monthly) purchases according to quotation information

Acceptable for the purchase of low-cost and high-speed products ¹.

Quotation information is made every day (or monthly), including: a complete list of goods, the number of products in stock, the required number of goods ¹

Advantages	Disadvantages
<ul style="list-style-type: none"> ▶ Capital turnover is accelerating ▶ Warehousing costs are reduced ▶ Deliveries are on time¹ 	<ul style="list-style-type: none"> ▶ The need for strict accounting of purchased products¹

Regular purchases in small batches

The organization places an order for the supply of the required number of products within a certain time. The goods are delivered in small batches ¹

Advantages	Disadvantages
<ul style="list-style-type: none"> ▶ Capital turnover is high because payment is made for each batch, ▶ No need for large warehouses ▶ The cost of processing documents is reduced - the order is issued for the total number of goods¹ 	<ul style="list-style-type: none"> ▶ The risk of ordering goods in excess of the required quantity ▶ The need to pay for all ordered goods¹

1. Working with suppliers: how to establish effective cooperation. Commercial Director. 2020. URL: <https://www.kom-dir.ru/article/1821-rabota-s-postavshchikami>

PROCUREMENT METHODS ¹

Receipt of goods as needed

The required amount of products is not calculated accurately, but is determined approximately

The invoice for payment is issued only for the delivered goods

If the contract has expired, the customer has the right not to accept the goods ¹

Advantages	Disadvantages
<ul style="list-style-type: none"> ▶ There are no strict procurement commitments ▶ Capital turnover is accelerating ▶ Documentation costs are minimized¹ 	<ul style="list-style-type: none"> ▶ There is a need to discuss each order with the supplier¹

Purchase of goods with immediate delivery

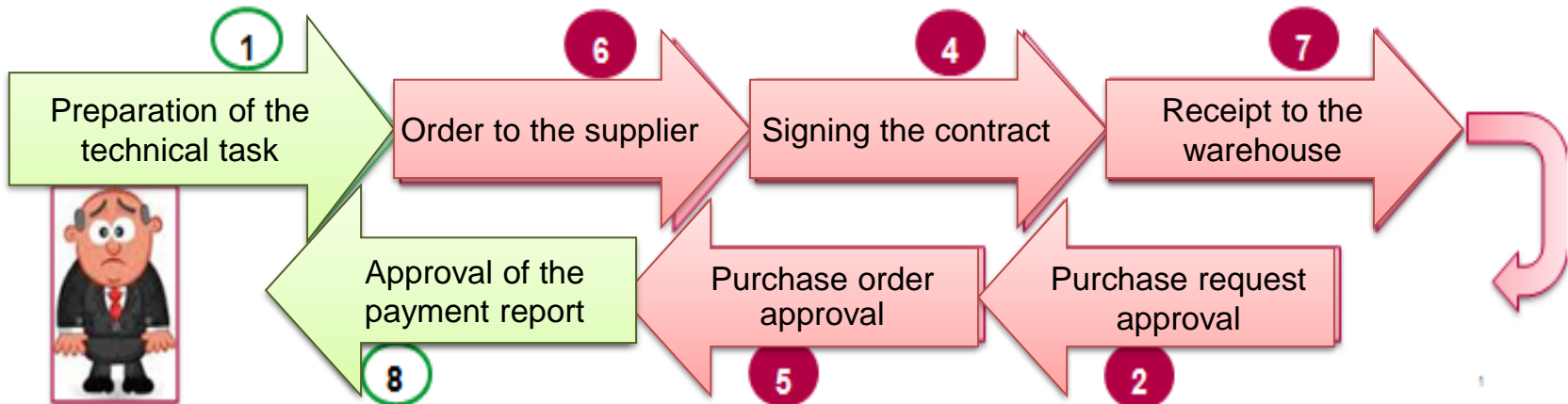
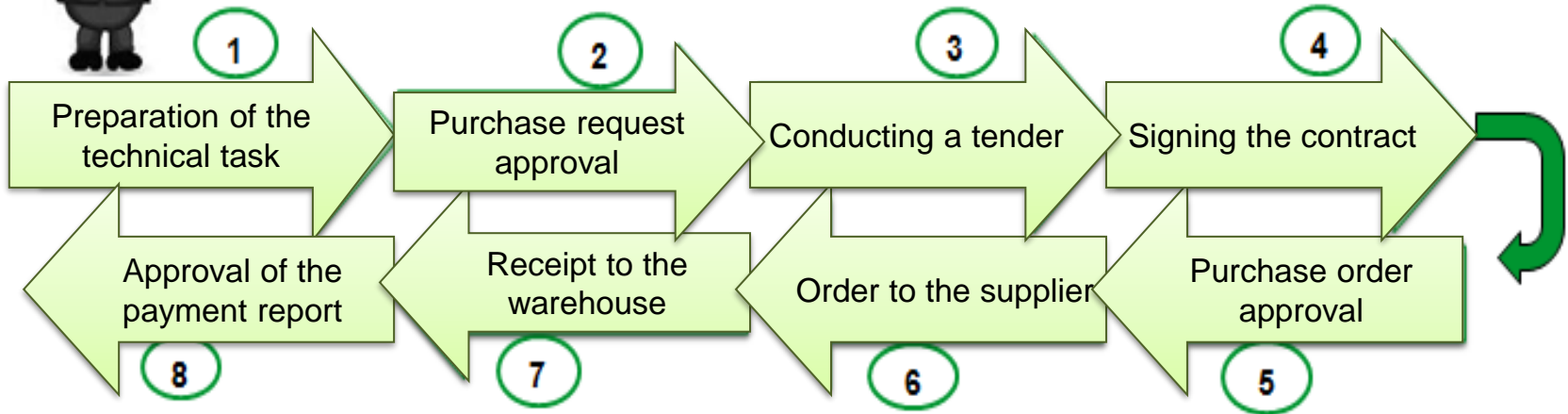
Used in case of purchase of products used at the enterprise sporadically or if it is not possible to purchase it as needed ¹

Advantages	Disadvantages
<ul style="list-style-type: none"> ▶ Lack of long-term agreements with suppliers¹ 	<ul style="list-style-type: none"> ▶ The need for detailed documentation during each order, resulting in increased costs ▶ Small batches of orders and many suppliers¹

1. Working with suppliers: how to establish effective cooperation. Commercial Director. 2020. URL: <https://www.kom-dir.ru/article/1821-rabota-s-postavshchikami>

PROCUREMENT PROCEDURE ¹

Route of approval and organization of procurement: right and wrong¹



PROCUREMENT DEPARTMENT ¹

DEFINITION

Procurement department - a unit where decisions are made on the purchase of goods, contracts for the supply of products are concluded, issues of selection of suppliers are resolved, requirements for product quality are set.¹

Domestic consumers of the results of the procurement service are other functional units of the enterprise, which need the purchased products

¹

Procurement department functions ²

- Purchase of the necessary goods at the minimum price;
- Maintaining high inventory turnover;
- Ensuring timely delivery of goods;
- Providing quality goods and product warranties from suppliers;
- Interaction with reliable suppliers;
- Cooperation and interaction with other divisions of the company;
- Reduction of the share of costs for transportation and ordering of goods;
- Support of information base on goods;
- Entering data into the corporate information system

Efficiency of the procurement department ²

- Reduction of procurement costs in the structure of total logistics costs
- Spoilage rate
- Proportion of purchases made on time
- Number of situations when the required resources were not in stock, which caused disruptions in the production schedule or fulfillment of the customer's order
- The number and reasons for changes made to the order due to the fault of the procurement service
- Number of applications received and executed
- The number of transport costs in the structure of total procurement costs, etc.

Procurement lifecycle ³



Plan - determining the need
 Collaborate - identify a product or service and check your budget
 Strategize - determine the path of procurement
 Manage
 Analysis is the product with the best value
 Negotiate
 Finish - fulfill the contract

TOPIC 7

1. Purchasing department: goals, functions, evaluation and motivation. Corporate management: website. URL: https://www.cfin.ru/management/people/instructions/Procurement_department.shtml
 2. Purchasing department as the profit center of the company. Anton Piskun: website. URL: <https://www.antonpiskun.pro/otdel-zakupok-kak-czentr-pribyli-kompanii>
 3. Procurement. San Francisco State University: website. URL: <https://procurement.sfsu.edu/>

PROCUREMENT MANAGER ¹



Must know ¹

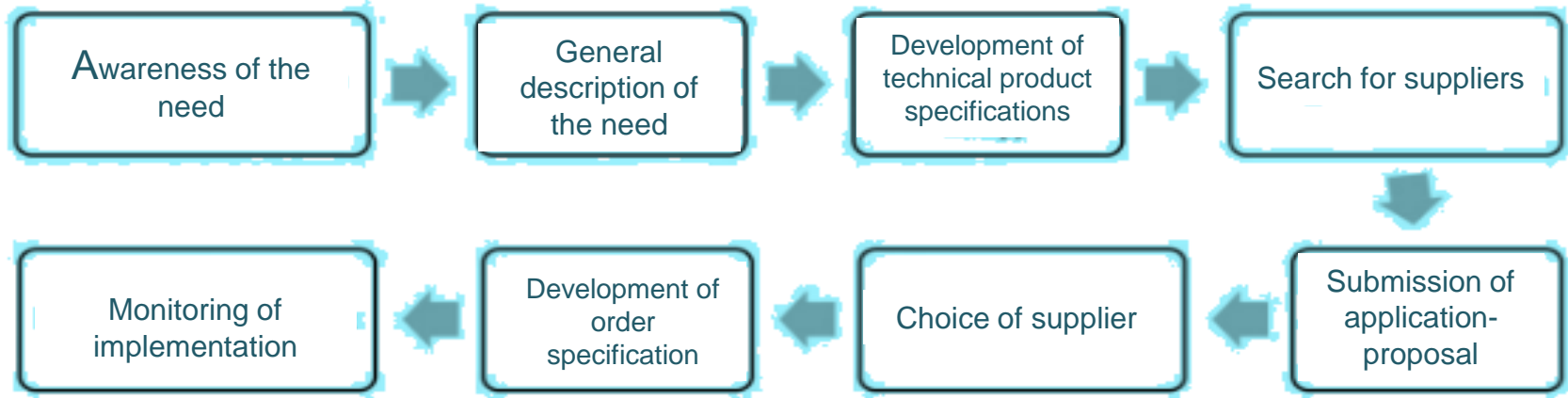
- Methods of managing financial flows in logistics
- All components of the supply contract
- Factors taken into account when choosing a supplier and carrier
- Ways to increase the efficiency of procurement management with the help of information technology
- Use of electronic data exchange when interacting with suppliers;
- Procurement methods
- Operations that are part of the business process "Procurement"
- Functions performed by various intermediaries in the process of fulfilling orders
- The procedure for drawing up the contract
- Sanctions applicable in case of non-compliance with the terms of the contract
- Ethics of business communication ¹



Must be able to ¹

- Choose reasonably the best delivery terms
- Properly draw up the necessary documents;
- Evaluate and choose a supplier
- Obtain and analyze information about the range of products offered by suppliers
- Review the market of suppliers
- Analyze the reliability of the supplier
- Analyze delivery terms offered by suppliers
- Negotiate with suppliers
- Compare offers received from different suppliers
- Analyze and conclude contracts
- Build strong business relationships with suppliers that strengthen the company's image and reputation
- Fulfill all agreements with suppliers in a timely manner
- Take measures to repay debts in settlements with suppliers. ¹

BUSINESS PROCUREMENT ¹



1 Awareness of the need ¹

Sources of need :

- Technological changes in the production process
- Replacement of used or obsolete equipment
- Expansion of the enterprise or production volumes;
- The company enters the market with a new product
- Using the favorable position of the enterprise in the market
- The desire or need to increase the efficiency of the enterprise

2 General description of the need ¹

- Specification of the quantity and general characteristics of goods or services purchased
- Marketing specialist together with technological engineers create a list of characteristics, including profitability, price and other aspects of products

1. Stages of the business procurement process: characteristics and features of the COVID-19 pandemic. URL: <https://sirex.com.ua/etapy-proczesu-biznes-zakupivli-harakterystyka-ta-osoblyvosti-pid-chas-pandemiyi-covid-19/>

BUSINESS PROCUREMENT ¹

③ Development of technical product specifications

Functional cost analysis ¹:

- Proportionality of price and effect from the use of the finished product
- The consumer's need for all the additional features of the product compared to the same
- The existence of any better product that performs similar functions in the process of its use
- Ability to produce individual components of the product at lower cost
- Availability of standard products on the market for the same use
- Ability to receive cheaper goods from another supplier
- The total cost of a new product, taking into account all costs, etc.

④ Search for suppliers

Methods ¹:

- By interviewing acquaintances of business people
- Through computer search and phone calls
- Study of brochures and specialized magazines
- Through participation in industry and intersectoral exhibitions and analysis of catalogs on the Internet

⑤ Submission of application-proposal

Specifics ¹:

- The buyer makes a statement regarding the offer of goods.
- Detailed description of the offer from potential suppliers if the order is complex or has a high cost
- Involved marketer because the proposal must be not only technical but also a marketing document.

BUSINESS PROCUREMENT ¹

⑥ Choice of supplier

Factors ¹:

- Satisfaction of requirements of the firm-buyer concerning quality, quantity and terms of delivery of production according to specifications;
- Stability of financial condition, adequacy of inventories, production capacity and labor
- Reputation reputation in the industry among buyers
- Carrying out of research and design works by it
- His application of advanced technologies and the latest achievements in his industry
- Geographical location to take into account transport costs and possible risk of product damage during transportation to the buyer

⑦ Development of order specification

Specifics ¹:

- After choosing a supplier, the buyer sends him an order-specification, indicating the technical characteristics and the required quantity of goods, the expected delivery time, return conditions, warranties and more

⑧ Monitoring of implementation

Specifics ¹:

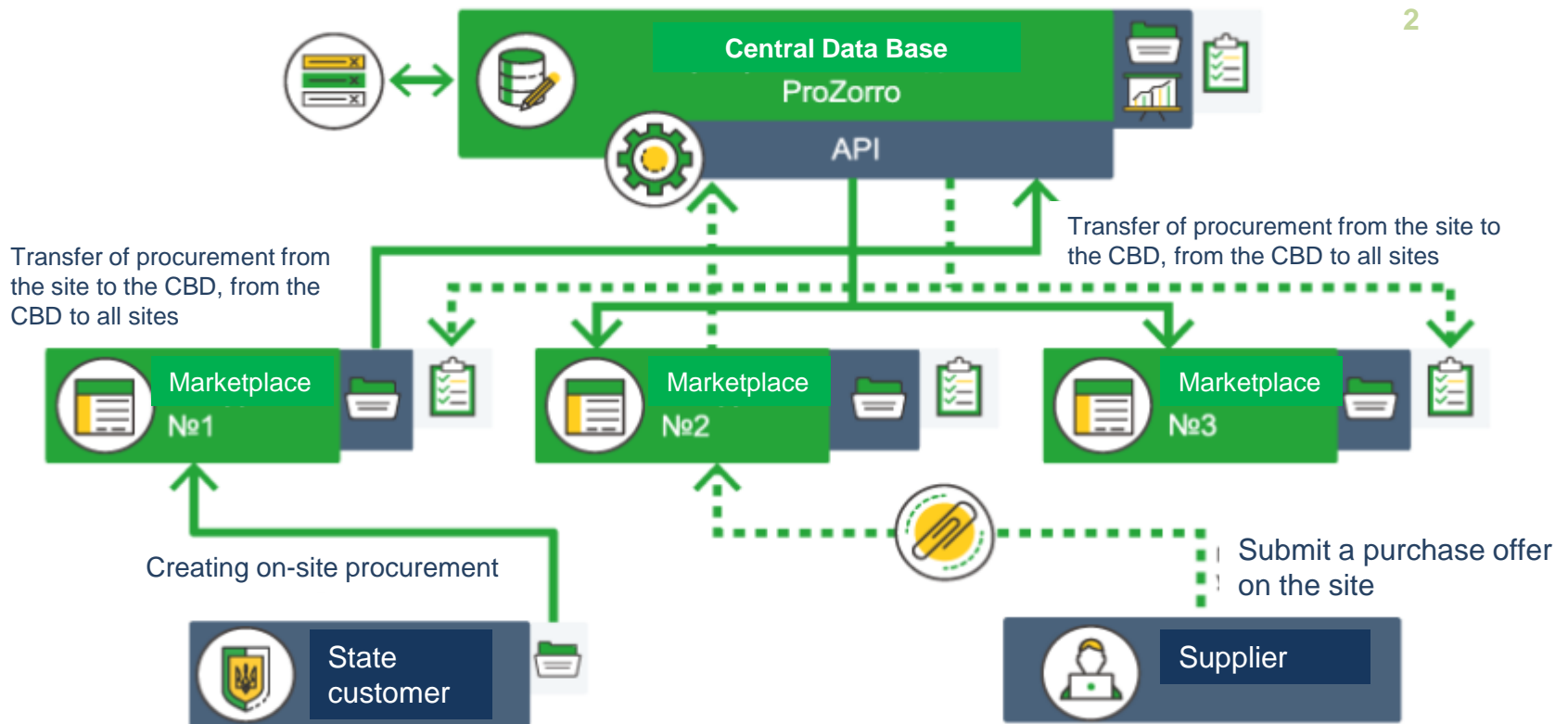
- The supplier contacts the buyer (consumer), finds out the degree of satisfaction of his needs
- The task of the seller is to first, without waiting for a reaction from the buyer, to obtain information on whether the buyer is satisfied with the goods purchased from him

PUBLIC PROCUREMENT

DEFINITION

Public procurement – purchase by the customer of goods, works and services in the manner prescribed by this Law of Ukraine "On Public Procurement"¹

The public procurement system includes the **ProZorro** web portal and authorized electronic platforms, between which the automatic exchange of information and documents is provided².



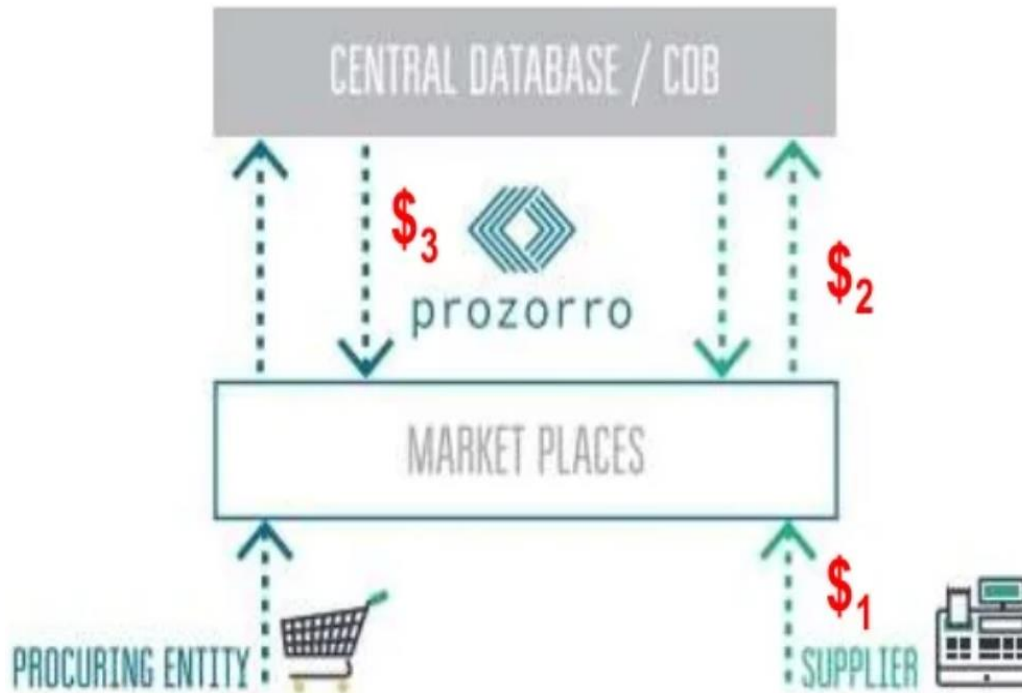
TOPIC 7

1. Stages of the business procurement process: characteristics and features of the COVID-19 pandemic. URL: <https://sirex.com.ua/etapy-proczesu-biznes-zakupivli-harakterystyka-ta-osoblyvosti-pid-chas-pandemiyi-covid-19/>

2. How the PROZORRO system works. Purchases Education: website. URL: <https://education.zakupki.prom.ua/ukravinska-vak-pratsyuve-sistema-prozorro-2>

PUBLIC PROCUREMENT

Money flow ¹

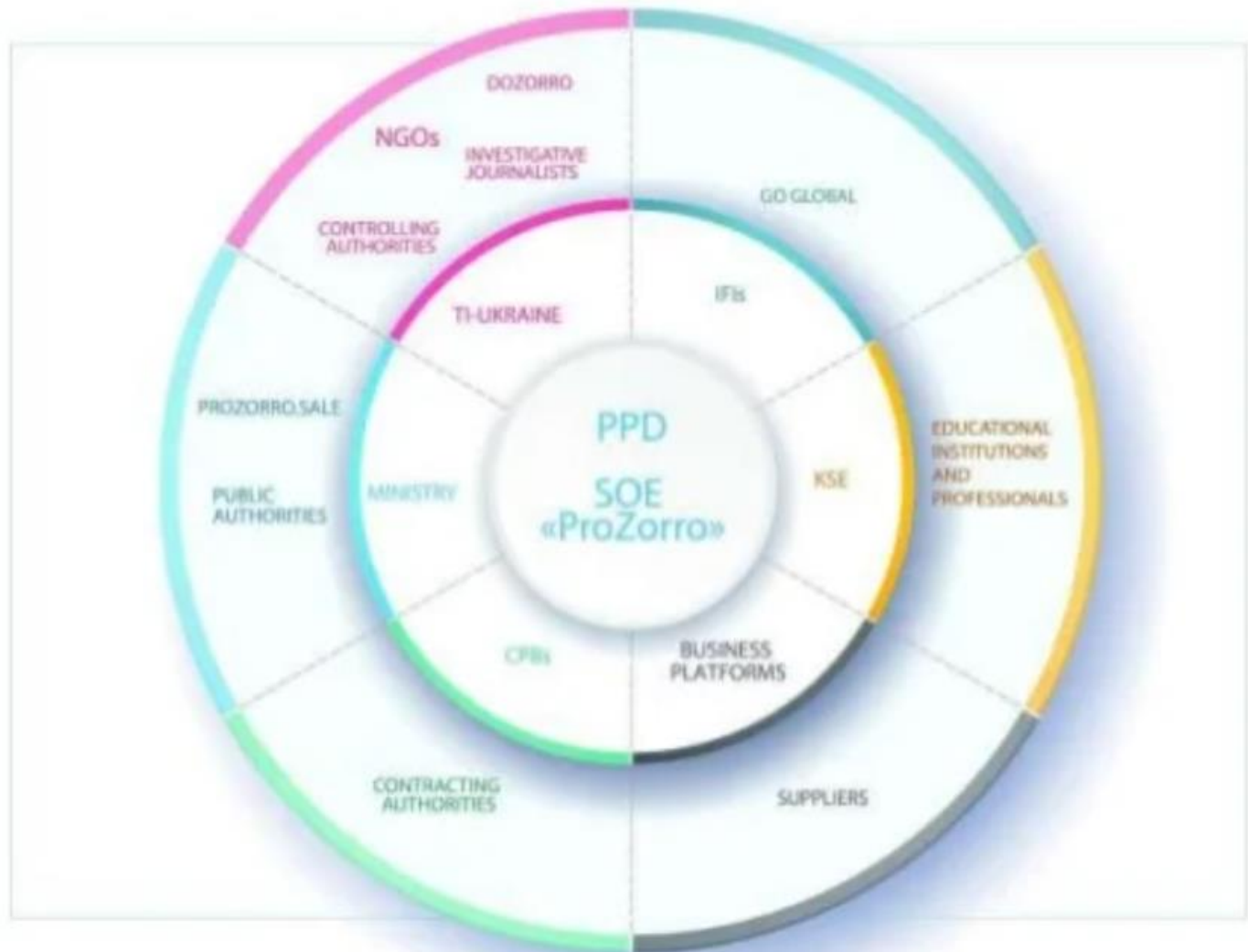


- 1 – Suppliers pays marketplace for bidding
- 2 – marketplace pays to SoE for bidding
- 3 – SoE pays marketplace for announcing

PUBLIC PROCUREMENT

ProZorro Ecosystem ¹

1



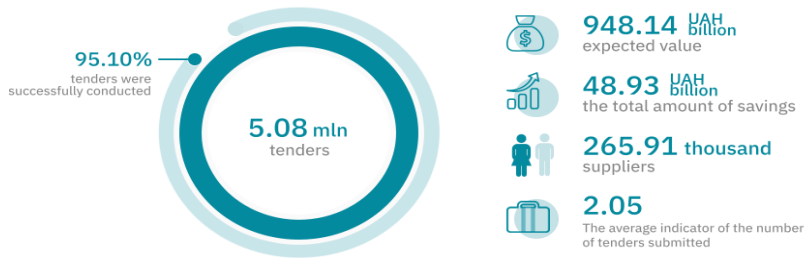
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1. Zadvornyy V. Prozorro: Ukraine public procurement under the hood. Slideshare. website. URL: https://www.slideshare.net/ProZorro_slides/prozorro-ukraine-public-procurement-under-the-hood

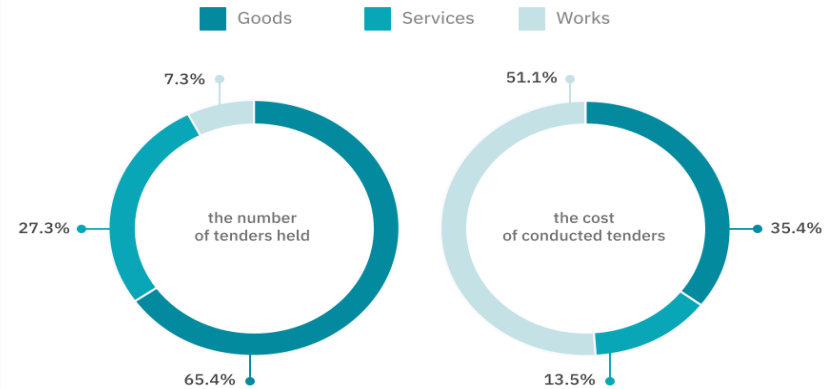
PUBLIC PROCUREMENT

Purchases in the ProZorro System¹

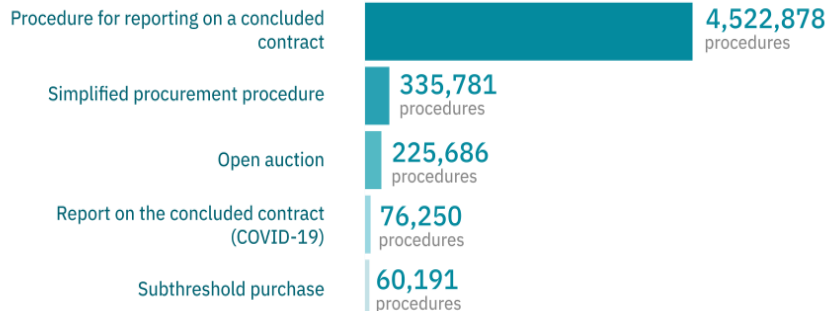
THE RESULTS OF THE PROZORRO SYSTEM 2021



DISTRIBUTION OF TENDERS By Procurement Subject



PROCUREMENT PROCEDURES The Most Frequently Used



TOP-5 CATEGORIES by the expected cost of purchases



1
TOPIC
7

1. Results and Major Changes in the ProZorro System in 2021. Smarttender. website. URL <https://smarttender.biz/en/blog/view/results-and-major-changes-in-the-prozorro-system-in-2021/>

DETERMINATION OF THE EXPECTED VALUE OF THE PROCUREMENT ITEM ¹

Actions to determine the expected value of the subject of procurement ¹

- 1 Determining the full name of the product
- 2 Formation of the description of the goods with the indication of all technical and qualitative characteristics which can influence the price
- 3 Selection of the required profile with the required unified technical characteristics in the case of procurement using unified product profiles
- 4 Determining the terms of delivery and payment

Calculation of expected value by the method of comparing market prices ¹

- 1 Bringing all prices obtained from information sources to the same conditions, including currency, terms of delivery, terms of payment, etc.
- 2 Rejection of price data from the array (must be at least 3 prices) abnormally low and abnormally high prices
- 3 Determining the expected price as the arithmetic mean of the array of data obtained.

$$P_u = (P_1 + \dots + P_k) / K$$

P_u – expected unit price;
 P_1, P_k – prices which were obtained from open sources;
 K – the number of prices obtained from open sources.

- 4 Determining the expected value of the subject of procurement

$$EV_{mpm} = P_u \times Q$$

EV_{mpm} – expected value according to the market price method;
 P_u – expected unit price;
 Q – quantity (volume) of goods purchased.

DEFINITION

Suppliers – are people who supply goods or services to customers¹



Manufacturers

Individual representatives of a company that manufactures certain goods, cooperation with them means that you can buy goods directly: without any markups and intermediaries¹.

Advantages	Disadvantages
<ul style="list-style-type: none"> ▶ The lowest cost of goods ▶ No influence of external factors ▶ Product quality control ▶ Ability to adjust the expiration date of the goods and delivery ▶ Additional conditions and services 	<ul style="list-style-type: none"> ▶ Probability of difficulties during transportation of products ▶ Purchase only large consignments of goods



Resellers

Representatives of a small specialized company, resellers, as well as dealers, sub-dealers and wholesalers.

They buy goods in bulk from manufacturers and sell them to retailers, slightly raising the price.

Resellers are not manufacturers, they are responsible for quality and delivery.

Activities are strictly limited by individual agreement with the supplier¹

Advantages	Disadvantages
<ul style="list-style-type: none"> ▶ Quick and easy access to the product. ▶ Reduce logistics costs. ▶ Ability to purchase relatively small batches of goods. 	<ul style="list-style-type: none"> ▶ Higher cost of goods than the manufacturer. ▶ Influence of external factors on product quality. The product is resold, so depending on what kind of product it is, you need to know clearly about the conditions of its storage and find out whether they are fully complied with, including during transportation.

1. Types of suppliers: their advantages and disadvantages. Fractus: website. URL: <https://fractus.com.ua/uk/blog/korysni-statti/prodazhi/vidi-postachalnikov-ihni-perevagi-ta-nedoliki/>



Retailers ¹

Engaged in the retail sale of goods to end consumers.

Both large companies and small private entrepreneurs are engaged in retail trade.

This is the most convenient type of supplier for the everyday buyer, who buys goods mainly to meet their needs.

The activity involves the highest level of competition, which significantly complicates the sale of products.

There are risks of theft, damage, expiration and obsolescence of products, which lead to certain financial costs ¹

Advantages	Disadvantages
<ul style="list-style-type: none"> ▶ Wide range of goods. ▶ Accessibility. 	<ul style="list-style-type: none"> ▶ Overpriced products (repeated markups from the whole chain of intermediaries).



Intermediary suppliers ¹

There may be wholesale enterprises of national, regional level of various product ranges (specializations), which form the basis of the system of wholesale structure in the consumer market.

Wholesale brokers (distributors, brokers, dealers, dealers)

Organizers of wholesale turnover (wholesale fairs, auctions, commodity exchanges, wholesale and retail markets, warehouses). ¹

Advantages	Disadvantages
<ul style="list-style-type: none"> ▶ Wholesale intermediaries gain independent value in the field of purchasing goods 	<ul style="list-style-type: none"> ▶ Higher cost of goods than the manufacturer. ▶ Organizers of wholesale turnover are not independent subjects of wholesale trade

1. Types of suppliers: their advantages and disadvantages. Fractus: website. URL: <https://fractus.com.ua/uk/blog/korysni-statti/prodazhi/vidi-postachalnikiv-ihni-perevagi-ta-nedoliki/>
 2. Classification of suppliers. Nelpiks.org: website. URL: <https://helpiks.org/6-18144.html>

PRINCIPLES OF BUILDING RELATIONSHIPS WITH SUPPLIERS ¹

The principle of economic feasibility

Gives positive results only in the short term.

It is applied ¹:

- 1 in the case when the company deals with non-strategic material and product groups that do not require special individualization of goods in accordance with customer requirements
- 2 when the relationship with the supplier does not significantly affect the quality of the goods, in the case of low purchases, in the case of purchases of simple products with a high degree of standardization.

Principle of partnership

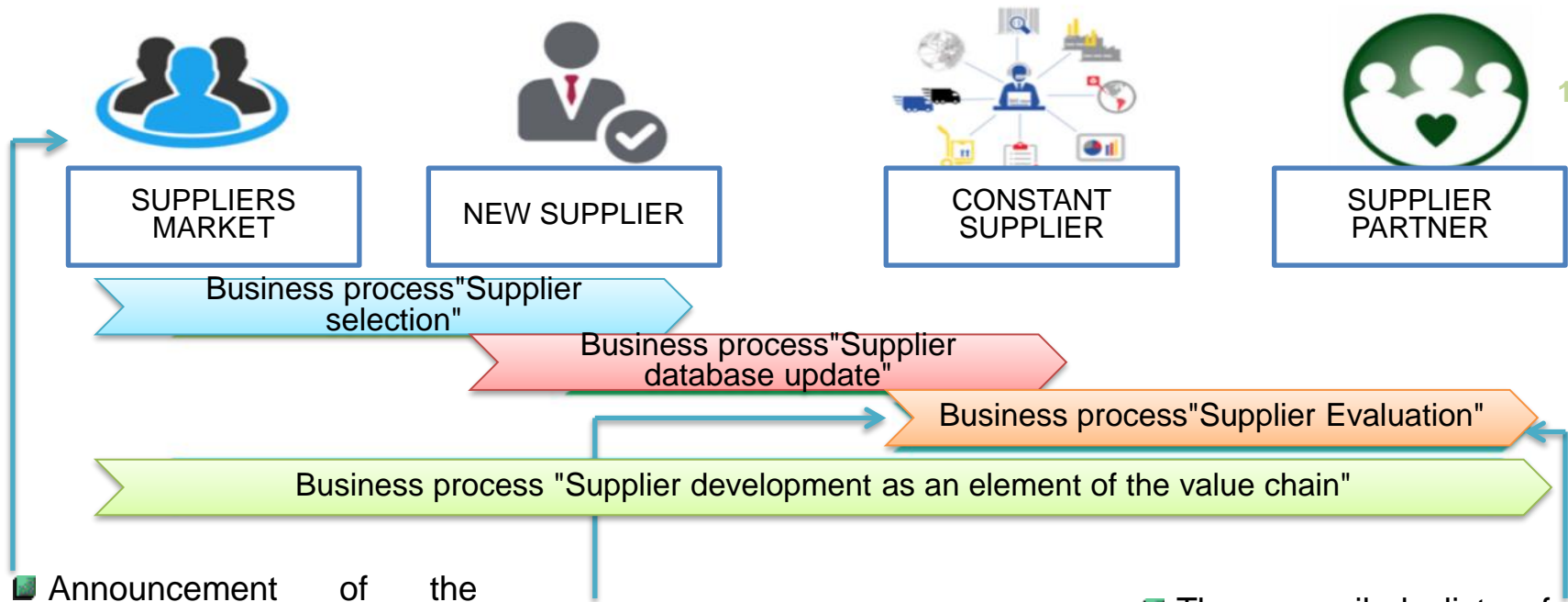
Aimed at establishing long-term mutually beneficial relationships

It is applied ¹:

- 1 for strategic materials and product groups that directly affect the quality of finished products
- 2 in situations where the objects of supply are complex products with a low degree of standardization
- 3 when resources come from volatile emerging markets.

When building a supplier base, companies should focus on both types of relationships

BUSINESS SELECTION PROCESSES AND SUPPLIER MANAGEMENT ¹



- Announcement of the competition
- Study of advertising materials: company catalogs, advertisements in the media, etc.
- Visiting exhibitions and fairs
- Correspondence and personal contacts with potential suppliers ²

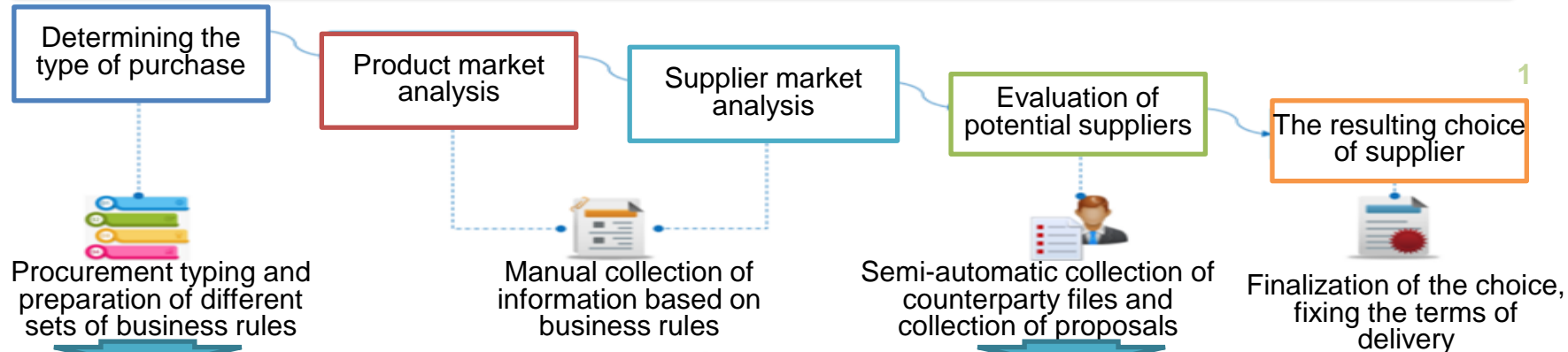
■ The choice of supplier is influenced by the results of work under already concluded contracts. To do this, a special rating scale is being developed to calculate the supplier's rating * ²

■ The compiled list of potential suppliers is analyzed on the basis of special criteria. Most often limited to the price and quality of products, reliability of supply ²

TOPIC 2 7

1. Chepakin A. Supply logistics. Part 1. business processes of supplier management. URL: <https://medium.com/@andrey.chepakin>
 2. Categories of suppliers. Selection of suppliers. Types of purchase orders. Um.co.ua: website. URL <http://um.co.ua/7/7-10/7-106992.htm>

1 SELECTION OF SUPPLIER ¹



Suppliers of consumer goods.

Heavy-duty, easy-to-replace products with low price and low significance, high competition, managed market ¹.

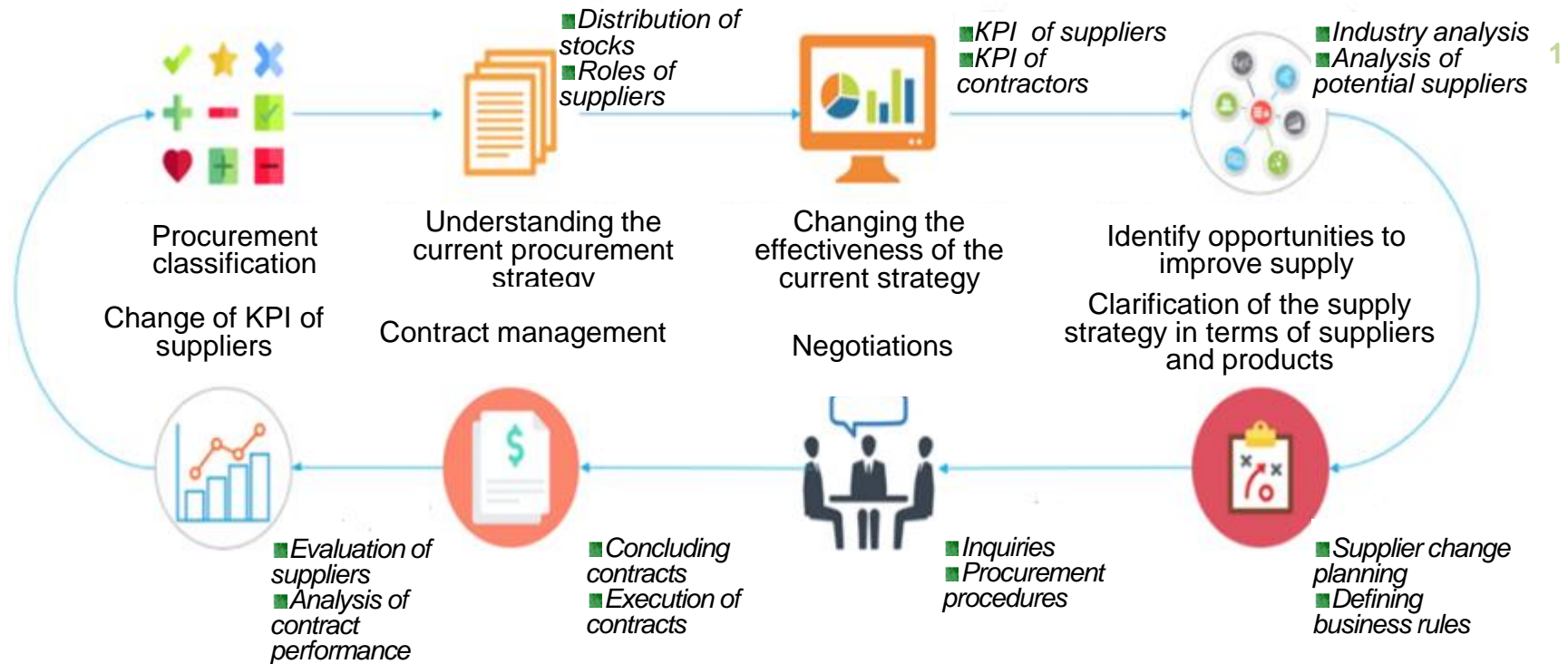
Key suppliers.

High importance of reliability and efficiency of supply chains, product replacement can temporarily disrupt the work cycle, competition, regular interaction ¹.

Strategic suppliers. Strict selection criteria, change of supplier will lead to serious consequences for business, the number of suppliers is minimal, partnership, the task of cooperation is long-term profitable development of both parties ¹.

- Reliability of delivery;
- Quality assurance;
- Production capacity;
- Prices;
- Location;
- Technical potential;
- Financial position;
- Possibility of compromises;
- Availability of information system for communication and order processing;
- After-sales service;
- Reputation and role in the industry;
- Maturity of management and organization;
- Attitude towards the buyer; Image;
- Registration of goods (packaging);
- Business experience and history of relationships;
- Mutual benefits and interests ¹.

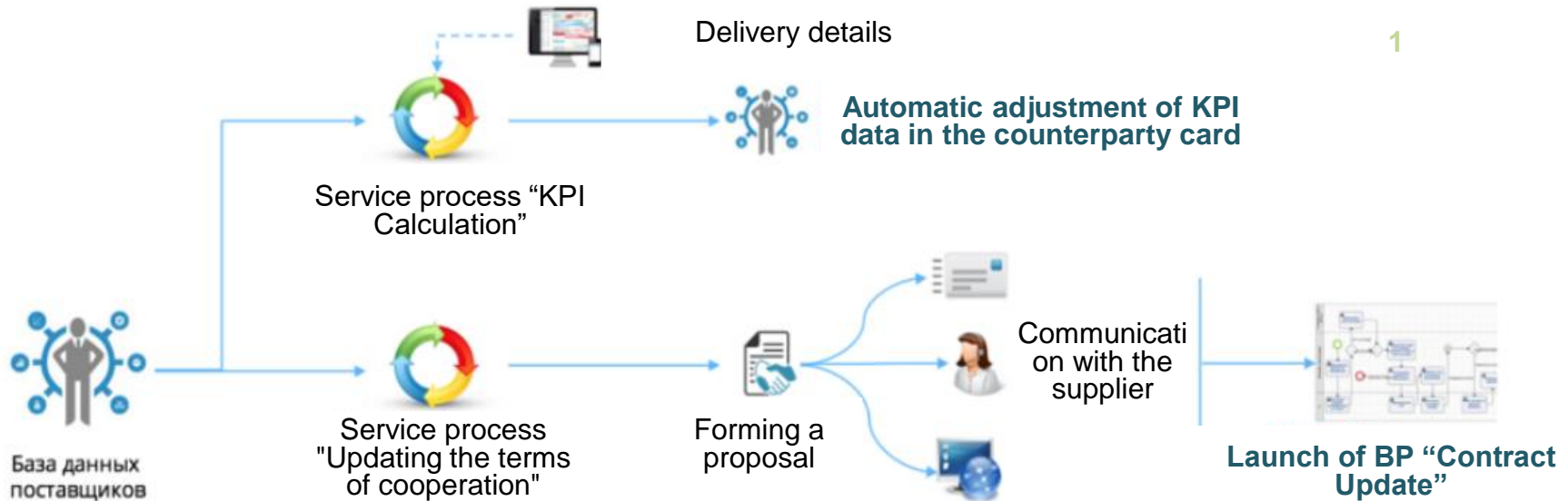
2 UPDATING THE SUPPLIERS 'BASE' ¹



Principles of the business process "Updating the database of suppliers" ¹

- transparency of all costs of all types of procurement;
- identification and qualification of suppliers to determine the best procurement strategies;
- constant monitoring of suppliers' work and procurement risks;
- streamlining purchased materials and suppliers to minimize overheads.

3 EVALUATION OF SUPPLIERS ¹

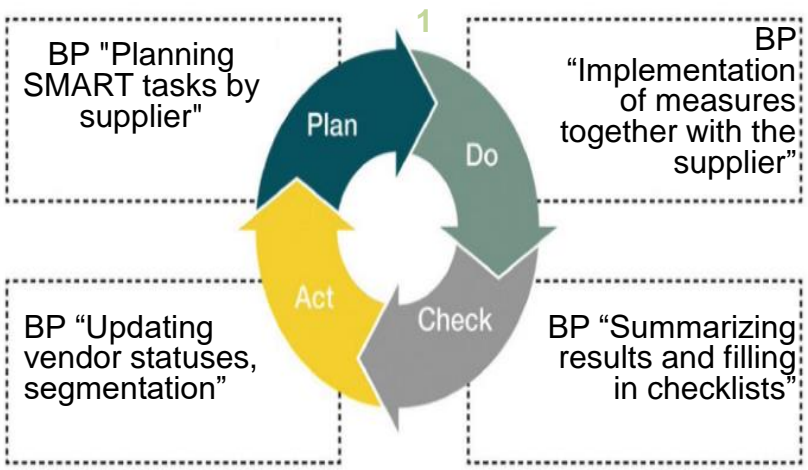


Indicators of evaluation of the supplier's activity ¹

Indicator	Explanation
Financial results of interaction	Total purchase costs, compliance with the price agreement, flexibility of pricing policy, discounts, trade credit, deferrals
Product quality	Compliance with quality standards, the share of defective goods in the total batch, the percentage of complaints / returns on quality
Reliability of logistics in product delivery	Percentage of perfectly completed orders, stability of delivery parameters, adherence to the delivery schedule (timeliness), ensuring the safety of cargo on the road, the accuracy of registration of goods and transport documentation, etc.
Order execution time	Total execution time of the order, time of completion of the ordered party, time of delivery / transportation, time of shipment, etc.

1. Chepakin A. Supply logistics. Part 1. business processes of supplier management. URL: <https://medium.com/@andrey.chepakin>

4 DEVELOPMENT OF SUPPLIERS ¹



Balanced system of indicators ¹

Aim	Best practice
Focus on total value	The overall utility of ownership is analyzed to adjust supplier estimates
Balanced metrics	A package of balanced metrics that determine value creation is used
Monitoring the performance of suppliers	Metrics for evaluating key suppliers are being developed

Coordination of strategic decisions ¹

Aim	Best practice
Strategic partnership with the supplier	The supplier is involved in the strategic planning of the customer. Suppliers are seen as a continuation of domestic business. Mutual respect promotes the free exchange of ideas, which guarantees success.
Participation in product development	Suppliers are effectively involved in the development of components, providing the necessary engineering resources to reduce the duration of production cycles and increase the degree of product innovation.
Consistency of company strategies	The metrics in the delivery actions are in line with the strategies of both companies. Competencies gained through partnerships with suppliers help create new strategies and provide businesses with additional opportunities for growth.
Value added by suppliers	Non-key activities are outsourced to trusted suppliers.

TOPIC 7

1. Chepakin A. Supply logistics. Part 1. business processes of supplier management. URL: <https://medium.com/@andrey.chepakin>

Security from unscrupulous suppliers ¹

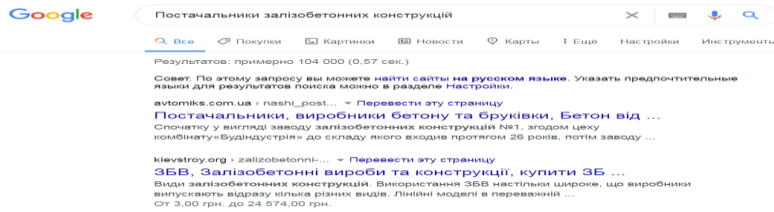
Action	Explanation
Clear definition in the tender documentation of the specification for goods or terms of reference for works / services and inclusion of these specifications in the annex to the contract.	Failure to anticipate a clear technical task leads to obtaining not what was planned, but what the contractor sees.
Attaching to the contract a schedule of works / services or supply of goods	Allows you to control the timeliness of execution
Ensuring the implementation of the contract	Can be provided as a bank / insurance / financial guarantee or the supplier can deposit funds to the customer's account no later than the date of the contract
Provision by the contract of quality control of goods or services	A thorough description of exactly how and what parameters are planned to be controlled.
Description in the contract of the reason for its termination and application of penalties.	If the supplier violates the terms of the contract, it can be terminated and not continue the relationship
Provide for the order of changes in the contract.	Avoids situations where the supplier requires a change of contract without good reason.

1. How to ensure the performance of the contract for the customer. DU Professional Procurement. URL: <https://cpb.org.ua/yak-zamovniku-zabezpechiti-vikonannya-dogovoru>

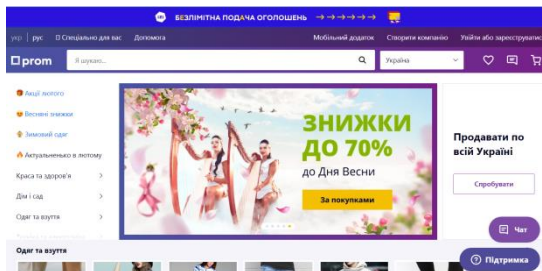
SEARCH FOR SUPPLIERS

Internet

Search engines. Don't limit yourself to the first page of search results. Often the tenth page presents the most valuable "copies" that do not require advertising.¹



Specialized online catalogs or database of suppliers (aggregators).¹



Thematic events

Exhibitions, conferences, fairs, forums¹

Printed publications

Topical magazines and newspapers can contain information, often of an advertising nature, about suppliers¹

Competitors

Suppliers can be easily identified by the marks on the photo. Alternatively, try sending a request for quality certificates or warranty documentation. You can also visit a competitor's outlet under the guise of a buyer and ask the manager about everything in person¹

Commodity

The product label contains a lot of useful information about suppliers¹



1. How to find a supplier of goods. Fractus: website. URL: <https://fractus.com.ua/uk/blog/korynsni>

CRITERIA FOR SELECTING SUPPLIERS

Supplier capabilities

Knowledge of the needs of the founder.
Determination of production volumes per day / week / month / year.
Belief that the supplier can meet the needs.
Reliability of the supplier, confirmed by other companies¹

Product quality

Influence of quality on profit., The need to obtain samples of the supplier's goods.¹

Terms of payment

Before signing the contract you need to clearly define the terms of payment. Some require THEM until the goods are shipped. Others give deferred payment.¹

Guarantees

Guarantees are clarified before concluding a sales contract with the supplier.
The issue of returning the goods, the time for processing claims¹

Prices

The purchase price should be attractive. Many suppliers offer discounts on the volume of purchases of goods¹

Supplier location

The location of the supplier affects the speed and cost of delivery¹

1. How to choose a supplier. Small business: website. URL: <https://laudator.ru/businessguides/kak-vybrat-postavshhika.html>

SUPPLIER SELECTION PROCEDURE ¹

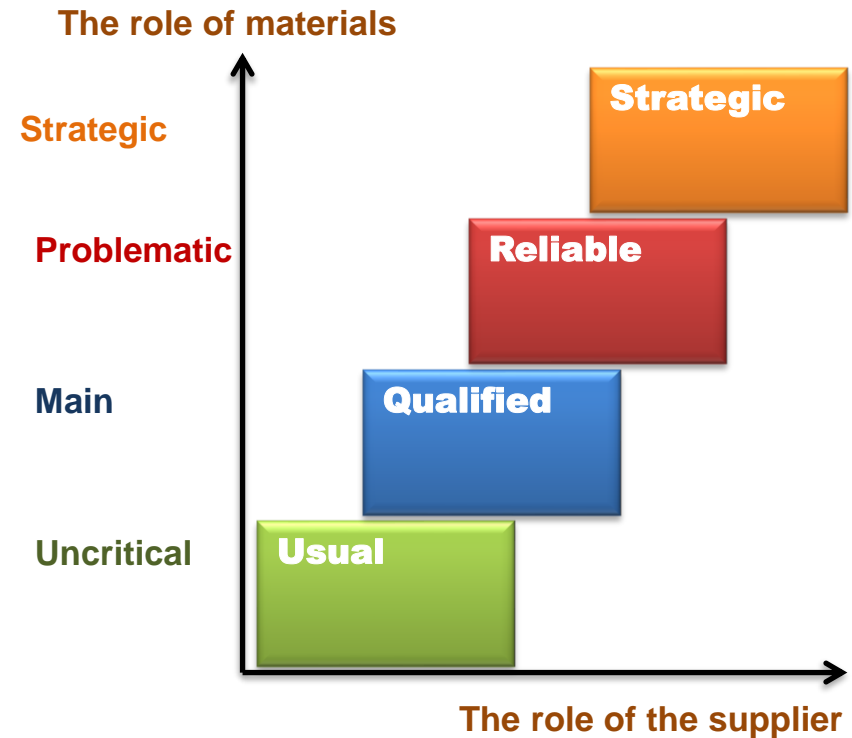
1 Analysis of the nomenclature of purchased products

Analysis of the nomenclature of purchased materials ¹

Product category	Explanation
Non-critical for production / sales	Materials that can be easily replaced by analogues and the absence of which will not lead to production stops or loss of customers
Basic materials for production / sales	Consumables for equipment. Any delay in the supply of materials or poor quality equipment can result in a stoppage of production
Problem materials	Materials from the category of basic, which are difficult to purchase, transport, store and process
Strategic materials	The most important are high-cost materials, which will be the main ones now and in the future, and from which the main product under development will be made.

2 Defining the role of the supplier in the production process

Dependence of the role of the supplier from the role of materials ¹



1. Urazova N. Selection and evaluation of a supplier. ElectroInfo magazine. 2009. No. 1. URL: https://www.cfin.ru/management/manufact/supplier_choice_and_evaluation.shtml

SUPPLIER SELECTION PROCEDURE ¹

3 Determining the characteristics of the supplier by different categories ¹



Regular supplier

Not Critical Materials

- **Minimum delivery arm** (from the moment of the order to receipt of the goods)
- **Mandatory delivery** by the supplier according to the agreed schedule
- **Convenient equipment**
 - For multiple deliveries per month, **registration with a single invoice** and a package of documents
- **Standard quality and low prices**
- **Appropriate cooperation** under contractual obligations¹



Qualified supplier

Main Materials

- **Reliable delivery:** strict observance of the stipulated terms, accuracy of a complete set, reservation of materials in a warehouse of the supplier, delivery by forces of the supplier
- **Stable product quality,** in addition, the supplier assumes the functions of quality control of products and guarantees quality control
- **Mandatory deferral of payment.** The ideal term was considered to be the availability of investment resources in 7 days (ie from the moment when the raw material in the form of finished products is shipped to the client and the money received for him, until the payment of accounts payable remains 7 days)¹

SUPPLIER SELECTION PROCEDURE ¹

3 Determining the characteristics of the supplier by different categories ¹



Reliable supplier

Problem materials

- **Willingness to carry out joint programs to optimize supplies:** change shipment rates, packaging quality, frequency of deliveries, take care of improving product safety, safety of transportation, storage, handling
- **Joint focus on value creation,** including the ability and willingness of the supplier to take part of the processing process for its production, as well as to train skilled workers with raw materials, provide technological advice and support
- **Proximity of the supplier.** For remote suppliers - the presence of distribution channels or regional warehouses close to production; or providing a loan term that will be repaid at least at the time of processing the purchased raw materials
- **Long-term contracts** ¹



Strategic supplier

Strategic materials

- **Readiness for system integration** and coordinated business policy based on existing technology at the enterprise
- **Optimal organization of own production** due to the presence of good interaction with its subcontractors
- **Availability of sufficient funds** for research and development, focus on innovation
- **Willingness to take market risks** ¹

4 Supplier portfolio analysis and evaluation

METHODS OF EVALUATION OF SUPPLIERS ¹

① Evaluation of individual product samples

The supplier organization provides samples of its products, which are subject to careful control, analysis, and on their basis, appropriate conclusions are made about all products. ¹

Method of assessing the supplier by identifying and classifying defects

Provides for the use of penalty points, which are assigned depending on the importance of the defect.

For each party the account is kept, registers numbers of details, the received and checked quantity of details, total number of penalty points. ¹

- 1 The total number of actually delivered products is determined
- 2 The penalty points for the whole game are summed up
- 3 The number of penalty points is divided by the number of actually tested products and multiplied by 100. ¹

Score	Characteristic
100 and less	Perfectly
101-300	Good
301-600	You need to pay attention to the supplier
More than 600	Badly, you need to pay attention to the supplier immediately or remove him from the list of your suppliers

② Evaluation based on the experience of other consumers

Provides information on the reliability of the supplier from its partners. ¹

③ QMS audit

Allows the consumer to obtain sufficiently detailed information about the availability and levels of maturity of such a system, to draw conclusions about the ability of the organization to supply quality products ¹

1 Supplier resource analysis ¹

Resources	Characteristic
Production and technological base	Knowledge and experience of technology development; provision of engineering structures; capabilities of technological equipment; equipment
Potential of top managers	Leadership; professionalism; ability to strategically forecast development; quality planning skills; resource management skills; ability to strengthen corporate ties
Financial stability	Solvency, financial stability; partnerships with banks; fund activity; investment dynamics
Staff opportunities	Personnel structure; staff characteristics (education, training, retraining, retraining, rotation)

2 Analysis of suppliers ¹

Regarding the improvement and development of the presented areas

1. Salimova T.A. How to choose a supplier: six basic evaluation methods. Elitarium. Center for additional education. URL: <http://www.elitarium.ru/ocenka-postavshchik-metod-ocenka-postavka-cena-kachestvo-tehnologiya-pokazatel-vozmozhnost-obsluzhivanie-zavisimost-audit-informaciya>

4 Method of assessing the capabilities of the supplier

Proposed by the English specialist in the field of quality management A. Robertson, takes into account such components of supply as quality, price, timeliness and is provided by the service provider¹

Scores	Criteria
44	Quality
30	Price
16	Timeliness of delivery
10	Service
100	Total

$$\text{Quality level} = 1 \times 44 \times \frac{\text{The total number of products of acceptable quality}}{\text{The total number of tested products}}$$

$$\text{Price level indicator} = 30 \times \frac{\text{The price of the cheapest offer}}{\text{Supplier price}}$$

The assessment of the supplier's capabilities is carried out by summing up the indicators of quality, price, timeliness of delivery and service.

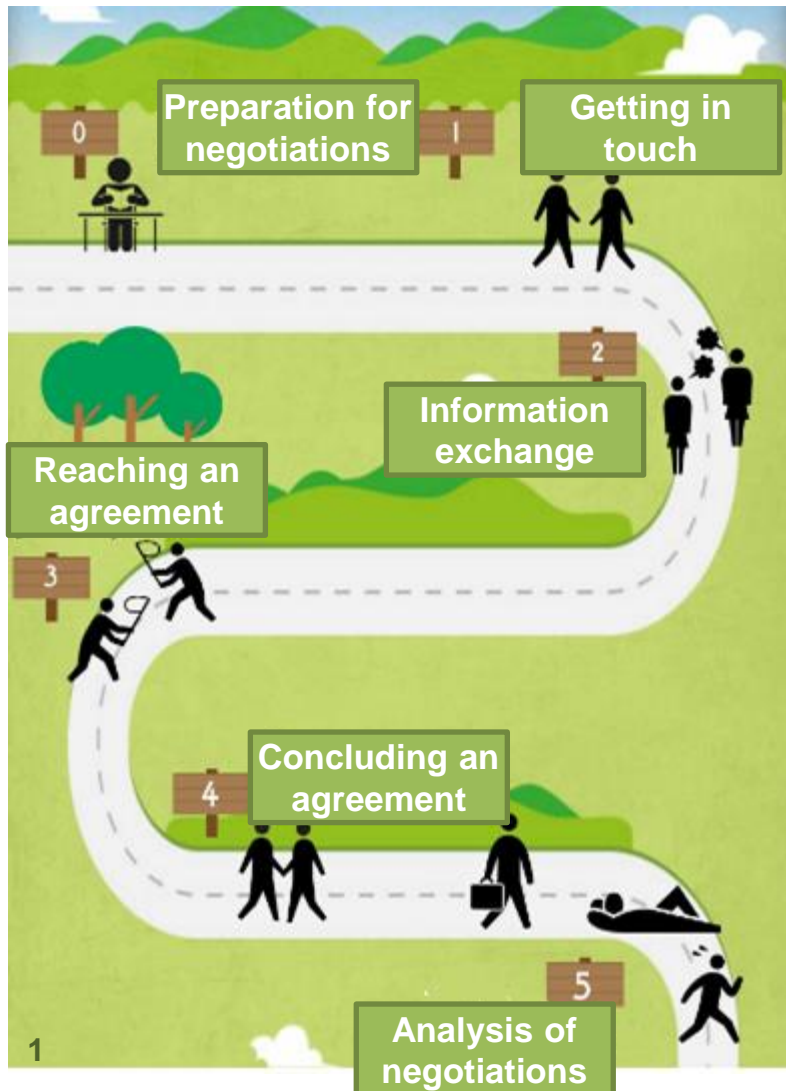
The closer the value is to 100 points, the more reliable the supplier.¹

Evaluation of delivery timeliness (A. Robertson method)¹

Deviation from the agreed deadline	Delay	Anticipation
0-7	16	16
8-14	14	15
15-21	12	14
22-25	10	13
36-42	8	12
43-49	6	11
50-56	4	10
57-63	2	9
More than 63		8

1. Salimova T.A. How to choose a supplier: six basic evaluation methods. Elitarium. Center for additional education. URL: <http://www.elitarium.ru/ocenka-postavshchik-metod-ocenka-postavka-cena-kachestvo-tehnologiya-pokazatel-vozmozhnost-obsluzhivanie-zavisimost-audit-informaciya>

NEGOTIATIONS WITH THE SUPPLIER ¹



0 Preparation for negotiations



It is necessary to determine the purpose of the negotiations.

Negotiations are tenders, so it is necessary to indicate the range of goals - the minimum and maximum results¹

Goal setting involves ¹:

- You need to work out the volume, the cost of the unit and the whole batch, payment terms, number of deliveries, delivery, packing rate, warranty and service, the term of the contract and other important parameters for you.
- The layout of all components will lead to the total cost of purchase.
- It is necessary to clearly define the terms of the supplier, the agreement will not be canceled.
- It is necessary to define intermediate goals - you can get information about the market of suppliers, competitors, possible developments in the future

Kraljic Matrix¹

Kraljic's procurement model is used to define different procurement strategies for goods (or services). With it, companies can develop different strategies for interacting with all suppliers¹

Two parameters of the Kraljic model: ¹

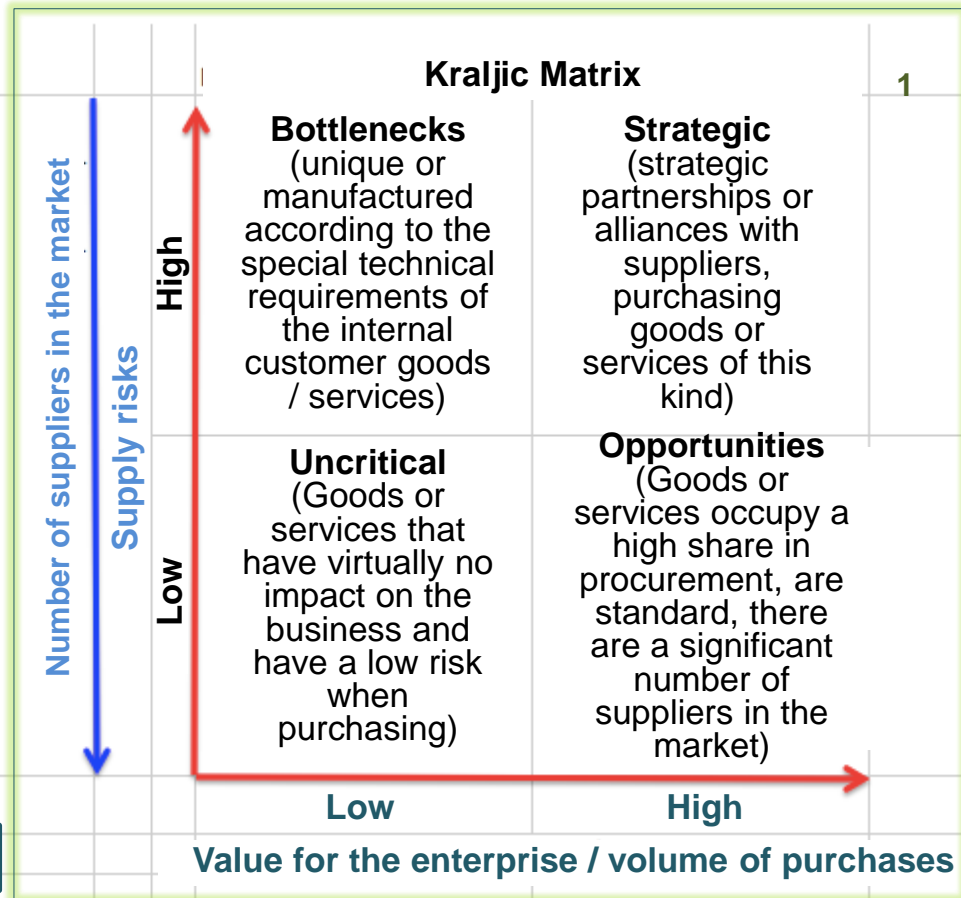
■ **Profit Impact:** the strategic importance of procurement in terms of value added of the product line, the percentage of raw materials in total costs and their impact on profitability.

■ **Supply Risk:** the complexity of the supply market, consisting of shortages of supplies, rates of substitution of technologies and / or materials, barriers to access, costs of logistics, monopoly or oligopolistic structure, depending on suppliers.

Characteristics of quadrants: ¹

Bottlenecks. Goods or services are of medium or low value to the company, but the costs of abandoning them will be disproportionately high.

Strategic. Particular attention is paid to innovation, the dynamics of renewal of the product line of the supplier, the possibility of joint sustainable growth and joint distribution of income

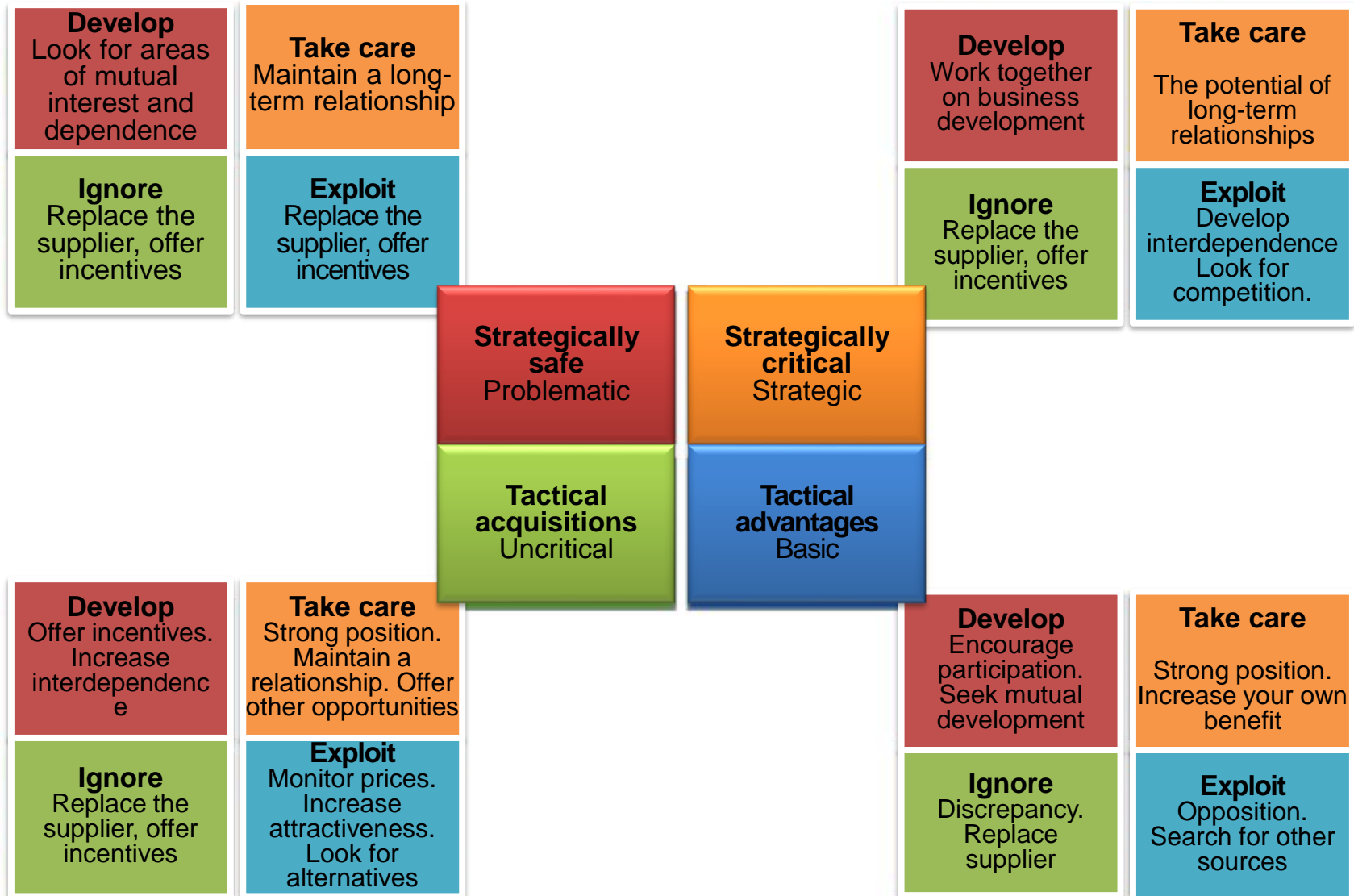


Uncritical. Characteristic optimization of loading of buyers at administration

Opportunities. A significant number of suppliers are willing to supply goods / services in this category, which reduces the risks¹

1. Effective methods for choosing a purchasing strategy. Kralich Matrix. Sun Academy: website. URL: <https://www.bcg-academy.com/jeffektivnye-metody-vybora-zakupochnoj-strategii-matrice-kralicha/>

Objectives and negotiation strategies depending on the category of procurement material under the Kraljic Matrix and the importance of procurement under the Supplier Preference Matrix¹



1. Negotiations with the supplier. Face to face. Purchasing School. Procurement Consultant Natalia Urazova website URL: <https://urazova.com/stati/peregovory-s-postavshchikom/>

EXAMPLE

Maximum goal:¹

- enter into a contract for 6 deliveries per year on the basis of deferred payment for 30 days,
- the average volume of delivery of 4 items in the amount of N USD,
- discounts more than 5%
- **additionally:** warranty service during the year, consultation with a technologist, reference materials, advertising support, training of staff to work with this raw material.

Minimum limit: to conclude a test operation on X USD for 2 positions on the terms of payment upon receipt of the agreement on further deliveries, if this delivery takes place under the agreed conditions, a discount of 1.5%.¹

Additional goal: to obtain information about the supplier and investment in new product development - plans, technologies, personal and corporate nuances.¹



During negotiations, never announce the maximum goal as a starting offer, otherwise the trading floor will start from this limit! Prepare a stated goal, which should be slightly above the maximum.¹

SUPPLY AGREEMENT

This Supply Agreement (the "Agreement") is effective [DATE].

BETWEEN: [YOUR COMPANY NAME] (the "Supplier"), a company organized and existing under the laws of the [State/Province] of [STATE/PROVINCE], with its head office located at:
[YOUR COMPLETE ADDRESS]

AND: [SECOND PARTY NAME] (the "Purchaser"), a company organized and existing under the laws of the [State/Province] of [STATE/PROVINCE], with its head office located at:
[COMPLETE ADDRESS]

WITNESSETH:

WHEREAS [YOUR COMPANY NAME] currently supplies and distributes [SPECIFY] (the "Product");

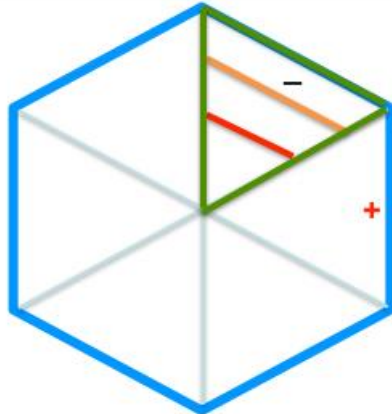
WHEREAS [YOUR COMPANY NAME], for the price and subject to the terms and conditions contained herein, is prepared to sell and deliver to the Purchaser, on an ongoing basis and as its exclusive supplier, and the Purchaser is prepared to buy on this basis from [YOUR COMPANY NAME], all of the Purchaser's Product requirements;

NOW, THEREFORE, IN CONSIDERATION OF THE MUTUAL COVENANTS AND AGREEMENTS HERETO CONTAINED AND FOR OTHER GOOD AND VALUABLE CONSIDERATION, DULY RECEIVED, THE PARTIES HERETO AGREE AS FOLLOWS:

1. DEFINITIONS AND INTERPRETATION

- 1.1 Whenever used in this Agreement, the schedules thereto, or any ancillary document thereto, the following terms, unless the subject matter or context otherwise requires, shall have the following meanings:
- 1.1.1 "Agreement" means or refers to this Agreement as amended from time to time and any indenture, agreement or instrument supplemental or ancillary hereto or in implementation hereof;
 - 1.1.2 "Business Day" means any day excluding Saturday, Sunday and any other day which in [STATE/PROVINCE], [COUNTRY] is a legal holiday or a day on which financial institutions are authorized by law or by local proclamation to close;
 - 1.1.3 "Person" means any individual, company, corporation, partnership, firm, trust, sole proprietorship, government or entity howsoever designated or constituted; and
 - 1.1.4 "Product" means or refers to [SPECIFY] sold pursuant to this Agreement.

Polygon of interests



It allows not only to work out the desired deal well, but also to keep a picture of the goals in your head.

Each facet is important for the condition: price, volume, assortment, delay of payment, warranty service, frequency of deliveries, delivery, etc.¹

▶ Each condition has a desired level, an acceptable level, and a minimum limit below which it cannot go (green, yellow, and red lines, respectively).

▶ All faces are digitized and reduced to a single measurement scale - for example, hryvnias.

▶ The result will be the total value of the deal, which includes the price of all terms, not just the price of the product. This will be the perimeter that must be kept during the bidding process.¹

EXAMPLE

The desired price is UAH 10 per unit:

The acceptable (yellow) level for you will be UAH 10.5, but having agreed to a minus in one facet, you definitely need to achieve a plus (maximum value) in another - let's say, in deferred payment.¹

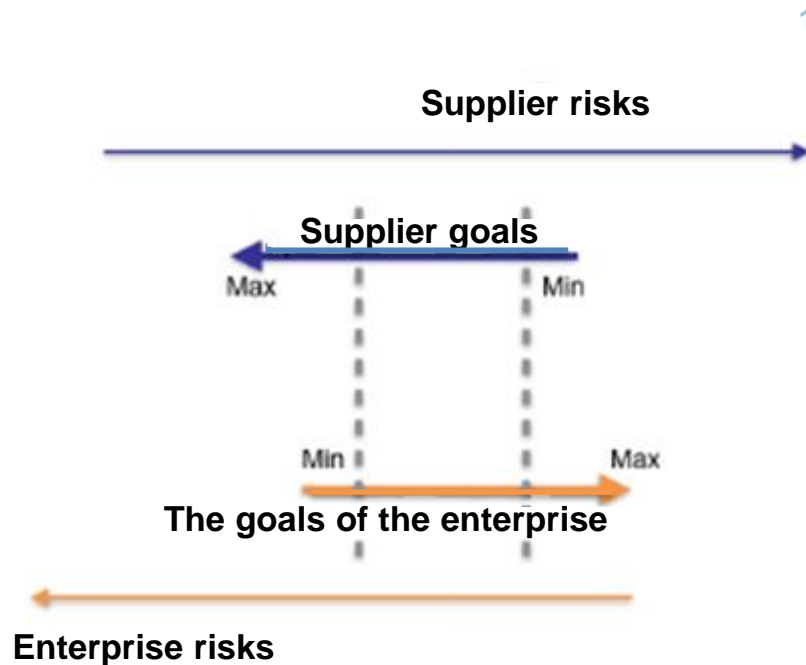
We will assume that a step equal to UAH 0.5 will be 15 days of payment deferral.

Will the supplier resolutely refuse to increase the payment delay? You have other sides - conditions in which the step will be equal to 0.5 hryvnias.¹

The task is to keep the general perimeter.

We remember that we do not start the bidding with the maximum value for you, but with the initially declared value, so that there is a field for negotiations about the price and conditions. The initial declared level will go beyond the perimeter of the polygon!¹

Zone of possible agreement ¹



Establishment of a possible agreement zone ¹

1 Determining the maximum and minimum value of the goal and risk assessment

*The lower the goal, the higher the risks for the company. A similar assessment should be made for the possible objectives of the supplier. To do this, you must carefully study the market of suppliers and find out everything possible about his company.*¹

2 Intersection of interests and determination of the area of a possible agreement

*If the CMS is negative, ie there is no intersection of interests, the agreement is impossible and we must look for an alternative or expand the boundaries, increase the threshold.*¹

*At the stage of information exchange, ie at the earliest stage of negotiations, it is necessary to carefully analyze this area, finding out the interests and values of the supplier to check the possibility of the agreement and determine the boundaries of the bargain.*¹

Forecast of the boundaries of the agreements, which will be a bargaining zone in negotiations with the supplier; your range of negotiations within which agreements can be reached.¹

Outside this zone, no negotiations will agree.

1. Negotiations with the supplier. Face to face. Purchasing School. Procurement Consultant Natalia Urazova website URL: <https://urazova.com/stati/peregovory-s-postavshchikom/>

1 Contact with the supplier ¹



Greeting. A pause that allows you to wish health in return.



Submit your name. Pause for the corresponding message.



Handshake. I'm sure. Hands in parallel.



Business card exchange. Put the business card in front of you on the table. In the absence of a business card of the interlocutor write down his name.



Submission of your company and position.



Coordination of the purpose of the visit.

Determining the duration of the meeting.



Coordination of the format - who, how and in what sequence conducts these negotiations.

Introduction of personal aspects in communication, compliment the inner and professional qualities of the partner, emphasizing the usefulness and social significance of the partner, his expert position, etc. ¹

2 Information exchange ¹



Clarification of the original offer of the supplier - what is specifically interested in selling the supplier now (product, quantity, terms, prices, conditions)



Determining the needs and expectations of the supplier - why should he have such an agreement that it will give him in a broad sense. 80% of the time the seller says (because it's his job) and only 20% - a representative of the company.



Finding out which conditions are most important and why, which conditions are rigidly marked, which can be discussed. Questions from the supplier should be answered in part, and then immediately ask your question

"Yes, in certain situations our company works with payment on the spot. What attractive conditions are you ready to offer to your clients in exchange for such a condition?" ¹



Record the information received and agree with its interpretation

③ Reaching agreements ¹



Formulation of the specified, real offer of the supplier. Awaiting confirmation from partner.



Make your offer. Pause. Wait for a reaction. Determine the partner's reaction to the proposal.



Test your interpretation of the reaction.

«It seemed to me that you doubted. It is so?».



If in doubt or objection, find out what the objection / doubt is related to.



Offer arguments related to the needs and motives of the partner, work out arguments for agreement

Agree on the adjusted proposal by items.

At this stage, you need to learn to pause, agree and keep your emotions under control.

Supplier's reply *«You have very high requests. Our clients buy such volumes from us on prepayment terms and with discounts of no more than 5%»*¹

The negotiator's remark: *«Indeed, our request is precisely formulated and clearly related to the big plans for future purchases from you. What sales volumes do you expect in the case of an annual contract?»*.¹

④ Concluding an agreement and ending contact ¹



Summary of the concluded agreement as a whole after coordination of each clause of the contract



Determining how the contract will be concluded and the order will be executed.



Detailed, to the smallest nuances of clarification, how will work on the order: who, when, in what form, to whom, how, for how long and in what timeframe.

⑤ Analysis of negotiations ¹



Making an appointment in the work schedule, adjusting the calendar of meetings and contacts.



Transmission of necessary information to related services



Entering contact information and arrangements in the database.



Writing down successful arguments, recording new objections, thinking of other options for answering the supplier's questions.¹

AGREEMENTS WITH SUPPLIERS ¹

DEFINITION

Buying and selling is a universal legal form that regulates the relationship of exchange and allows for its various types ¹

Key points of the contract of sale ¹ :

- ① **Terms of delivery and payment..**
 - **Cost, prescribe the order of calculation:**
 - Partial prepayment
 - Full prepayment
 - Payment upon receipt
 - **Form of payment**
 - Cash
 - Cashless payments
 - **The procedure for crediting funds to the supplier's account**

- ② **Terms of delivery and acceptance of goods.**
 - The order of acceptance of products
 - The issue of ownership of the goods ¹

- ③ **Responsibilities of the parties.**
 - Rules for registration of claims in the case of delivery of goods that meet the requirements of regulatory and technical documentation, or in the case of delivery of goods in quantities different from those specified in the contract. ¹

DEFINITION

Supply contract - allows you to regulate the relationship between two companies, one of which - the Supplier (Seller), and the other - the Buyer¹

Conditions of the contract: ¹

- ① **Scope of the contract :**
 - The supplier ships the goods from the warehouse and delivers them to the customer, the number of which, the range and prices are reflected in the accompanying documents (invoices or sales receipts)
 - Terms of payment are prescribed in the contract
- ② **Responsibilities of the parties: ¹**
 - The customer must pay for the products received within the period from the date of receipt at the warehouse (date in the invoice).
 - The basis for receiving products by the customer - a one-time power of attorney. It confirms the right to receive the goods after signing the invoice by the supplier.
 - When the goods have already been transferred, the buyer is responsible for them
- ③ **Special conditions and procedure for payment.**
 - If the order has already been received by the buyer, but not yet paid for the goods are considered the property of the supplier, and the responsibility for it lies with the buyer. ¹

ADMINISTRATION OF COMMERCIAL ACTIVITY



8.1. Commercial activity in business administration

8.2. Functioning of the commercial department

8.3. Assortment and sales policy of the enterprise

THE CONTENT OF COMMERCIAL ACTIVITY

DEFINITION

Commercial activity - a way to implement commercial processes as a consistent implementation of operations that provide organizational, economic, social, legal aspects of commodity-money exchange¹

Commercial activity consists of commercial processes and operations that are carried out in the process of interaction of market entities to ensure the effective exchange of goods and services¹

DEFINITION

Commercial process – the consistent implementation of operations that provide organizational, economic, social, legal aspects of commodity-money exchange¹

DEFINITION

Commercial operation – a set of techniques and methods aimed at ensuring the functioning of various stages of the system of commodity-money exchange¹

The structure of commercial activity

Production-wholesale trade	Wholesale - Retail	Retail - the sphere of consumption
Determining the needs of goods and services	Assortment development policy and range	Formation of the range in retail trade
Search and selection competitive suppliers	Operational maneuvering stocks and resources	Using effective wholesale methods
Organization of communication system and formation commodity resources	Choice of channels and forms wholesale	Providing a range of trade services to customers
Definition of effective forms and organization of wholesale procurement of goods	Organization of retail supply networks	Combining trade and trade activities
Optimization promotion	Organization of a system of services and their provision to wholesalers	
Accounting and control receipt of goods		
Execution of commercial and intermediary operations		
Carrying out of advertising actions		
Здійснення допоміжних операцій		

COMMERCIAL AND NON-PROFIT ORGANIZATIONS

DEFINITION

Commercial organization - the activity is to make a profit from regular operations in order to maximize the cash of the owners ¹

Profits go to business development, stored in the form of reserves, distributed among the owners as dividends¹

DEFINITION

Non-profit organization - a legal organization whose main purpose is to maximize the public good, not profit¹

Profits are distributed among the participants and used to promote the purpose of the organization¹

The difference between a commercial and a non-profit organization ¹

Basis for comparison	Commercial organization	Non-profit organization
The purpose of the work	Making a profit.	Social motives
Organization form	Sole proprietorship, partnership or corporate property.	Consumer cooperative, public and religious organizations, foundations, institutions
Management	One or more owners.	Trustees, committee or governing body
Source of income	Sale of goods and provision of services.	Donations, subscriptions, membership fees and so on.
Fixed assets	Capital contributed by owners.	Funds from donations, subscriptions, state grants and so on
Financial Statements	Profit and loss statement, balance sheet and cash flow statement.	Balance sheet, statement of financial performance and targeted use of funds

1. The difference between a commercial organization and a non-commercial one: legal forms, characteristics, main goals of activity. UKR.MENTORBIZLIST: website. URL: <https://ukr.mentorbizlist.com/3938612-difference-of-a-commercial-organization-from-a-non-commercial-legal-forms-characteristics-main-goals-of-activity#menu-1>

STRUCTURE OF THE COMMERCIAL POLICY DOCUMENT

1. Terms ¹

- 1.1. Activity
- 1.2. Business standards
 - 1.2.1. Quality
 - 1.2.2. Legality
 - 1.2.3. Social responsibility
 - 1.2.4. Innovation
 - 1.2.5. Transparency
 - 1.2.6. Prohibition of discrimination
- 1.3. Objectives and application of the Policy

2. Selection of buyers ¹

- 2.1. General conditions
 - 2.1.1. General
 - 2.1.2. Buyer selection procedure
- 2.2. Regulation of the Buyer Selection Process
- 2.3. Body of the Company, authorized to conduct a comprehensive compliance check of Buyers
- 2.4. Audit
- 2.5. Grounds for the Inspection
- 2.6. Buyer selection criteria
 - 2.6.1. Legal acceptability
 - 2.6.2. Commercial acceptability
 - 2.6.3. Financial eligibility
 - 2.6.4. Reputational acceptability
 - 2.6.5. Anti-corruption acceptability
- 2.7. Verification Procedure
 - 2.7.1. Request procedure
 - 2.7.4. Conducting an Inspection
 - 2.7.5. Grounds for refusal
 - 2.7.6. Appeal

3. Terms of delivery ¹

- 3.1. Types of supplies. Special rules for the state supply channel
 - 3.1.1. The company sells
 - 3.1.2. State supply channel
 - 3.1.3. Commercial supply channel
 - 3.1.4. Features of deliveries
- 3.2. Terms of payment
- 3.3. Discounts
- 3.4. Providing discounts
- 3.5. Withdrawal and re-launch of products
- 3.6. Product return
- 3.7. Marketing services
- 3.8. Other provisions



Document №	Version №	Date of entry into force
POL-SC-UA-01_SOPP000372/4	8.0	19.03.2020
LLC "Teva Ukraine" Commercial Policy		

DOCUMENTATION FOR COMMERCIAL ACTIVITY

Commercial offer

A document that clearly states the conditions of potential cooperation, its benefits and expected results ¹.

The "hot" commercial offer assumes that the potential customer is already familiar with you, your products and services, so you make a personalized offer for him and offer specific formats of cooperation.


The purpose of such a CO is to sell ¹.

The "cold" commercial offer sells only interest in goods and services: it is not yet a conversation in essence, but an attempt to interest. Such commercial offers are usually sent en masse to the contact base ¹.

Tasks of the commercial offer ²:

- to attract the attention of a potential buyer;
- to interest buyer;
- to encourage the purchase of goods;
- encourage the implementation of the agreement as soon as possible with the help of special offers, discounts, bonuses, etc.

An example of a "Hot" commercial offer



ROMASIA
 Trading Company
 ROMANIA
 PROIECT Office Building,
 Arad - Bd. Decebal nr. 2, off. 107
 Tel/fax: (0040) 357-809-849
www.romasia.ro

ArcelorMittal Tallinn OÜ
 Koorma 5
 74115 Maardu
 Estonia
 E-mail: AMT.info@arcelormittal.com

Commercial offer request

ROMASIA On-Time Ltd is a goods and raw materials Trading Company with more than 3 years experience. Our company enjoys with presence in countries like China, Romania and Republic of Moldova.

After several requests received from our clients in purchase of galvanized steel we decided to ask You for an offer price for the following product:

- Acid galvanized steel sheet
- Hot-rolled S 350 / Z 350
- Thickness: 2; 3; 4mm
- Dimensions: 1250 mm x 2550mm
- Omount requested: 65 t.

Thank you in advance
 And I hope we will have a successful collaboration!
Marius GRADA

Contact Person
 Tel. + (373) 22 27 80 08
 E-mail: romasiamoldova@yahoo.com

<https://imgv2-1-f.scribdassets.com/img/document/81343770/original/4a8cb76873/1648830290?v=1>

1. Hrynyova A. How to make a commercial proposal correctly: instructions and examples. 2020. Happymonday website. URL: <https://happymonday.ua/komertsijna-propozytsiya-yak-pravylno-sklasty>
 2. How to make a commercial proposal for the provision of services. Do Business, Ukraine: website. URL: <https://xn--90aamhd6acpq0s.xn--j1amh/teoriya/yak-sklasty-komertsiyu-propozytsiu-na-nadannia-posluh>

DOCUMENTATION FOR COMMERCIAL ACTIVITY

Types of commercial offer ¹

Commercial offer for mass mailing

They are created in one unique form and sent to many customers at once ¹

Advantages	Disadvantages
Save time	A person who does not make a decision can get acquainted
Reaching the target audience	There is no individual approach to the buyer

Personal commercial offer

Focused on a specific client after negotiations with him ("cold call") ¹

Advantage: the buyer is waiting for it. The document should be based on the identified needs of the client, include the offer and the most specific information. ¹

Offer

A public contract that does not require signature certification ¹

It is usually used by online stores and sites of various SaaS-services ¹

The order of compilation ²

1 Formation of the structure of the commercial offer ²

- **Logo and contact details** of the company - above (in the header or footer) ²
- **Title** that reflects the usefulness, specificity, urgency and uniqueness of the CP;
- **Lead** is the main paragraph that summarizes what will be discussed next (you can start from the customer's problem or the solution you offer) ²
- **Description of the proposal itself** ²

2 Description of the commercial offer

Offers (the essence of the offer), most often written according to the formula: "We offer you such a benefit due to this (product / condition)" ²

After presenting the proposal, it is important to describe the benefits: additional benefits from working with you. And also work out the objections: argue who you are, what / who you work with and why you can be trusted ²

3 Call to action

The commercial offer ends with a **call to action**: for example, to contact you to find out details, calculate the cost, etc. ²

1. Hrynyova A. How to make a commercial proposal correctly: instructions and examples. 2020. Happymonday website. URL: <https://happymonday.ua/komertsijna-propozytsiya-yak-pravylno-sklady>

2. How to make a commercial proposal for the provision of services. Do Business, Ukraine: website. URL: <https://xn--90aamhd6acpq0s.xn--j1amh/teoriya/yak-sklady-komertsijnu-propozytsiu-na-nadannia-posluh>

DOCUMENTATION FOR COMMERCIAL ACTIVITY

Invoice

Document intended for registration of operations on release and acceptance of goods from warehouse ¹.

Is one of the documents of primary accounting ¹.

Contains the name of the organization, invoice number, date of release of the goods, its name, who released the goods, to whom the goods were released, its quantity, grade, price and other data, grounds for release of goods, signatures of financially responsible persons in his leave and reception ¹.



PROFORMA INVOICE

DATE: February 4, 2011
INVOICE: 1896

SHIPPER	RECEIVER
Name	Name
Company Name	Company Name
Contact Person	Contact Person
Street Address	Street Address
City, ST ZIP Code	City, ST ZIP Code
Phone:	Phone:
Fax:	Fax:
email:	email:

REASON FOR EXPORT:

MODE OF TRANSPORT	TOTAL NUMBER OF PACKAGES	TOTAL GROSS WEIGHT
AIR	26	526 kg.

ID	DESCRIPTION	QUANTITY	UNIT PRICE, \$	TOTAL
1	Item 1 description	23	44.99 \$	1,034.77
2	Item 1 description	4	12.99 \$	51.96
3	Item 1 description	2	89.99 \$	179.98
4	Item 1 description	56	0.99 \$	55.44
			\$	-
			\$	-
			\$	-

SUBTOTAL	\$ 1,322.15
TAX RATE	6.50%
SALES TAX	85.94
SHIPPING AND HANDLING	-
TOTAL	\$ 1,408.09

THANK YOU FOR YOUR BUSINESS!

Signature / Stamp:

Place:

Date:

① TOPIC 8

2

1. Invoice form. Biznesua.com.ua: website. URL: <https://biznesua.com.ua/blank-nakladnoi/>
 2. Invoice Proforma Sample. URL: [https://br.pinterest.com/pin/403353710360760618/?amp_client_id=CLIENT_ID\(&\)mweb_unauth_id={{default.session}}&simplified=true](https://br.pinterest.com/pin/403353710360760618/?amp_client_id=CLIENT_ID(&)mweb_unauth_id={{default.session}}&simplified=true)

DOCUMENTATION FOR COMMERCIAL ACTIVITY

Power of attorney

Used to receive goods directly in the supplier's warehouse or station (pier) destination to a representative of a commercial enterprise ¹

The power of attorney is issued for the required period, but not more than 10 days ¹

Powers of attorney are registered in a special journal, which highlights the columns for the receipt of the power of attorney and notes on its use on the basis of the submitted documents ¹



UICC General Assembly
2 October 2018
Kuala Lumpur, Malaysia

Power of Attorney

Voting at the 2018 UICC General Assembly

Explanation of Terms:

- The **Principal Organisation** is the name of the organisation wishing to delegate its voting rights.
- The **Representative Organisation** is the name of the organisation acting on behalf of the Principal Organisation.

I, _____ (First and last name) from _____ (Name of Principal Organisation), hereby give Power of Attorney to _____ (Name of Representative Organisation) to represent and act on behalf of my organisation at the 2018 UICC General Assembly (as per article 18.3 of the UICC Constitution).

Principal Organisation

Name: First and last name

Date:

Signature:

Representative Organisation

Name: First and last name

Date:

Signature:

The completed Power of Attorney form should be addressed to the UICC Chief Executive Officer and submitted by 2 September 2018 by one of the following means:

- E-mail to generalassembly@uicc.org
- Fax to +41 809 16 10
- Post to Union for International Cancer Control (UICC), Avenue Giuseppe Moris 31-33, 1202 Geneva, Switzerland. **NE:** Only submissions with a stamp date of 2 September 2018 or before will be valid.

IMPORTANT

- Only fully completed forms will be accepted
- Electronic signatures are permitted
- Please visit our [website](http://uicc.org) for more information on the General Assembly
- Only full member organisations can appoint a representative
- The organisation acting as a representative must also be a Full member of UICC and must be attending the General Assembly in Kuala Lumpur, Malaysia.
- An organisation can act as a representation for three other organisations. In this case, three separate forms should be received.

EFFICIENCY OF COMMERCIAL ACTIVITY

Generalizing indicators 1; 2; 3

Functional activity

$$E_f = \frac{T_f}{O_c + O_w + F_z}$$

T_f – annual volume of retail turnover;
 O_c – average annual cost of fixed assets;
 O_w – average annual value of working capital;
 F_z – salary fund of trade workers for the year

Efficiency of economic activity

$$E_g = \frac{\Pi}{B_o + E \times K}$$

Π – annual income;
 B_o – turnover costs for the year;
 E – normative coefficient of efficiency of capital investments;
 K – the amount of capital investment per year.

Economic efficiency

$$E_e = \sqrt{E_f + E_g}$$

E_f – indicator of functional activity;
 E_g – indicator of economic efficiency.

Specific indicators 1; 2; 3

Efficiency of labor resources use

$$E_{lr} = \frac{T_f}{B_{lr}}$$

T_f – the size of turnover;
 B_{lr} – the amount of labor resources.

Efficiency of use of material resources

$$E_{mr} = \frac{T_f}{B_{oz}}$$

T_f – the size of turnover;
 B_{oz} – cost of fixed assets.

Efficiency of use of financial resources

$$E_{fr} = \frac{T_f}{B_{ok}}$$

T_f – the size of turnover;
 B_{ok} – cost of fixed capital

② FUNCTIONING OF THE COMMERCIAL DEPARTMENT

COMMERCIAL DEPARTMENT

DEFINITION

Commercial department - a service whose activities are related to the distribution and circulation of financial flows in business processes¹

Departmental functionality¹:

- Develops a long-term strategy for the organization and financial plan
- Participates in the formation of production plans, both current and future, and also helps to organize sales
- Takes measures necessary for signing of economic and financial documents with contractors of the enterprise - suppliers and clients, works in the direction of expansion of economic communications
- Controls the sale of goods, economic and financial performance, providing the company with material and technical means, the distribution of working capital for the needs of the organization
- Participates in fairs, exhibitions, tenders, exchanges for the promotion and sale of goods / services
- Analyzes market conditions

Additional features¹:

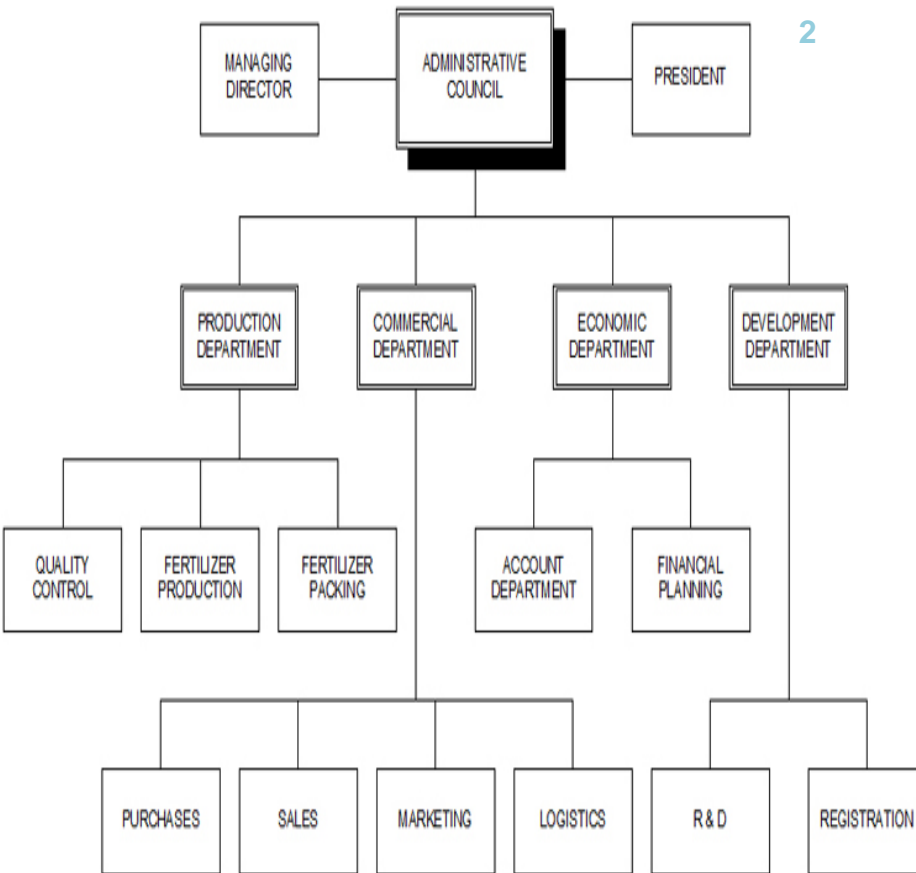
- Organization of the warehouses of the enterprise, creation of necessary conditions for storage of products and material resources, ensuring their preservation.
- Ensuring the rational use of all modes of transport, including improving the process of loading and unloading
- Organization of work on the use and sale / disposal of secondary resources and by-products
- Timely preparation of estimates and financial documentation, calculations, preparation of standard reports on the implementation of plans for the sale of finished products
- Providing reporting documents on financial activities, material and technical supply.

2 FUNCTIONING OF THE COMMERCIAL DEPARTMENT

STRUCTURE OF THE COMMERCIAL DEPARTMENT

Large organizations - wholesale companies, retail chains, production, with branches in several cities ¹

It is necessary to create a large commercial department, consisting of independent units with their own functions and managed by the commercial director ¹



Advertising, marketing department

Organization and conduct of marketing research, identification of market supply and demand; formation of advertising and commodity-price policy of the company; development of a strategy for the promotion of goods / services with high efficiency; carrying out activities that promote the formation of a positive image of the enterprise ¹

Supply department

Development of a network of reliable suppliers of raw materials, products, contracts with them for the supply and expansion of economic ties; formation of the range of products together with other departments; supply management; work on improving the quality of raw materials, improving the range ¹

Sales department

Development of product sales policy; attracting wholesale buyers and signing contracts with them; thinking of logistics solutions, inventory management ¹

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1. Commercial department: how to create an effective division. Sales Academy: website. URL: <https://academy-of-capital.ru/blog/kommercheskiy-otdel/>

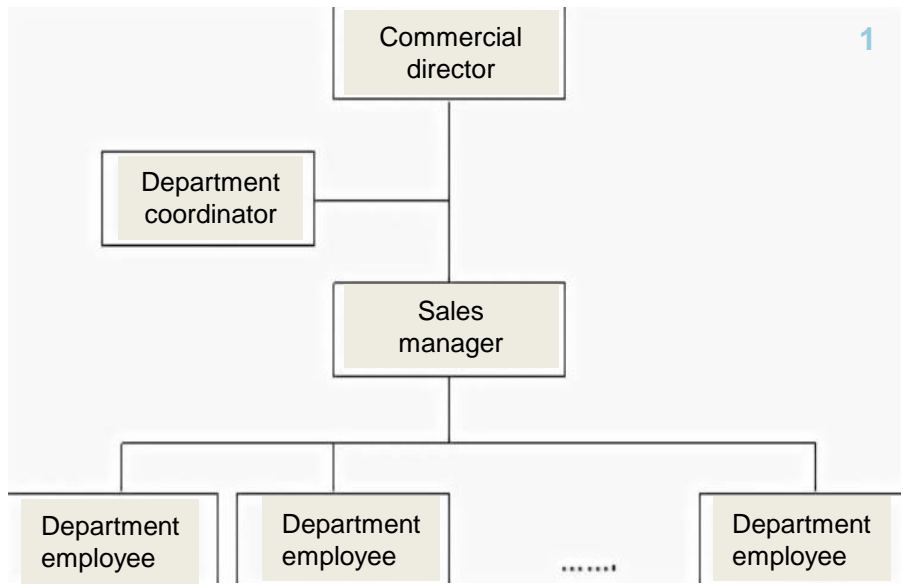
2. Organizational Structure. Humofert. URL: <https://www.humofert.gr/en/company/organotiki-domi.html>

2 FUNCTIONING OF THE COMMERCIAL DEPARTMENT

STRUCTURE OF THE COMMERCIAL DEPARTMENT

Small organizations ¹

It is necessary to create a large commercial department, consisting of independent units with their own functions and managed by the commercial director ¹



Advertising, marketing department

- Sales and supply departments can be combined into one unit, such as the counterparties department ¹
- Small companies do not always need a marketing department. Its functionality can be transferred to outsourcing organizations, such as specialized agencies ¹
- If the company is very small, the functionality of the commercial department may include not only the organization of procurement and sales, but also the development and conduct of advertising campaigns. ¹

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1. Commercial department: how to create an effective division. Sales Academy: website. URL: <https://academy-of-capital.ru/blog/kommercheskiy-otdel/>

② FUNCTIONING OF THE COMMERCIAL DEPARTMENT

INPUT AND OUTPUT FLOWS OF THE COMMERCIAL DEPARTMENT

Input flows ¹

Name	From whom/to whom
Product sales policy - the concept of sales, range, cost, etc.	Commercial DirectorMarketing
Methodological support for the organization and management of sales	Head of SalesCommercial Director
Products: stocks for current orders, planned stocks, deliveries	Freight Movement (Warehouse)
Delivery of products: address, in the established terms, without decrease in quality	Freight Movement (distribution)
Data on balances and movement of products	Freight Movement (Warehouse) Procurement, logistics, database
Finances	Accounting, finance department
Material support (equipment of workplaces)	Office manager
Information support, results of analytical calculations	DB, marketing analyst
Advertising information	Marketing
Sales analytics	Marketing
Claims processing results	Marketing
The results of marketing research: counter sales plan for customers, segments and individual territories, new methods of working with them	Marketing
Data on economic efficiency of sales in terms of products	Finance department, DB
Information on receivables from customers	Accounting, DB
Skilled workers	HR department
Resolving disputes with customers	Legal department

INPUT AND OUTPUT FLOWS OF THE COMMERCIAL DEPARTMENT

Output flows¹

Name	From whom/to whom
Money in the bank / cash register, concluded agreements, contracts, orders	Accounting, Finance department
Sales budget (sales plan)	Finance department Marketing
Plan-order for products in terms of range	Production. Purchases Movement of goods. Logistics. Marketing
Expense budget	Finance department
Feedback data from customers on the quality of products / services of the enterprise	Marketing
Information on the state of the target market, obtained at the request of the marketing department	Marketing
Suggestions for improving the organization's sales policy	Commercial Director Marketing
Databases of current and potential buyers. Operational reporting documentation of sales staff. Final reporting documents for all departments for a certain period	Commercial Director Finance department Marketing

1. Commercial department: how to create an effective division. Sales Academy; website. URL: <https://academy-of-capital.ru/blog/kommercheskiy-otdel/>

② FUNCTIONING OF THE COMMERCIAL DEPARTMENT

COMMERCIAL DEPARTMENT EMPLOYEES

Head of the department ¹

The head of the commercial department is the commercial director ¹

Depending on the scale of the company, the position may have other names ¹ :

- sales director,
- director of sales and marketing
- head of sales.

Employees ¹

Minimum

4-6 sales managers
+ team management
consisting of the head of the
department and his deputy

Maximum

10-12 managers +
managers in the
amount of 2-3
people

Customer service manager :

- 30-35 - for small organizations;
- 10-12 - medium and large enterprises;
- 1-3 - VIP - clients - market giants.

EXAMPLE

The organization plans to cover 100 medium and large enterprises¹:

$$33 \text{ (1/3 від 100) / 10-12 (recommended load per seller) = 2,75 } \div 3,3$$

That is the optimal number of managers- 3.

Potential audience of 500 large and medium-sized companies -14-17 professionals¹

Too large a staff is impractical in most circumstances. In this case, it is better to form a team of 10-12 people and focus on working with the most promising clients¹



ASSORTMENT POLICY OF THE ENTERPRISE

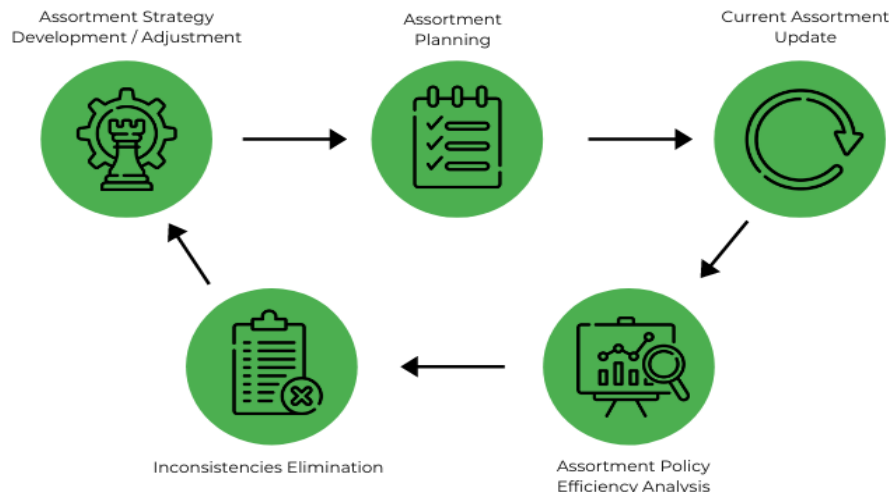
DEFINITION

Assortment policy - is the definition of a set of product groups, the highest priority for successful operation in the market and ensures the economic efficiency of the enterprise as a whole¹

Tasks¹:

- Satisfaction of consumer demands
- Optimal use of technological knowledge and experience of the enterprise;
- Optimization of financial results of the enterprise. The formation of the range is based on the expected profitability and profit
- Gaining new customers by expanding the scope of the existing production program.
- Adherence to the principles of flexibility due to the diversification of the spheres of activity of the printing industry and the inclusion of non-traditional industries
- Adherence to the principle of synergy, which involves the expansion of production and services of the enterprise, interconnected by a certain technology, a single qualification of personnel and other logical dependence

The sequence of the assortment policy implementation²



DEFINITION

Assortment management - is an area of activity aimed at optimizing the range³



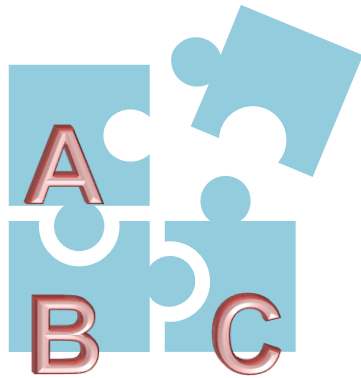
- What goods need to be produced (purchased)?³
- To what extent should goods be sold (purchased)?³
- At what price should the goods be sold?³

1. Assortment and assortment policy of the enterprise. Schet: uchet: website. URL: <https://schetuchet.ru/assortiment-i-assortimentnaya-politika-predpriyatiya>
 2. Notes About The Assortment Management In Retail. EVERA LLC: website. URL: <https://www.jevera.software/post/notes-about-the-assortment-management-in-retail>
 3. Principles of assortment policy. Marketer's Notes: website. URL: https://www.marketch.ru/notes_on_marketing/marketing_politics/principles-of-assortment-policy/

ABC ANALYSIS

DEFINITION

ABC analysis - analysis is designed to determine the significance of each product unit in order to optimize the product range¹



Tasks²:

- Maximize profits by managing inventory and not keeping money in stock.
- Identification and elimination of surplus stocks, implementation of a system of monitoring and optimization of stocks.

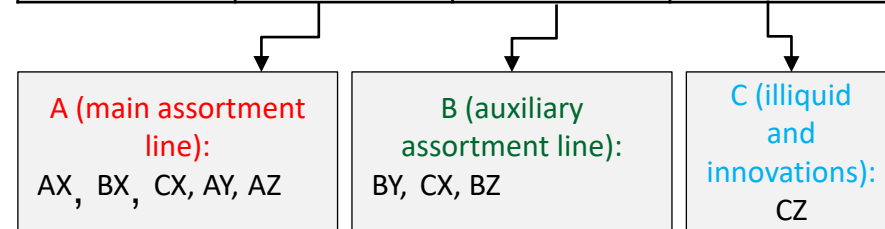
Specifics¹:

The distribution of goods takes place according to the principle of Pareto law :

- in group A goods that bring up to 80% of income,
- in group B - about 15%,
- all other income in group C.

Assortment matrix³

Number of sales	Profit		
	X	Y	Z
A	AX	AY	AZ
B	BX	BY	BZ
C	CX	CY	CZ



Specifics²:

Selection of groups in slightly different proportions :

- A - groups with the largest contribution to profit (shares in profit), which together give up to 50 percent of the company's total profit;
- B - commodity groups, which together give about 35 percent of profits, and their accumulated share in profits is from 50 to 85 percent;
- C - groups with the lowest share of profits, bringing the remaining 15 percent (accumulated share of 85 to 100 percent).

1. Thesis-plan of ABC-analysis of goods. Lunday's Diary: website. URL: <https://lunday.ru/analitika/abc-analiz-tovarov.html>
 2. ABC analysis of assortment. ABC analysis of clients. Dropt: website. URL: <https://dropt.ru/uk/terminy/abs-analiz-assortimenta-abc-analiz-klientov-granicy-osnovnyh-grupp>
 3. Assortment matrix. Multistock website. URL: <https://www.multistock.com.ua/blog>

ABC ANALYSIS

To conduct an ABC analysis, it will be necessary to determine the profit generated by each group of goods, its share in the total amount of profit and rank the groups according to this indicator, as well as calculate the share of profit accumulated by the total ¹

Example of ABC analysis for product groups ¹

Number in assortment	Average rating from buyers on the indicator "share in profit"	Name of the group	Profit for the first half of the year, UAH	Share in profit, %	The share in the profit of the accumulated result, %	Profit category
10	1	Beer	3 324 754	20,7	20,7	A
14	2	Perfumes and hygiene	2 157 010	13,4	34,1	A
1	3	alcohol	2 040 270	12,7	46,8	A
12	4	snacks	1 504 268	9,4	56,1	B
3	5	Soft drinks	1 482 471	9,2	65,3	B
5	6	Confectionery	1 469 275	9,1	74,5	B
8	7	meat products	1 205 017	7,5	82,0	B
11	8	cigarettes	1 093 273	6,8	88,7	C
4	9	Frozen foods	724 245	4,5	93,3	C
2	10	Grocery	332 012	2,1	95,3	C
13	11	juices	270 044	1,7	97,0	C
9	12	Household goods	201 096	1,3	98,2	C
7	13	Dairy products	191 609	1,2	99,4	C
6	15	Coffee, tea	80 046	0,5	99,9	C
15	16	Bread	10 832	0,1	100	C
TOTAL			16 086 221	100		

1. ABC analysis of assortment. ABC analysis of clients. Dropt: website. URL: <https://dropt.ru/uk/terminy/abs-analiz-assortimenta-abc-analiz-klientov-granicy-osnovnyh-grupp>

ABC ANALYSIS

ABC-analysis of the share in profit with the only difference that the object - the analysis of specific product names. Category C falls under the reduction ¹.

Example of ABC-analysis for product names of the subgroup "shampoo" ¹

No	Subgroup	Profit for the first half of the year, UAH	Share in profit, %	The share in the profit of the accumulated result, %	Profit category
1	Shampoo "Nivea" married 250 ml	58 636	16,86	16,86	A
2	Shampoo "Nivea" dried 250 ml	49 985	14,38	31,24	A
3	Shampoo "Nivea" doc hair	41 090	11,82	43,06	A
4	Shampoo "Nivea" with extra under 250 ml	27 551	7,92	50,98	A
5	Shampoo "Nivea" d fat fork 250 ml	26 211	7,54	58,52	A
6	Shampoo "Nivea" men 250 ml	19 582	5,63	64,15	B
7	Shampoo "Nivea" extra 250 ml	18 451	5,31	69,46	B
...					
17	Shampoo «Palmolive» for light hair	3937	1,13	98,41	C
18	Shampoo "Nivea" for normal hair	2849	0,82	99,23	C
TOTAL			347 712	100	

1. ABC analysis of assortment. ABC analysis of clients. Dropt: website. URL: <https://dropt.ru/uk/terminy/abs-analiz-assortimenta-abc-analiz-klientov-granicy-osnovnyh-grupp>

XYZ ANALYSIS

DEFINITION

XYZ-analysis - analysis is designed to assess the stability of sales¹

XYZ For each product of the analyzed group calculate the coefficient of variation (shows the degree of deviation of the data from the average value)¹

$$v = \sqrt{\frac{\sum_{i=1}^n (x_i - \bar{x})^2}{n-1}} \times 100\%$$

x_i - sales of goods for the i -th period;
 \bar{x} - the average value of sales of the analyzed product;
 n - number of periods.

- The number of periods must be at least three¹
- For products with pronounced seasonality, the period should be longer than the seasonal cycle. Another option is to use periods within seasonal ups (or downs)¹

X - goods with sales fluctuations from 5% to 15%¹

Y - goods with sales fluctuations from 15% to 50%¹ (characterized by seasonal fluctuations and average forecasting capabilities)¹

Z - goods with sales fluctuations of 50% and above. (it is impossible to predict their demand)¹

Specifics¹:

X - the variation does not exceed 10 percent.

Stable sales are therefore the main concentration of effort and resources. Such a product does not promise great losses to the company, even if it is purchased (produced) in greater than necessary.

Y - variations in the range of 11-25 percent.

Less stable category than X, but quite a reliable product

Z - the spread is more than 25 percent. It is

better to withdraw such goods from the range or to work with its deliveries (production) under the order.

Based on XYZ-analysis, categories X and Y are returned to the range. Regardless of sales volume and profit. If some goods from month to month are stable (plus / minus 10-25%) bring the company, albeit small, but profit, most likely it will be impractical to abandon them¹

1. ABC analysis of assortment. ABC analysis of clients. Dropt: website. URL: <https://dropt.ru/uk/terminy/abs-analiz-assortimenta-abc-analiz-klientov-granicy-osnovnyh-grupp>

XYZ ANALYSIS

ABC-analysis of the share in profit with the only difference that the object - the analysis of specific product names. Category C falls under the reduction¹

An example of XYZ-analysis - sales stability¹

Name of goods	Sales volume, pyб.			Standard deviation	Average value, UAH	Variation, %	Group
	IV Q. 2018	I Q. 2019	II W. 2019				
3	116 285	114 926	116 195	760	115 802	1	X
5	47 818	50 697	48 299	1542	48 938	3	X
1	305 922	276 658	335 817	29 580	306 132	10	X
6	34 500	27 865	32 289	3379	31 551	11	Y
8	37 929	36 685	30 750	3837	35 121	11	Y
2	255 420	245 089	327 870	45 108	276 126	16	Y
4	79 036	48 999	102 571	26 851	76 869	35	Z
7	12 346	33 786	32 502	12 025	26 212	46	Z

COMBINATION OF ABC AND XYZ ANALYSIS

Nine product groups to combine ¹

AX	BX	CX
AY	BY	CY
AZ	BZ	CZ

AX & BX

Distinguished by high turnover and stability. It is necessary to ensure the constant availability of goods, but this does not require the creation of excess insurance stock. Consumption of goods in this group is stable and well predicted ¹

AY & BY

At high turnover have insufficient cost stability, and, as a consequence, in order to ensure constant availability, you need to increase the insurance reserve ¹

AY & BY

High turnover is characterized by low predictability of costs. The order system for these products should be reviewed ¹

CX

It is worth using the system of orders with constant frequency and reduce the insurance stock ¹

CY

It is necessary to move to a system with a constant amount (volume) of the order, but at the same time to form an insurance reserve, based on the company's financial capabilities ¹

CZ

All new goods, goods of spontaneous demand delivered under the order get, etc. Part of these goods can be painlessly removed from assortment, and other part needs to be checked regularly as from goods of this group arise ¹

SALES POLICY OF THE ENTERPRISE

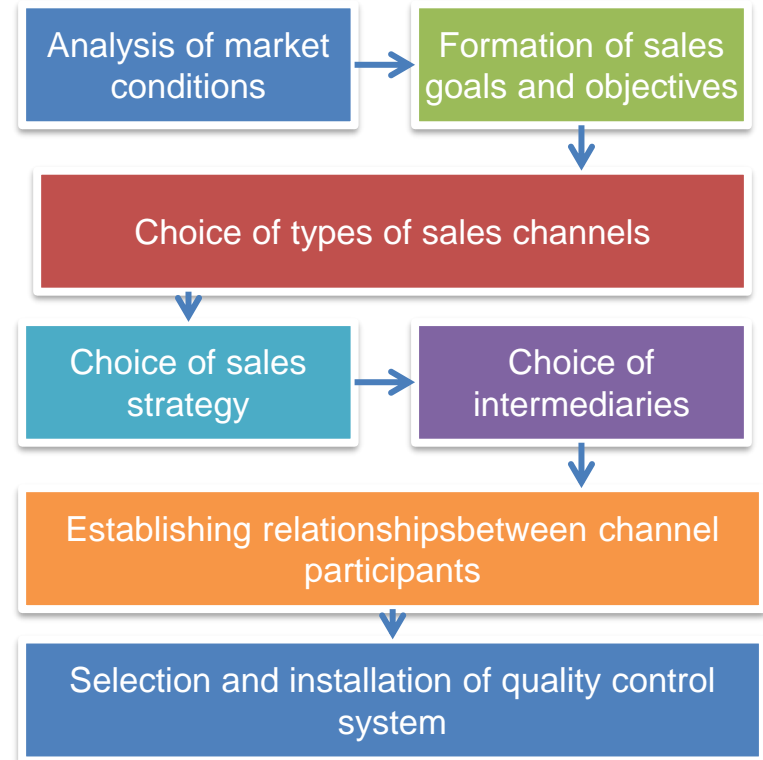
DEFINITION

Sales policy – a selected set of strategies and a set of measures that affect the range of products, its pricing, sales promotion, demand, sales contracts, transportation¹

Tasks¹ :

- Making a profit in the current period together with the formation of prerequisites for maintaining this situation in the future.
- Long-term market stability of the organization and maintaining the competitiveness of its products.
- Maximum satisfaction of the existing effective consumer demand.
- Formation of a positive image of the company in the market with its subsequent recognition by the public.

The sequence of formation of sales strategy²



SALES METHODS

Direct sales method

Carried out without intermediaries, directly from the manufacturer¹

Terms of use¹:

- sales are high
- the cost of goods is lower than the cost of sales and revenues cover the costs of organizing their own sales system
- the main consumers are few and they are located in a small area
- the product needs professional service or is made to order.

Indirect sales method

Use of independent intermediaries¹

Terms of use¹:

- the group of potential consumers is wide
- wholesale supply required
- the market is geographically dispersed
- the difference between the cost and the final price is small

Criteria for choosing the type of sales channel¹

	Market size		Goods			The size of the manufacturer	
	Small	Large	Quick use	Long-term use	Large	Large production	Small and medium production
Direct	●					●	●
Short indirect	●			●	●		●
Long indirect		●	●			●	

SALES METHODS

Indirect sales method

Intermediaries¹

Broker

Does not participate directly in sales, has no rights to the goods, does not keep its stocks and does not bear any risks. His task is to find a buyer and arrange a deal

Agent

Concludes agreements with enterprises, its tasks: the geographical area of customer search, the level of margins on goods, guarantees, options for production, delivery and service, etc. Not only organize sales, but also participate in planning, launching a new product on the market, advising customers

Dealer

Buys property owned by an agent or manufacturer without obtaining trademark rights. As an independent entrepreneur, he has his own market, sells goods at retail and sets a markup

Consignor

An intermediary who organizes the storage of the manufacturer's goods in their own warehouses with subsequent sales. Does not buy goods in the property. The sale is carried out under a contract with the supplier, which specifies the prices of goods, volumes and terms of sales.

Distributor

Engaged in the sale of goods independently, concluding contracts with manufacturers and buyers. Such intermediaries set prices for goods, conduct promotions, provide service and warranty service, have their own warehouses for storage and wholesale and retail outlets.

SALES ANALYSIS

Gross Margin

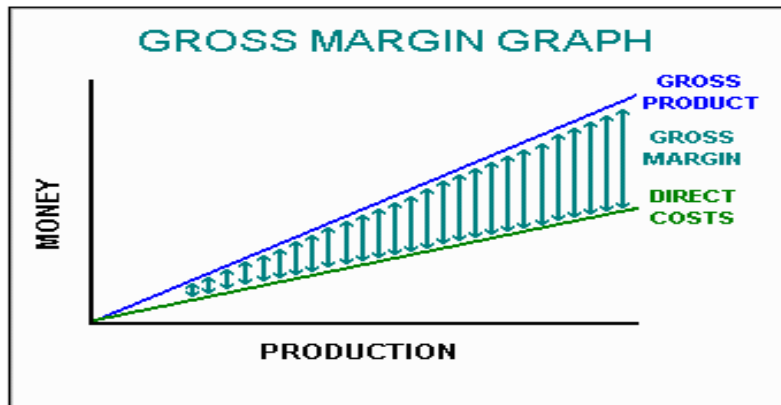
Percentage of total sales revenue that the company leaves after incurring direct costs associated with the production of goods and services sold by the company¹

$$\text{Gross margin(\%)} = \frac{(\text{Revenue} - \text{the cost of goods})}{\text{Revenue}} \times 100$$

The higher the share, the greater the company's revenue per 1\$ from the sale of goods, services and liabilities¹

There is an inverse relationship between gross margin and inventory turnover¹:

- the lower the turnover of inventories, the higher the gross margin;
- the higher the turnover of inventories, the lower the gross margin.



2

Markup

Percentage added to the unit cost of production to obtain the selling price¹

$$\text{Markup (\%)} = \frac{(\text{Revenue} - \text{Cost of goods sold})}{\text{Cost of goods sold}} \times 100$$

Gross sales

Aggregate sales (including sales on credit) for the reporting period, which are valued at full prices (invoice prices) excluding discounts, returns on sales, price reductions and other adjustments¹

Net sales revenue

$$\text{Net sales revenue} = \text{Total sales revenue} - \text{The cost of returned goods and discounts}$$

1. Sales policy: types, formation, improvement and examples. BusinessMan.ru: website. URL: <https://businessman.ru/sbyitovaya-politika-vidyi-formirovanie-sovershenstvovanie-i-primeryi.html>
 2. Gross Margin (Gross Profit). URL: <https://www.ufrgs.br/luminaidiomas/glossary/term?id=104>

SALES PLAN

DEFINITION

A sales plan – is a forecast of future business activities for a certain period of time, taking into account external and internal factors. And it is necessary to paint not only the desired result, but also methods of achieving the goal in stages¹

The operational and production sales plan is a forecast of the business for the near future (within the quarter)¹

Current sales plan - during the year¹

Long-term sales plan - for a long period of time (sometimes up to ten years)¹



2

1. How to make an effective sales plan. Fractus: website. URL: <https://fractus.com.ua/uk/blog/korynsni-statti/prodazhi/jak-sklasti-efektivnij-plan-prodazhiv>
 2. What should a Sales Plan consist of? Freshsales Suite: website. URL: <https://www.freshworks.com/crm/sales/sales-plan/>

SALES PLAN

Actual sales plans include several other sections in addition to those mentioned above, to help ground those goals and tactics within broader organization and business goals.¹

Company mission and positioning

Start broadly, reiterating the company's big picture, overarching mission. Add to that details on your positioning within the marketplace and your unique selling proposition (USP) to help ground the tactics you'll explain later on.¹

Sales organization structure

Outline your entire sales organization—creating an org chart of the sales team and outlines responsibilities and goals assigned to each role.¹

Sales goals and targets

Note the high-level goals, sales targets, and KPIs you plan to hit, along with a timeline for achieving them. Ensure these goals are realistic, ambitious, and measurable, above all.¹

Target audience and customer segments

Define your target audience and customer personas upfront to make it easier to identify the most effective tactics for reaching them. Enterprise sales teams, for example, may include specific target accounts.¹

Sales strategies and methodologies

Outline your overall sales methodology and strategy. Combine the previous sections into a coherent strategy to drive your sales organization and include things like account-based sales (ABS) strategy, inbound sales strategy, and outbound sales strategy.¹

Sales execution plan

Your execution plan takes the strategy above and details explicitly how you'll operationalize that strategy toward the goals you've set out.¹

Support

The rest of your plan deals with the resources and support your team will need to accomplish everything above. That includes financial resources, tools, training, and more.

- ❑ Sales enablement deals with the training materials your sales team will need, customer content, and other educational needs.
- ❑ Sales operations details other requirements including recruiting needs, your framework for sales interactions, and tools and software your team will need.¹

1. What should a Sales Plan Consist of? *Freshsales Suite*: website. URL <https://www.freshworks.com/crm/sales/sales-plan/>

SALES PLAN

The purpose of drawing up a sales plan ¹:

● **Systematization of working time.** The volume of the document depends on the number of traders working under the wing of the company + the functions attached to them.

● **Motivational factor.** Each employee has their own sales plan and deadlines. Bonuses are used as an incentive for the most active employees.

● **Prognostication.** If the compiler is able to rationally allocate labor resources + not artificially overestimate the figures, you can get a realistic forecast.

● **Control + accounting.** Management must objectively assess the efficiency of employees. In addition to sales units, other indicators should be taken into account - margin, total gross income and more.

● **It is important for a start-up company to be aware of the minimum allowable value**, which is the "bottom", the failure of which puts the company in the red. For a successful business, on the contrary, attention is paid to peak performance indicators, aimed at going beyond the current level of success.

Types of plans ¹:

Type of plan	Terms	Specifics
Long-term	5-10 years	Focused on long-term forecasting of the company's results. It is created by highly qualified specialists
Current	12 months	Addition of long-term planning. The main functions are clarification and adjustment of indicators. Developed 1-2 months before its implementation
Current	1-6 months	Monthly, quarterly and semi-annual plans include local business tasks - to sell 1,000 units of products, recruit 30 people to the customer base and more

PROCEDURE FOR MAKING A SALES PLAN¹

1 Define sales goals and objectives

Every strategic sales plan starts with goals and objectives. These are the big picture, true north goals that drive all your tactics, more granular KPIs, and your team's day-to-day work. Start by detailing what these objectives look like for your business.

You may set a goal of doubling sales revenue in the next 12 months, for example, or increasing sales ROI by 15 percent next quarter.¹

2 Assess barriers and challenges and how to overcome them

Once you have goals in mind, it's important to think through any barriers or challenges that might stand in the way of achieving them.

Those can be market barriers, like a savvy competitor nipping at your heels or an economic downturn, or internal challenges like a small team or limited budget.¹

3 Include buyer personas you want to target

Knowing who you're selling to and what's important to them is the linchpin for every effective sales plan.¹

For a manufacturing firm, for example, that might include, depending on your product:¹

- The purchaser or buyer
- MRO managers
- Design engineers
- The CEO or other executives

4 Map your customer journey

To turn those personas from cold leads into customers, your sales team needs to know the most effective path to lead them down. That's why your sales plan should include a map of the customer journey (for each persona, if it varies).¹

At its simplest, that may look something like:

Visit website → watch demo → schedule a meeting with a sales rep → conduct a proof of concept → close¹

1. What should a Sales Plan Consist of? *Freshsales Suite*: website. URL <https://www.freshworks.com/crm/sales/sales-plan/>

PROCEDURE FOR MAKING A SALES PLAN¹

5 Create value propositions for the personas

Since each persona has different needs and goals for using your product, it's important that your sales plan outlines that value proposition for each persona.¹

Explain what you offer that your competitors don't—and how that benefits each type of customer. USPs (Your value proposition) are built from things like price, convenience, customer support, unique features and use cases, and more.¹

For example: When they first launched, Uber's value proposition was all about convenience. Instead of calling a cab company or standing in the street to hail a cab, Uber allowed users to simply request a ride via the app—pretty revolutionary at the time.¹

6 Map out key milestones, KPIs, and timelines

These can look like specific organization-wide goals on a weekly or monthly basis and role or individual-specific KPIs by period.

Your organizational goal, **for example**, could be to grow sales by 30% month-over-month.¹

7 Finalize strategic and tactical plan

Run through the information again and double-check:¹

- Big goals are broken down into achievable benchmarks
- All goals and KPIs are specific, time-based, and measurable
- Your buyer personas are clear, detailed, and mapped to your USP¹

8 Communicate to relevant teams and set expectations

Make sure everyone has access, understands what the sales plan means for them, knows their KPIs, and has a forum to ask any questions they may have.¹

9 Track progress and adjust strategy as needed

Depending on your objectives, you and other sales leaders may track:¹

- Sales revenue
- Close rate
- Quota retirement by rep
- Time-to-close¹
- Lead generation

STRUCTURE OF THE SALES PLAN

Introduction

It consists of the title ("Sales plan of the department") And the author's instructions ("Compiled ..." then the position and name and surname made the plan) ¹

1 Employees and achievements

All employees of the department are listed, the need for new staff is indicated, and key achievements for the past period are mentioned. ¹

2 Results of the past period

For clarity, you can include in the document a graph of sales growth and decline, give the final values not only for the department as a whole, but also for each employee in particular, to indicate how overfulfilled or underfulfilled past plan ¹

3 Plan for the future period

The amount of the plan is indicated, the main planned agreements are listed, clients who are ready to sign a contract ¹

4 Necessary measures

Actions that have yet to be taken to achieve the goal. These can be changes in pricing, promotions, updates to the company's technical base and more ¹

The date and signatures approved the plan of the leaders



METHODS OF SALES PLAN CALCULATION

Consumer expectations research ¹

The tool is questionnaires and blitz questionnaires to assess the quality and other indicators of products ¹

Advantages	Disadvantages
Suitable for new products The opinion comes directly from the buyer	Subjective assessment of respondents' opinions. Wrong attitude of a person to a group of consumers

Opinion of employees ¹

The sales plan is developed based on the opinion of the sellers of the product / service ¹

Advantages	Disadvantages
High accuracy of data due to close connection with the subject of sale.	Weak objectivity due to personal interest.

Market testing ¹

The product / service is promoted in all regions of the company's distribution. The size of the scope of analysis is formed by the manager or specialists of the supply department ¹

Advantages	Disadvantages
The level of marketing is assessed The company can find out the consumer's reaction to the product.	A long and expensive process. Due to openness to competitors, information may leak

Collective opinion of the leadership ¹

Discussion of controversial points or average indicators of evaluation of each participant ¹

Advantages	Disadvantages
Speed of forecasting and ease of implementation	In case of failure, the responsibility of management

TOPIC 8

1. Instructions with screenshots on how to draw up a sales plan. B-Mag: website. URL: <https://b-mag.ru/instrukcija-so-screenshotami-kak-sostavit-plan-sales>

METHODS OF SALES PLAN CALCULATION

Delphi method ¹

Managers develop their own sales plan and pass it on to an expert. Based on the received data, he forms a new document and re-sends it for revision to management. The algorithm continues until 100% of the differences are resolved ¹

Advantages	Disadvantages
Among the methods of the subjective type is the most objective Personal opinion of the group of respondents is reduced to 2% -5%.	Such a production plan requires expert in the field and a lot of personal time on the part of management.

Time series analysis ¹

Three different techniques for forecasting future sales (moving average) ¹

Advantages	Disadvantages
High level of objectivity and cheapness.	Difficulty of execution. Does not apply to new products. Does not take into account the advertising aspect.

Statistical study of the level of demand ¹

All factors influencing sales volumes are taken into account - indices, exchange rates, and more ¹

Advantages	Disadvantages
High objectivity and clarity of the result. Ability to identify hidden factors influencing the implementation.	The complexity and complexity of the application.

1. Instructions with screenshots on how to draw up a sales plan. B-Mag: website. URL: <https://b-mag.ru/instrukcija-so-screenshotami-kak-sostavit-plan-sales>

MATHEMATICAL METHODS OF SALES PLAN CALCULATION

Moving average ¹

According to the method of variable average projected sales in the future will be equal to sales for past periods. This does not take into account any other factors. The more periods are taken into account, the more accurate the forecast will be, which is why the method is not effective for young companies ¹



<https://www.slideshare.net/taltek/004-6704984>

EXAMPLE

The stationery store sold goods ¹:

For 2020 – 2700

For 2019 – 3140

For 2018 – 2900

Forecast for 2021 ¹:

$$(2700 + 3140 + 2900) / 3 = 2913.$$

Exponential smoothing

Method of creating short-term forecasts based on data analysis for previous periods ¹
Convenient for forecasting the development of retail sales ¹

Allows you to calculate how much goods you need in the next similar period (month, week) ¹

- Smoothing constant - from 0 to 1.

- With an average level of sales - 0.2-0.4

- During growth - 0.7-0.9.

The value with the smallest error for the previous periods is selected ¹

Forecast = Smoothing constant * Actual demand for the current period + (1 - Smoothing constant) * Forecast for the current period ¹

EXAMPLE

During the month, 640 notebooks were sold in the stationery store ¹

Preliminary forecast - 610. Smoothing constant - 0.3.

Forecast for next month =

$$0,3 * 640 + (1-0,3) * 610 = 619^1$$

MATHEMATICAL METHODS OF SALES PLAN CALCULATION

Decomposition and seasonality factor

Decomposition consists of seasonality, trend and cyclicity¹

The seasonality factor is used when creating a sales plan based on income for previous periods for the company, whose turnover depends on seasonality^{1,2}

Step 1. Determining the seasonal dynamics¹

Monthly average value = Total sales for the last year / 12

Seasonality factor = Sales amount for each month / monthly average

Average seasonality factor = (Coefficient of seasonality for the last year + Coefficient of seasonality for the current year) / 2²

EXAMPLE

For the last sales amounted to 850,000 UAH, of which 44,000 in January, 50,000 in February and so on¹ :

The average monthly value = 850000/12 = 70830 UAH

January seasonality factor = 44000/70830 = 0.62

The coefficient of seasonality in February = 50,000 / 70,830 = 0.71

Step 2. Define the goal

Sales growth = (Sales this year / Sales last year) - 1) x 100²

EXAMPLE

The goal is to increase sales by 20%. The calculation is simple: to the amount of sales for the last year you need to add 20%¹:

$$850000 + 20\% = 1\,020\,000 \text{ UAH}$$

Step 3. Make a sales plan for the month

Average plan for the month = annual goal to divide / 12¹

Plan for the month = Average plan x seasonality factor for each month¹

EXAMPLE

Average plan for the month = 1020000/12 = UAH 85,000.

Plan for January = 85,000 * 0.62 = UAH 52,700 Plan for February = 85000 * 0.71 = UAH 60,350¹

1. How to put a sales plan for a month example. Sales department development plan. Tahobaza: website. URL: <https://tahobaza.ru/uk/kak-postavit-plan-prodazh-na-mesyac-primer-plan-razvitiya-otdela-prodazh-analiz>

2. How to formulate and calculate the company's sales plan. First city business incubator: website. URL: https://start-mybusiness.ru/o_biznes_inkubatore/poleznaya_informatsiya/kak_pravilno_sfornirovat_i_rasschitat_plan_prodazh_kompanii

SALES PLAN CALCULATION

Sales analysis ¹

Products 1 / month.	Average sales	1	2	3	4	5	6	7	8	9	10	11	12	Total
Sales in units 2019 y.	713	500	560	710	720	740	720	694	772	762	802	800	780	8560
Sales in UAH 2019 y.	3589	2500	2800	3500	3750	3800	3500	3420	3910	3860	4010	4100	3920	43070
Seasonality ratio 2019 y.		0,7	0,78	0,98	1,04	1,06	0,98	0,95	1,09	1,08	1,12	1,14	1,09	
Sales in units. 2020 y	787	360	380	410	736	810	870	920	986	932	964	1050	1020	9438
Sales in UAH 2020 y.	3941	1800	1910	2100	3580	4100	4300	4750	4980	4710	4870	5200	4993	47293
Seasonality ratio 2020 y.		0,46	0,48	0,53	0,91	1,04	1,09	1,21	1,26	1,2	1,24	1,32	1,27	
Sales growth in%	9,8	-28	-32	-40	-5	8	23	39	27	22	21	27	27	9,8
Average seasonality factor		0,58	0,63	0,76	0,98	1,05	1,04	1,08	1,18	1,14	1,18	1,23	1,18	

The number of units sold in 2020 increased compared to 2019 by 10.3%, the amount of revenue increased by only 9.8%. That is, the difference of 0.5% was offset by the company's profit. It is necessary to closely monitor this proportion to avoid a significant reduction in margins for both the product and the company as a whole ¹

1. How to formulate and calculate the company's sales plan. First city business incubator: website. URL: https://start-mybusiness.ru/o_biznes_inkubatore/poleznaya_informatsiya/kak_pravilno_sformirovat_i_rasschitat_plan_prodazh_kompanii

INFORMATION FOR CALCULATING THE SALES PLAN

The volume of the market in the sector of the enterprise

It is difficult to calculate the size of the market, because not all companies disclose information about their sales. For this purpose, it is advisable to use the information of the State Statistics Service or order analytical reviews ¹

Market share

Having obtained the volume of the market by simple calculation determines the market share ¹

Market share in% = (Total sales in UAH for the current year / Market volume) * 100 ¹

EXAMPLE

Let the market volume be UAH 25,000. Market share, % = $(8560/25000) \times 100 = 34.24\%$ ¹

The amount of increase in the range and (or) quality of products

Determined by the goals of the enterprise ¹

Inflation rate and percentage of devaluation of the national currency

According to the National Bank and the State Statistics Service ¹

Purchase price of products

Installed by the company ¹

Average market price of products

It is established by market research ¹

The percentage of sales growth of your company (ratio)

All costs of the enterprise (variable and fixed) are distributed in proportion to the sales of the nomenclature unit. It is necessary to raise the company's data on average costs per month in order to determine the required margin per unit of output ¹

Wednesday costs per month. on od. products = (Sales volume per year / Total sales per year) x Total costs per year) / 12 ¹

EXAMPLE

The average purchase price per unit. products = 1.5 UAH ¹

The average market price per unit. products = 6.2 UAH

Wednesday costs per month. on od. products = 550 UAH

Inflation rate = 11.4% ¹

1. How to formulate and calculate the company's sales plan. First city business incubator: website. URL: https://start-mybusiness.ru/o_biznes_inkubatore/poleznaya_informatsiya/kak_pravilno_sformirovat_i_rasschitat_plan_prodazh_kompanii

CALCULATIONS OF SALES PLAN INDICATORS

When calculating the sales plan, it is recommended to rely on the number of units and its desired margin (or profitability), rather than the amount of total sales ¹

Calculations to determine margins (profitability)

The average price of one. = Average sales this year, UAH / Average sales this year, units ¹

The average cost of units. = Average purchase price + (Average costs per month / Average sales per month) ¹

Average margin per unit in% = (Avg. Unit price / Avg. Purchase price) - 1) ¹

Break-even point in units. products ¹ = Average costs per month / Average margin per unit.

Break-even point, UAH = Break-even point in units. products x The average price of units. ¹

EXAMPLE

The average price of one. $3589/713 = 5.03$
 Average unit cost = $3.5 + (550/787) = 4.2$ UAH
 Average margin per unit in% = $(5.03 / 4.2) - 1) \times 100 = 19.79\%$ (UAH 0.83)
 Break-even point in units. prod. = $550 / 0.83 = 663$ units.
 Break-even point, UAH = $663 \times 5.03 = \text{UAH } 3335^1$

Average price per unit for the planned year = Average price for the current year + (Current year inflation rate x Adjustment factor) ¹

Sales in units products on the plan. year = Sales in units for the current year + Percentage of sales growth in the planned year ¹

Sales volume per plan. year, UAH = Sales units for the planned year x The average price of units. prod. For the planned year ¹

EXAMPLE

Average price per unit for the planned year = $5.03 \times (11.4\% \times 1.2) = 5.72$
 In 2020, 10.3% more units were sold than in 2019
 In 2021, the percentage of sales growth = 12%
 Sales in units products = $9438 + 12\% = 10571$ units Products
 Sales volume, UAH = $10571 \times 5.72 = \text{UAH } 60,466^1$

1. How to formulate and calculate the company's sales plan. First city business incubator: website. URL: https://start-mybusiness.ru/o_biznes_inkubatore/poleznaya_informatsiya/kak_pravilno_sformirovat_i_rasschitat_plan_prodazh_kompanii

SALES PLAN ¹

Products 1 / month.	Average sales	1	2	3	4	5	6	7	8	9	10	11	12	TOTAL
Sales in units. 2020 y.	787	360	380	410	736	810	870	920	986	932	964	1050	1020	9438
Sales in UAH 2020 y.	3941	1800	1910	2100	3580	4100	4300	4750	4980	4710	4870	5200	4993	47293
Seasonality ratio 2019 y.		0,46	0,48	0,53	0,91	1,04	1,09	1,21	1,26	1,2	1,24	1,32	1,27	
Sales in units. 2021 y.	881	511	555	670	863	925	916	951	1040	1004	1040	1084	1040	10598
Sales in UAH 2021 y.	5052	2923	3175	3830	4939	5291	5241	5442	5946	5745	5946	6198	5946	60623
Sales growth in%		62	66	82	38	29	22	15	19	22	22	19	19	
Average seasonality factor		0,58	0,63	0,76	0,98	1,05	1,04	1,08	1,18	1,14	1,18	1,23	1,18	

Average sales planned year = Total for the planned year / 12 ¹

Sales per month = Average sales x Average seasonality ratio ¹

Average sales planned year = 60466 / 12 = 881 ¹

In the calculation, the method is used first from right to left, and then from left to right, so the end result (total sales) will be slightly different, because the calculations have non-integer numbers ¹

From the number 60466 after the method from left to right came the final figure of sales 60623. We will not change this number and attribute the increase in the final sales plan by 0.26% to the error of calculation ¹

1. How to formulate and calculate the company's sales plan. First city business incubator: website. URL: https://start-mybusiness.ru/o_biznes_inkubatore/poleznaya_informatsiya/kak_pravilno_sformirovat_i_rasschitat_plan_prodazh_kompanii

MAKING A SALES MANAGER'S WORK PLAN

6 hours on a working day

Of course, the official working day lasts 8 hours. But effectively used hours, even in the most organized, no more than six ¹

50% time to invest in the development of relations

Relationships are important not only for revenue growth, but also for how pleasant the manager will be to communicate with the client. If communication is a burden to him, it will be difficult to sell them effectively ¹

Any action should be planned: price / quality or time / efficiency ¹

Focus your work on the Pareto principle, or the 20/80 principle ¹

Example of calculating the motivation of the manager ²

		Variations					
		Pessimistic		Calculated		Optimistic	
		Standard	Expanded	Standard	Expanded	Standard	Expanded
Base rate	15000						
% pessimistic	1,00%						
% calculated	1,00%						
% optimistic	1,00%						
January	Number of sold places	27	10	25	15	100	60
	Amount of profit	243000	202000	225000	303000	900000	1212000
	managers %	2430	2020	2250	3030	9000	12120
	Total, Manager's salary	19450		36120		20281	
February	Number of sold places	27	10	25	15	100	60
	Amount of profit	243000	202000	225000	303000	900000	1212000
	managers %	2430	2020	2250	3030	9000	12120
	Total, Manager's salary	19450		20280		20281	
March	Number of sold places	27	10	25	15	100	60
	Amount of profit	243000	202000	225000	303000	900000	1212000
	managers %	2430	2020	2250	3030	9000	12120
	Total, Manager's salary	17430		20280		20281	

1. How to make an effective sales plan. Fractus: website. URL: <https://fractus.com.ua/uk/blog/korysni-statti/prodazhi/jak-sklasti-efektivnij-plan-prodazhiv>

2. How to build a sales plan? Online platform "Diya.Business": website. URL: <https://business.diia.gov.ua/handbook/prodazi/ak-pobuduhati-plan-prodazu>

KEY BUSINESS PERFORMANCE INDICATORS (KPIs)



9.1. The content and types of key performance indicators

9.2. Metrics of key performance indicators

9.3. Implementation of key performance indicators

THE ESSENCE OF KEY PERFORMANCE INDICATORS

DEFINITION

KPI (Key Performance Indicators) - enable businesses to control both daily operational (intermediate) processes and final achievements both in general (gross indicators) and in terms of resources spent to control efficiency - time, finances, level and number of employees involved. ¹

Non-financial KPI

- Share of new products in the sales basket or buyer ¹
- Period of execution of the order ¹
- Percentage of orders that customers returned or refused ¹

Financial KPI

- Gross sales ¹
- Margin ¹
- Profitability ¹

Key Performance Indicators Definition and Examples

A quantifiable measure a company uses to determine how well it's meeting its operational and strategic goals.



A sales team might track **new revenue**



A customer support team might measure the **average on-hold time** for customers



A marketing group will look at the contribution of **marketing generated sales leads**



Human resources will look at **employee engagement**



Other areas of the business will look at the **efficiency of processes**

the balance

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THE ESSENCE OF KEY PERFORMANCE INDICATORS

KPIs include only those indicators that are related to business objectives

Results indicators (RI)

Show the result, the end result. According to him, it is clear what has been done, whether the planned goal has been achieved or not ¹.

Example: the company released 500 men's suits a day. ¹

Key results indicators (KRI)

Measure the results of those actions that directly affect the achievement of goals ¹.

Purpose: determine whether success has been achieved, but do not provide information on how to improve the outcome. ¹

Performance indicators (PI)

Show how effectively the company works. The higher the number, the better ¹.

Example : the company has to produce 500 suits a day, and has released 570 ¹

Key performance indicators(KPI)

Identify actions and events that affect profits ¹.

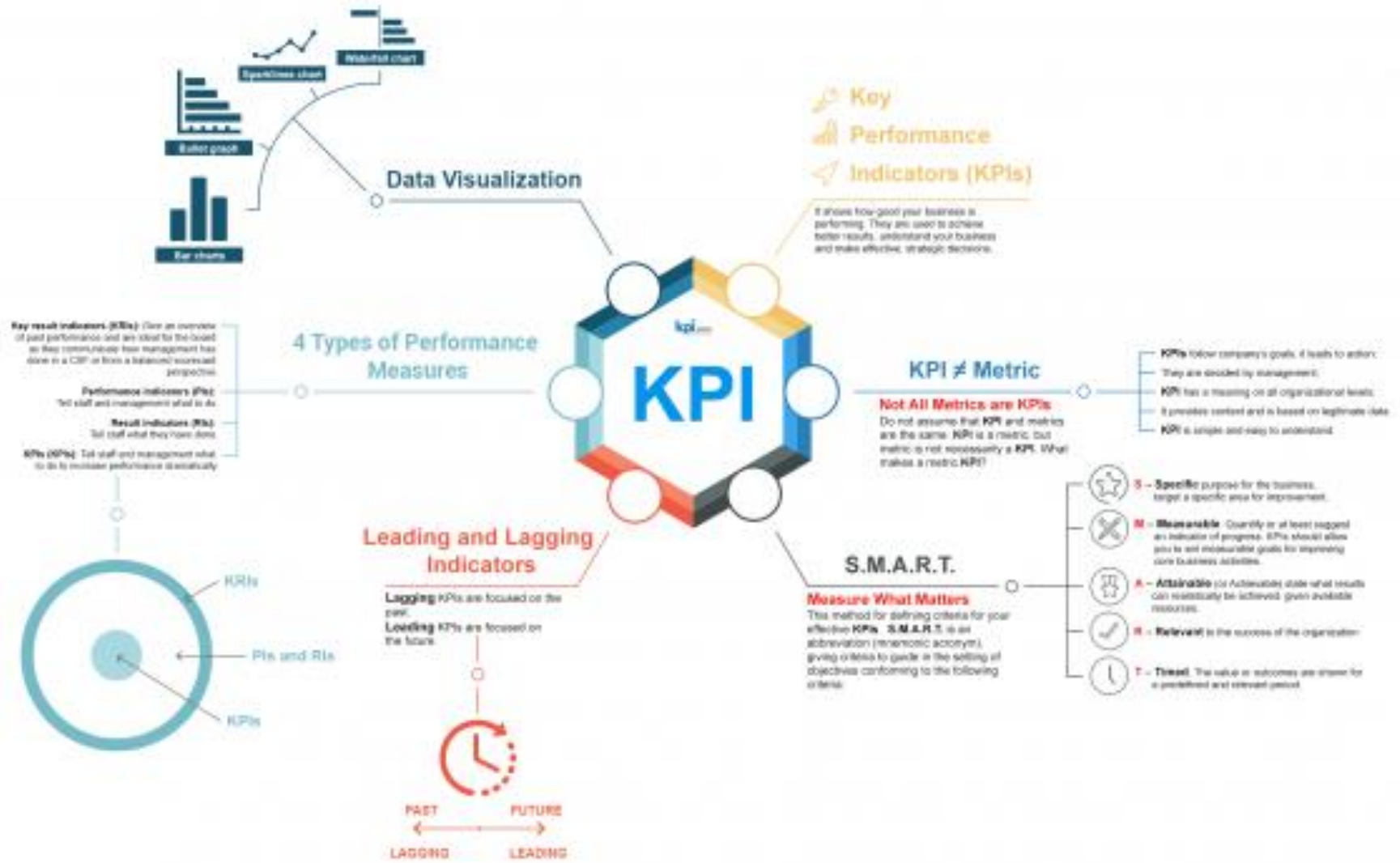
Purpose: help determine what to do to increase productivity ¹

① THE CONTENT AND TYPES OF KEY PERFORMANCE INDICATORS

VISUAL GUIDE BY DEFINITION KPI

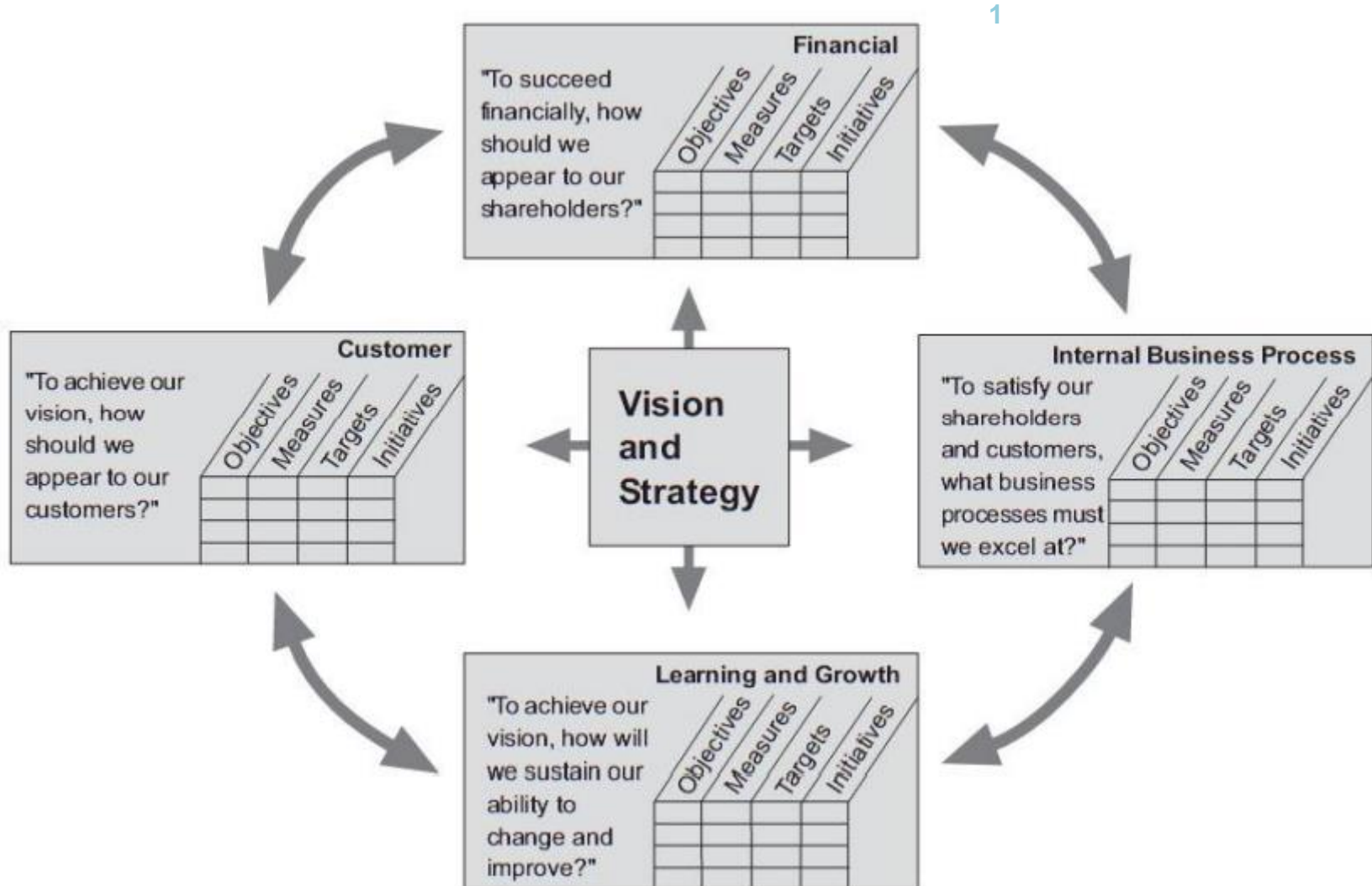
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① TOPIC 9



① THE CONTENT AND TYPES OF KEY PERFORMANCE INDICATORS

Four Perspective of Developing KPIs



TYPES OF KPI

Progress

Indicators are needed to measure KPIs based on projects or for key performance indicators, where there is not always a clear source of data, to track the implementation of goals and actions ¹.

Expression : «completed by 15%» ¹

Change

Identify and track changes in the organization ¹.

Expression: "Percentage increase in sales", "Percentage increase in sales of a product or service" ¹

Total values

Answer the question of how to calculate a certain number ¹.

Expression : "Number of new customers" on "Percentage of new customers attracted compared to last year" ¹

Results

Volumes of products, services provided, goods sold ²

Expression : production volume 360 tons

Investments

The amount of resources spent by a particular employee or department ²

Expression : advertising costs of the department

Functioning

Helps to determine the compliance of the process with the standard, protocol ².

Expression : logistics transportation

1. KPI or the golden key of your business. Romi.center: website. URL: <https://romi.center/en/learning/article/kpi-or-the-golden-keys-to-success-in-business>

2. Fedorenko A. What is a KPI system, how to use it in business processes. Waytobi: website. URL: <https://waytobi.com/en/blog/kpi.html>

CATEGORIES OF KPI

Belated KPI

An indicator where you have to wait a long time to see the results after a certain change. This may be due to the fact that the delay is caused by the business process itself. Useful for tracking long-term progress and identifying trends ¹.

Examples ¹ :

- 🌐 Customer outflow rate. Analyzed over a period of time to find out how many customers the company has lost during that time.
- 🌐 Percentage of returning customers. The percentage of the total number of customers to the number of those who bought from you more than once.

Leading KPI

Used for immediate results ¹.

Examples ¹ :

- 🌐 Average budget spending rate. Helps predict how long the current balance will be spent, and indicates whether to reduce costs or increase sales and receivables collection efforts.

Strategic KPI

Measure long-term progress towards key objectives and are monitored monthly or even annually ¹.

Examples ¹ :

- 🌐 Monthly increase or outflow of active users. The indicator tracks how many people are actively using your product each month.
- 🌐 Revenue growth rate. Measure growth or decrease in revenue compared to the previous month.

Operational KPI

Report daily changes that require immediate attention, show real-time progress and can be changed regularly ¹.

Examples ¹ :

- 🌐 Current volume of unfulfilled applications. The indicator summarizes the number of unfulfilled customer support applications currently available in the sales department.
- 🌐 Current receivables. This is the total amount of unpaid invoices that the company has issued to customers for a certain period of time to date.

② METRICS OF KEY PERFORMANCE INDICATORS

KEY INDICATORS OF THE FINANCIAL SPHERE

Gross profit

One of the most important indicators of efficiency. It is necessary to analyze both gross and net profit to better understand how well the company achieves the values of this KPI ¹

Sales by region

By analyzing which regions achieve sales targets and which do not, it is possible to provide better feedback for low-performing regions. ¹

Net profit

A key indicator of profitability ¹

Costs

Help measure profitability and find better ways to reduce costs and manage them ¹

Comparison of actual income with projected

Scheduling and analyzing the discrepancies between these two numbers will help determine how the department or company as a whole works ¹

Comparison of actual overheads with the projected budget.

Will provide insight into where the company has deviated from the plan, and can help build a more efficient budget for the department in the future ¹

Cost of goods sold

By calculating all the production costs of the product sold by the company, you can better understand what the markup on the product and the actual profit should look like. This information is key to determining how to outperform your competitors ¹

Average annual service costs per customer

The average amount needed to serve one customer ¹

Average annual costs per client = the amount of total costs / total number of customers ¹

② METRICS OF KEY PERFORMANCE INDICATORS

KEY INDICATORS OF THE FINANCIAL SPHERE

DSO (*Day Sales Outstanding*)

The lower this value, the better the company collects receivables ¹

DSO = (total amount of receivables for a certain period / total number of sales on credit in the same time frame) / number of days in the time interval under study ¹

EBITDA (*Earnings before interest, taxes, depreciation and amortization*)

The indicator measures revenue taking into account all costs, except interest, taxes, depreciation and amortization. To calculate, you need to subtract all these costs from the amount of revenue ¹

EBIT (*Earnings Before Interest and Taxes*)

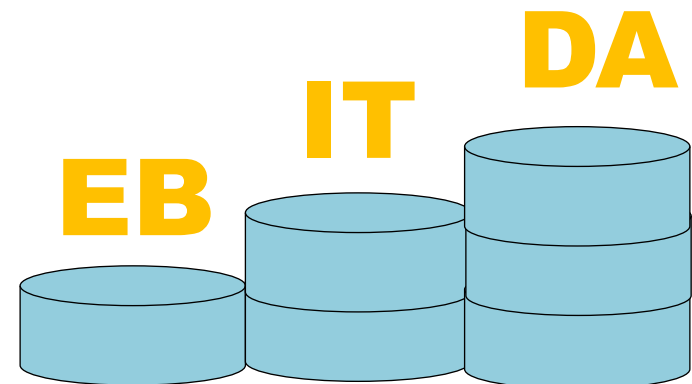
Unlike EBITDA, depreciation and amortization costs are additionally taken into account ¹

Expenditure on innovation

This KPI shows the amount of money an organization spends on innovation. In some companies it is included in the budget for research and development, in others there are other accounting conditions. Useful for businesses that value innovation as a key strategic impetus. Other KPIs in finance ¹

Other KPIs in finance

- Revenue growth
- Operating cash flow
- Current receivables
- Commodity circulation ¹



② METRICS OF KEY PERFORMANCE INDICATORS

KEY INDICATORS OF SALES

Applications to customer support

Analyzing the number of new applications, the number of completed applications and the time spent to resolve them will help create a better customer service department in the industry ¹

Percentage of product defects

Percentage of defective products. Obviously, the smaller this number, the better ¹

Percentage of product defects = number of defective goods / total number of goods produced during the period under study ¹

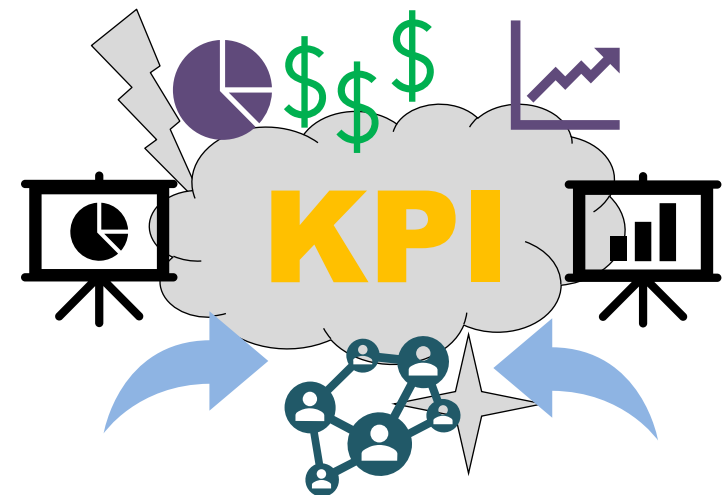
Measuring actual efficiency

Efficiency in each area should be defined differently.

The efficiency of the organization can be measured by analyzing how many units were produced each hour and what percentage of the time the company was in working order. The required parameters are selected depending on the business area of the company ¹

Other KPIs in sales

- Number of new contracts signed over a period of time
- The total cost of new contracts signed over a period of time
- The number of qualified leads involved in the sales funnel
- Time spent on sales
- Average conversion time
- Net sales - in cash or interest ¹



② METRICS OF KEY PERFORMANCE INDICATORS

KEY INDICATORS OF CUSTOMER WORK

LTV (Customer Lifetime Value)

Demonstrates what profit the consumer brings to the company during the entire interaction ¹

- High LTV is good for the company. It shows that satisfied users are coming again ¹
- Low LTV indicates an outflow of customers ¹

LTV = average check X number of repeated operations X average life time in the metrics of the reporting period

Increase of LTV ¹:

① Increasing the average cost of the order (AOV)

You can do this by either raising prices or selling more goods per transaction. Many entrepreneurs achieve this by selling additional goods. If supplements are much cheaper than other products, buyers are more likely to buy them impulsively. This strategy works well, both online and offline ¹

2. Increasing the frequency of purchases

When customers realize that shopping is easy, enjoyable or fun, they will come back more often. If the ordering process is simplified, consumers buy more. ¹

3. Reduction of content (retention)

While it seems impossible to demonstrate why most customers refrain from shopping, product analytics helps development teams understand why. Teams can analyze the behavior that precedes customer outflows to find and fix issues such as broken links and confusing interfaces. You should also monitor the mood of users ¹

4. Introduction of valuable content that attracts customers

Email marketing is one of the best ways to retain customers, but many companies do it wrong. Instead of sending quality content, they run automated campaigns. The best type of emails for customers are those that emphasize the value of the product / service ¹

② METRICS OF KEY PERFORMANCE INDICATORS

KEY INDICATORS OF CUSTOMER WORK

CAC *(customer acquisition cost)*

The amount of money that the company spends on marketing and sales to attract customers¹

CAC Payback — the time it takes to pay back CAC¹

EXAMPLE

When a new customer is attracted before they start buying a product or service, a cost equal to CAC will appear. Thus, initially the company is in the red for a new customer, but eventually goes to zero¹

Churn rate period - outflow of customers, the company receives a profit, which is called net LTV¹

EXAMPLE

If the company starts calculating the CAC return time, it means that the product is starting to deliver pure LTV. From this moment until the client stops paying¹

- The CAC return time depends on the average revenue per customer¹
- As the transaction price increases, the payback period for one customer becomes shorter¹
- Thus, the price of the product in the business model should depend on the CAC indicator¹
- If the LTV barely exceeds the CAC, you should work to minimize the CAC or increase pricing¹

The goal of any business is to minimize CAC, which means faster CAC returns and increased customer LTV and business profits¹

Amount of budget expenditures per new client = (amount of advertising budget / number of new clients for a certain period) + salaries of people who are engaged only in advertising¹

② METRICS OF KEY PERFORMANCE INDICATORS

KEY INDICATORS OF CUSTOMER WORK

CSR

(Customer Satisfaction & Retention)

The indicator is more important for shareholders than for customers themselves. Several performance metrics can be used to measure CSR, including estimating customer satisfaction and the percentage of repeat customers.¹

Number of customers

By determining the number of acquired and lost customers over a period of time, you can better understand whether the company meets the needs of its customers¹

Customer Churn Rate

The indicator shows the percentage of customers who either do not re-purchase, or go at all for a certain period¹

Customer Churn Rate=
the number of customers lost during the
period / the number of customers at the
beginning of the period¹

Net Promoter Score

One of the best ways to mark a company's long-term growth¹

To find out your NPS, you need to conduct quarterly customer surveys asking how likely they are to recommend your company to their friends¹

The number of "critics" should be subtracted from those who answer the question in the affirmative.¹

The baseline is set by the first percentage survey, and then measures are taken to help these figures grow from quarter to quarter.¹

Other KPIs for customers

- Percentage market share
- Average application processing time
- Average time for technical support¹

② METRICS OF KEY PERFORMANCE INDICATORS

KEY INDICATORS OF HR-MANAGEMENT

ETR (Employee Turnover Rate)

One of the most important indicators of efficiency. It is necessary to analyze both gross and net profit to better understand how well the company achieves the values of this KPI ¹

$$\text{ETR} = \frac{\text{Number of employees who left the company}}{\text{Number of employees}}^1$$

Percentage of response to vacancies

If the company has a high percentage of qualified applicants who apply for vacancies, it increases the likelihood of finding the right candidate ¹

Retirement period

Used by organizations with a large team and want to manage human resources ¹

$$\text{RP} = \frac{\text{percentage of total staff}}{\text{number of retirees}}^1$$

Learning effectiveness

Allows you to assess the effectiveness of employee training. For example, by creating an exam and tracking the percentage of successful completion and the average percentage of points scored ¹

Human resources

The indicator measures how many employees of the company can make a further career in the same company, compared to the staff hired by outsourcing. ¹

SCR (Salary Competitiveness Ratio)

Lets find out how good compensation the company offers compared to other players in the industry ¹

$$\text{SCR} = \frac{\text{average salary in the organization}}{\text{average salary offered by competitors}}^1$$

Other KPIs on personnel

- Average order execution time
- Employee satisfaction rating ¹

② METRICS OF KEY PERFORMANCE INDICATORS

KEY INDICATORS OF MARKETING

The volume of appeals through channels

Tracking the number of support requests by phone, e-mail or social networks allows you to see which method is best for customers, as well as estimate the number of support requests from month to month ¹

The number of new visits to the site compared to repeated

Evaluating repeat site visits allows companies to differentiate traffic and get information about potential customers ¹

$$\text{NNV} = \frac{\text{total number of site visits by new visitors}}{\text{total number of site visits}}^1$$

Percentage of satisfied customers

Defining this indicator opens the possibility for further study of what makes customers so satisfied. This is also a good long-term metric that you should pay attention to over time ¹

$$\text{PSC} = \frac{\text{the number of customers who consider themselves "very" or "extremely" satisfied}}{\text{the total number of respondents}}^1$$

Other KPIs on marketing

- The number of qualified leads for the period
- Conversion rate for calls to action
- Keywords in the results of search results TOP-10
- Blog articles published this month, e-books published this month ¹

③ IMPLEMENTATION OF KEY PERFORMANCE INDICATORS

BUILDING A SYSTEM OF PERFORMANCE INDICATORS

KPI implementation

The implementation of the system of performance indicators can take place in the following three stages:¹

Stage №1

- Highlighting the company's strategic goals for a certain period. For example, introducing a new product to the market, scaling the company, increasing production capacity, etc. Global goals that are necessary for the development and prosperity of the company are reflected here. Goals should be expressed in quantitative and qualitative indicators.

Stage №2.

- Drawing up a plan of tasks for each division of the company, which will contribute to the achievement of goals and answer the questions necessary for this.
- Determination of the result (product) of each task and setting deadlines.

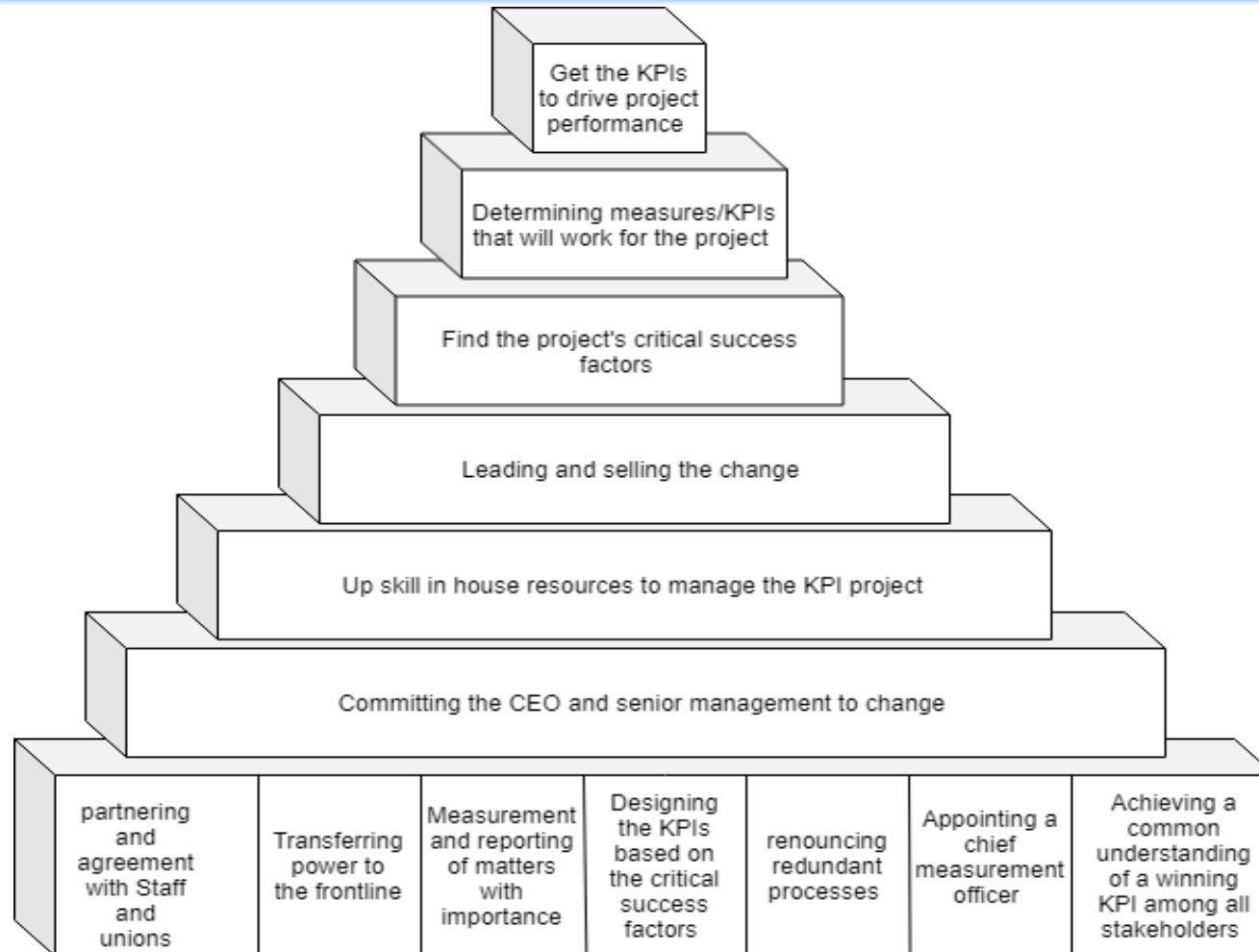
Stage №3.

- Within each division, the current task plan is broken down into subtasks and shared among employees.
- Responsible persons for implementation are appointed. One of the key indicators may look like the ratio of completed tasks (realized products) to planned ones.

③ IMPLEMENTATION OF KEY PERFORMANCE INDICATORS

BUILDING A SYSTEM OF PERFORMANCE INDICATORS

Building blocks for achieving successful implementation of KPIs in organisations and projects ¹



Foundation Stones for implementing the winning KPI methodology

3 IMPLEMENTATION OF KEY PERFORMANCE INDICATORS

BUILDING A SYSTEM OF PERFORMANCE INDICATORS

Formation of employee KPIs

The procedure for determining KPIs for each position assumes the presence of a set of valuable functions for achieving the company's goals.

Every function has its own product. The product is expressed in quantitative and qualitative indicators and reflects the efficiency of the specialist.

The key performance indicator is the result for which the employer is willing to pay the employee's salary.¹

EXAMPLE

Selection of key indicators for the position of **sales manager**:¹

Function = product = key performance indicator¹



Function: Increasing the customer base =
Product: the number of new customers found who agreed to purchase the service = **Key performance indicator** = 5 new clients.¹

Function: Control of receivables =
Product: postpaid received in a timely manner = **Key performance indicator:** receivables do not exceed the 10% norm¹

Function: Implementation of the sales plan = **Function** : money in the cash register = **Key performance indicator** : 500 000 UAH.¹

Based on these indicators, a salary system is built, where each of the indicators has its own specific weight and the variable part of the salary is distributed accordingly.¹

3 IMPLEMENTATION OF KEY PERFORMANCE INDICATORS

BUILDING A SYSTEM OF PERFORMANCE INDICATORS

Formation of employee KPIs

EXAMPLE

Selection of key indicators for the position of a **lawyer**:¹

Function = product = key performance indicator¹

Function Conducting contractual work
= **Function** : Agreed and signed contracts with clients = **Key performance indicator** : 10 agreed and signed contracts.¹

Why should the responsibility for signing contracts lie with a lawyer and not with a sales manager? Many companies mix areas of responsibility, and the sales manager performs the functions of both a lawyer and a marketer, etc.

By distracting salespeople from what they should really be doing, which is selling, you're missing out on potential revenue. Therefore, it is recommended to carefully review the functionality so that everyone does their own thing and produces their own product.¹



Why exactly 10 agreed and signed contracts? The norm can be determined based on the analysis of past periods + need, according to the company's development plan.

For example, in order to earn UAH 500,000, if the company has a fixed price for the service, for example UAH 50,000. She needs to conclude 10 contracts. Or the company can start a point system for each concluded contract, depending on its complexity, typical or atypical, etc.¹

Function : Preparation and implementation of debt claims
= **Function** : Won lawsuits = **Key performance indicator** : The amount to be returned, according to the won lawsuits.¹

An indicator of the effective work of a lawyer can be a point system, according to a compiled checklist with assigned points for valuable functions.¹

3 IMPLEMENTATION OF KEY PERFORMANCE INDICATORS

BUILDING A SYSTEM OF PERFORMANCE INDICATORS

An example of a score system for calculating efficiency for the position of lawyer ¹

List of functions	Points
<i>Agreed standard contracts and additional agreements, including subcontracts (for each concluded contract / additional agreement)</i>	2
<i>Non-standard contracts agreed with the client (for each concluded contract)</i>	4
<i>New contracts developed (for each new contract developed)</i>	2
<i>All employees have signed NDAs and agreements on the preservation of TMC</i>	1
<i>All contracts are entered in the register and are actually in the office</i>	2
<i>At meetings, employees are regularly informed about all changes in legislation</i>	2
<i>A response was prepared and sent to all requests of the relevant authorities (for a response to each letter, claim)</i>	2
<i>All procedural documents prepared and submitted to the court on time (for each document)</i>	3
<i>All counterparties are verified (for each verified counterparty)</i>	1
SCORES:	

1. Dyachuk M. The KPI system at the enterprise. Liga Zakon: website. URL: https://biz.ligazakon.net/aktualno/7754_sistema-kpi-na-pdprimstv

BUILDING A SYSTEM OF PERFORMANCE INDICATORS

An example of a score system for calculating efficiency for the position of chief accountant ¹

List of functions	Points
<i>Completed and timely submitted financial forecast</i>	10
<i>A completed and timely submitted report for the previous week</i>	10
<i>The number of payments made in accordance with the regulations. Each payment - 1 point.</i>	1
<i>The correct salary statement was provided in a timely manner</i>	10 (1 mistake - 1 point)
<i>Wages transferred on time</i>	10
<i>Reporting to the tax office was submitted on time</i>	10
<i>Number of cash transactions</i>	1 transaction – 1 point

1. Dyachuk M. The KPI system at the enterprise. Liga Zakon: website. URL: https://biz.ligazakon.net/aktualno/7754_sistema-kpi-na-pdprimstv

③ IMPLEMENTATION OF KEY PERFORMANCE INDICATORS

BUILDING A SYSTEM OF PERFORMANCE INDICATORS

The method of determining the KPI of employees

The simplest method of determining key indicators for similar positions is **the ratio of the number of completed tasks to the set ones.**

For this, the company must implement a system in which tasks and timings are fixed.

It is recommended to set no more than 3-4 key indicators for the position, one of which is decisive, that is, the main one. ¹

Performance measurement periods ¹

- weekly cycle,
- monthly,
- quarterly,
- semiannual
- annual



Instructions for implementing the KPI system ¹

1. Highlighting performance indicators for which the company is ready to pay wages.

2. Determination of calculation principles.

3. Determination of sources from which data will be received.

4. Development or refinement of appropriate reporting, where data will be recorded.

5. Formation of explanatory instructions.

6. Determination of the mechanisms of selective verification of the correspondence of the received data.

7. Conducting relevant briefings.

8. Launch of a pilot project.

9. Analysis of results and implementation on a regular basis.

EXAMPLES OF PERFORMANCE INDICATORS FOR SOME POSITIONS ¹

Position	Indicators
CEO	<ul style="list-style-type: none"> - Net profit of the company - The number of completed tasks under strategic programs within the set deadline.
HR director	<ul style="list-style-type: none"> - Productive staff. The most important key indicator of each position is taken as the basis. Next, the percentage ratio of employees fulfilling this indicator to the total number of personnel in the company is derived. - Completed recruitment plan. - Number of employees who successfully passed the probationary period.
Head of the training department	<ul style="list-style-type: none"> - The number of points earned by study programs. - The number of highly successful employees. - Gross profit for each employee of the company. - The number of completed tasks for the development of new training programs.
Head of the sales department	<ul style="list-style-type: none"> - Completed sales plan for new customers. - Completed plan to expand the active client base. - Executed plan for receivables. - Completed plan for sale of priority brands. - Completed plan for sale of illiquid goods, etc.
CFO	<ul style="list-style-type: none"> - The ratio of gross income to the planned costs of the company. - Overdue payables. - The amount of the company's assets.
Head of the technical department	<ul style="list-style-type: none"> - Income from current customers. - The number of completed tasks within the term of providing the product to the client. - Quality of the provided product.
Marketing specialist	<ul style="list-style-type: none"> - The number of targeted responses received from advertising campaigns. - The number of completed tasks for launching advertising campaigns in accordance with the established plan.
Customer support manager	<ul style="list-style-type: none"> - The number of points scored for issuing invoices. (A point is set for the amount of items in the invoice). - The amount of sales in telephone mode. - Point for compliance with telephone communication standards.

1. Dyachuk M. The KPI system at the enterprise. Liga Zakon: website. URL: https://biz.ligazakon.net/aktualno/7754_sistema-kpi-na-pdprimstv

③ IMPLEMENTATION OF KEY PERFORMANCE INDICATORS

EXAMPLES OF PERFORMANCE INDICATORS IN DIFFERENT FIELDS OF ACTIVITY¹

Retail Sales Manager KPIs ¹

- volume of products sold;
- training of new employees;
- assortment of offered goods and services;
- customer orientation;
- reducing the risk of losses.

KPI of project management specialists ¹

- level of productivity;
- compliance with established deadlines;
- the share of completed on time or unfinished projects;
- return on investment.

KPI of Internet marketers and SMM specialists ¹

- website traffic;
- traffic dynamics;
- click-through rate (CTR);
- occupation of priority positions in search engines;
- redirection by brand requests;
- the cost of a visitor and a lead;
- the percentage of completed deals and broken deals.

KPI of the HR department ¹

- personnel turnover;
- career growth, its dynamics for the main mass of employees;
- the number and reasons for layoffs;
- number of resumes sent from applicants;
- the cost of the absence of an employee on site and the number of non-working days;
- involvement in the workig process;
- effectiveness of training.

3 IMPLEMENTATION OF KEY PERFORMANCE INDICATORS

CALCULATION OF KEY PERFORMANCE INDICATORS ¹

The KPI of a department or branch is the sum of the KPI values of all employees working in the department, divided by the number of employees. When the coefficient is obtained, its relation to the planned indicator is calculated. The manager sees how efficiently the entire department worked. ¹

EXAMPLE

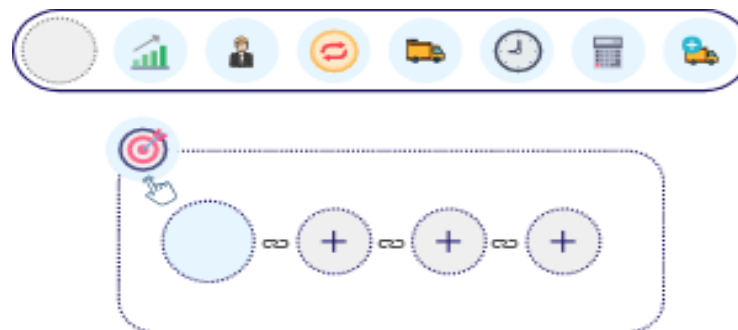
Let's calculate the KPI for a manager working in a cell phone salon. His task is to advise customers, sell goods and additional services, provide high-quality service that encourages customers to return for a new purchase..¹

For the reporting period	Plan	Fact	KPI Value
Об'єм продажу	1 500	1 740	116%
Сума проданих додаткових сервісів	100	93	93%
Число завершених угод	100	85	85%
Число проданих додаткових сервісів	10	9	90%
Конверсія продажів	60	63	105%
Загальний KPI			97,8%

The "Fact" column indicates the real indicators achieved by the manager for the selected period.

Personal KPI values for various indicators are calculated as the ratio of planned indicators to actual data multiplied by 100%. The overall digital performance indicator can be calculated by summing up the KPIs for all selected indicators and dividing the resulting value by the number of indicators.

The example shows how simple and clear everything is. The manager can assess where the employee "underperformed" this month, which directions are difficult for him. After analyzing the data, the manager can send a promising employee to study or offer him another job related to other tasks. ¹



③ IMPLEMENTATION OF KEY PERFORMANCE INDICATORS

INTERCONNECTION OF KPIs TO ACHIEVE A COMMON PURPOSE OF THE ENTERPRISE¹



③ IMPLEMENTATION OF KEY PERFORMANCE INDICATORS

TOOLS THAT INCREASE THE CONVENIENCE OF WORKING WITH THE KPI SYSTEM ¹

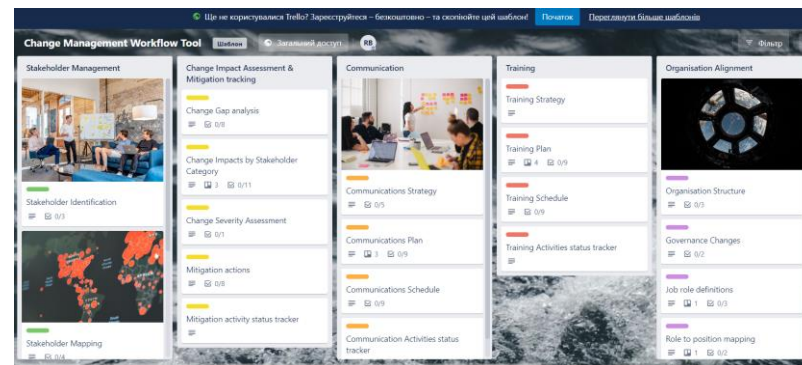
Modern electronic technologies provide various tools that will help to introduce a control system at the enterprise easily for heads of departments, ordinary employees, accounting, which calculates wages. Numerous electronic formats make it possible to integrate KPI without stress for the team. ¹

Automated software solution

A directly automated software solution available electronically that helps calculate employee KPIs in real time. The interaction between the staff, the manager and the manager is carried out using the service, which is accessed through a browser. It is enough to have an Internet connection to get a visual representation of the results of each employee or an entire department. ¹

Trello Board

This visual form is a board on which employees' achievements are displayed in the form of icons or cards. Badges can be in the form of objects - flowers, stars, triangles. Such a tool allows all employees of the department to see what work and tasks were performed by each member of the team during the reporting period. A similar format is used in children's teams, where there is a competition between "links", "squads". Such a tool works very well, as it helps to calculate the contribution of each employee to the overall business. ¹



<https://trello.com/b/z2zZBEsk/change-management-workflow-tool>

TOOLS THAT INCREASE THE CONVENIENCE OF WORKING WITH THE KPI SYSTEM ¹

Motivational screen

It can be made in the form of a slate board or a large-format sheet of paper fixed on a special stand. On such a screen, a table is drawn, in which the main indicators are entered for each employee whose activity is evaluated according to the new system. Even if all employees have access to a software solution where indicators are displayed, such a motivational screen installed in the common hall will fuel the spirit of rivalry. Visualization will provide staff stimulation to achieve high work results. ¹



③ IMPLEMENTATION OF KEY PERFORMANCE INDICATORS

KPI IMPLEMENTATION ERRORS

Not all actions can be evaluated within the framework of KPIs

1 Especially the actions are related to creativity or, for example, to events, the course of which does not depend on the employee himself. ¹

KPI is a factor of overwork

2 A closed circle is formed: an employee who meets the KPIs set for him soon receives even higher KPIs from his superiors, if he succeeds, then even higher ones... In order to do everything and not lose in internal competition, the employee is forced to voluntarily stay in the office after work, taking work home, taking time away from family, hiding illnesses, etc. ¹

Adaptation of goals "under" KPI

3 A side effect of setting KPIs is that once such goals are defined, the entire process is point-wise transformed to them, which does not always equate to achieving a better overall result. ¹

Constant complication and updating of KPIs

4 Once the right KPIs have been defined or developed, they are often questioned or challenged in terms of whether they remain relevant, relevant to the strategy whether they continue to help businesses solve pressing problems. It is important to ensure that only the necessary data is collected and passed through the subsequent processing steps. ²

Using the same indicators for companies in different industries

5 The KPI methodology involves adjusting general indicators to the specifics of the company's work, taking into account the scope of its activity, scale, stage of development, etc. It is wrong to calculate the indicators used by competitors without linking them to the company's strategy and the problems that need to be solved. ²

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