UNIVERSITY OF LJUBLJANA

FACULTY OF ECONOMICS

MASTER'S THESIS

A COMPETITION ANALYSIS AND PERFORMANCE OF KOLEKTOR ETRA D.O.O. ON THE EUROPEAN TRANSFORMERS MARKET

Ljubljana, January 2018   ROK ŠVIGELJ

AUTHORSHIP STATEMENT

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TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

INTRODUCTION

Kolektor Etra d.o.o. (hereinafter: KE) is a rapidly growing Slovenian company that manufactures transformers. More than 80% of the company's revenue is generated by exporting its products to foreign markets, whereby the vast majority is exported to European countries. Throughout the years, the company has been steadily increasing its revenues, market shares and has become also a widely known transformer manufacturer on the European market. In 2016, the company's turnover amounted to 86.5 million.

The competition on the power transformer market both in Europe and globally is very aggressive. In Europe, several global as well as local manufacturers are present and all of them have their own winning strategy. That is why it is very important for KE to regularly monitor its competitors and gather as much information about their performance and strategies as possible.

The main goal of this master thesis is to perform a benchmarking analysis and examine the different competitors that are present on the European transformer market, in order to determine KE's performance in comparison to its competitors. In addition, I further analyse one competitor, its performance and processes, with the purpose of identifying key activities or advantages that enable this company to perform better than KE in some aspects. The purpose of this master thesis is therefore to provide KE's top management with the necessary information that allows them to identify the areas of the company's performance that should be improved to achieve even better results and higher competitiveness. Additionally, this research and the provided information also serve as a basis for structuring KE's long-term strategy that will enable the company to stay competitive in the future as well.

I have formulated the following research questions as a basis for my research:

- What are the characteristics of the global and the European transformer market?
- What is KE's performance compared to its European competitors?
- What is the reason that the chosen competitor is, in some ways, performing better or has stronger competitive advantages than KE?
- Where and how should KE improve?

The research is based on primary and secondary sources. The empirical part of the thesis is based on the analysis of the annual reports of different competitive companies, which are present on the European market and represent direct competition for KE. Reports were either found through companies' internet pages or through different informational systems that are owned by KE. Individual performance indicators were gathered from the annual reports and compared to different competitors and KE. In addition, a focus group with area sales managers from KE's most important markets was conducted, to get a better insight

into KE's competitors. In order to discuss which competitors we should compare and on which parameters, several meetings and discussions were held with the top management and focus groups. The usefulness and applicability of the performed analysis is very broad. Such a type of analysis can be useful for KE's top management as well as for an individual KE employee. For example, the information gathered in this analysis can help KE's top management understand their company's current position, what they should improve, where the competition is better and what should be the company's strategy in the future. Performed analysis can also be used by an individual employee in, for example, area sales or by a purchasing manager. Area sales managers are in a position where they need to daily compete with the individual companies that were analysed, therefore any information about the individual competitor can help with choosing the appropriate strategy for succeeding in the business. On the other hand, purchasing managers can use the information about the size, financial performance and payments of the companies to negotiate better purchasing conditions. The power transformer industry is a very specific as well as a relatively small industry in which every piece of information about the competition can be very useful for succeeding in the business. The structure of the performed analysis can also serve as a blueprint for performing similar analyses in other companies within the Kolektor Group, which is also very active in performing mergers and acquisitions, so the performed analysis can be helpful at the beginner stage where the potential acquisition targets are being identified. Such an analysis should be performed every 4 to 5 years, or at least before formulating a new company strategy. It is important to always have an eye on the competition and how they are performing compared to you.

Performing this analysis required a lot of engagement from the management of Kolektor Etra, Kolektor Group and Area Sales Managers. At the first step, a lot of effort was put into finding reliable data. I needed to organize meetings with several people inside company Kolektor Etra as well as in the Kolektor Group. When all the data was gathered, it needed to be organized, checked and put into the format that enabled me to perform a further analysis. Additionally, in order to better understand competitors, some non-financial information was also required. For this purpose, the competitors' brochures, websites, presentation and other information were checked. It was very challenging to find this information, because most of the companies do not share a lot of it publicly. In further steps, several meetings with end users were held to ensure high applicability. At these meetings, we discussed which information or analysis should be added so that the usefulness of the performed work would be very high. In the end, the full analysis was put into the descriptive form, which was then submitted and presented to the management of the company.

There are several limitations that affected this research. Firstly, the information about the market size of power transformers is very hard to determine, as most of the reports only include investments that will be or were made into electricity equipment, whereas no information about the investments into power transformers is available. Secondly, there is

limited publicly available information about the competition. Some companies do not only produce power transformers but also other equipment, therefore, in such cases, it is not possible to directly know how much of the revenues were generated from the sales of power transformers. Most information about the market share, sales of individual products, capacities and investments are business secrets. Due to such limitations in data availability, one should interpret the findings of this analysis with this in mind. Additionally, in performing a benchmarking analysis, a benchmarking partner is often included in the research, however, due to the high competitiveness among the companies and the secrecy of information, this was not possible. Moreover, gathering data and including different members of the organization into the research requires huge resources, which were not available on such a scale due to a limited budget.

This master thesis is structured into four chapters. The first two chapters are focused on an overview of the theoretical concepts. The first chapter is related to evaluating the corporate performance and the second focuses on benchmarking. Different definitions, practices, historical developments, types and models of benchmarking and the company's performance are described in these two sections. The third chapter provides information regarding Kolektor Etra's financial performance, production assortment and so on. The last chapter is divided into three sections. In the first section, the analysis of the European and the global transformer markets is conducted and in the second part, the performance and the competitive benchmarking analysis is presented. At the end, the findings of the performed analysis and the recommendations are presented.

1 PERFORMANCE MEASUREMENT

Performance measurement was developed with the purpose of monitoring and establishing control over the organization. This consequently leads the company to focus its resources on achieving its goals and objectives. Due to this, choosing the most suitable performance measures is one of the most critical challenges that an organization faces (Ittner & Larcker, 1998; Knight, 1998). If the performance measures are not chosen carefully, they can send the wrong signals to the managers, which can consequently lead the organization to make bad decisions and that can lead to undesirable results. This can then lead to huge hidden costs for the organization's shareholders in the form of under or overinvestments which do not pay off (Maditinos, Ševič, & Theriou, 2006).

The literature about performance measurement can be divided into two main phases. The first phase began in 1880 and ended in 1980. At that time, the emphasis was on the financial measures of performance, such as profit, return of investment and productivity. In the second phase, which started in the early 1980s and was stimulated by the changed customer requirements, it became vital to create a new performance measurement system that will enable the organization's further success and prosperity (Ghalayini, Noble, & Crowe, 1997). Due to that, several divisions of performance measurement exist and the

most basic and commonly used is the division to financial and nonfinancial performance measures (Maditinos et al., 2006).

It does not matter whether the financial or the nonfinancial measurement for evaluating the organizational performance is used, because good performance is determined by and depends on the standpoint from which it is being evaluated. What one group of stakeholders considers a good performance, can be considered bad or even poor performance for another group of stakeholders (Crowther & Aras, 2008).

Globerson (1985) provided the following guidelines for choosing suitable performance measurements or criteria:

- The criteria of performance should be chosen based on a company's objectives.
- The chosen performance criteria must enable the comparison of the organizations operating in the same business.
- The purpose of the performance criteria must be clear.
- The performance criteria based on ratios is preferable to the absolute number.
- Methods of calculating the performance criteria must be clearly defined.
- The chosen performance criteria should be selected after a discussion with the people who are involved in the organization's operations.
- Objective criteria are preferable.

In this thesis, I use the division of the performance measurements into the traditional and the so called contemporary measurement system. The first one is focused on and uses only financial indicators and the second approach uses financial and nonfinancial indicators.

1.1 The traditional performance measurement systems

The traditional performance measures appeared in the late 1910s and have been used in various forms to measure the financial performance of companies (Maditinos et al., 2006). These measures are mostly based on the management accounting system and were as such focused on financial data such as Return on Investment (hereinafter: ROI), Return on Sales (hereinafter: ROS), sales per employee, productivity and profit per unit produced (Ghalayini & Noble, 1996).

Accounting measures traditionally served as support for the quantitative approaches for organizational performance. Consequently, this approach is used for the following three purposes (Neely, 2002):

- a tool of financial management, for monitoring the efficient use of financial resources and the efficient operation of financial functions;

- measuring and monitoring of the financial performances such as profit and return on investment;
- as motivation and a monitoring tool within the organization.

1.1.1 Financial performance indicators

A lot of information about a company is gathered through the company's financial statements, however, absolute figures convey only a small meaning. On the contrary, a figure can become more meaningful if it is compared to some other informative figure. That is why, for the interpretation of financial statements, the ratio analysis is mostly used within companies (Bagad, 2005). Bagad (2005) summarizes the importance of the ratio analysis in the following points:

- It states the financial position of an organization.
- It indicates the profitability of an organization.
- It can be compared to ratios from the previous years of the same organization (intra-firm comparison).
- It can be compared to ratios of the competing companies (inter-firm comparison).
- It can be helpful in making future plans.
- Ratios indicate the efficiency of an organization.
- Ratios show the ability of an organization to pay its financial obligations.

1.1.2 Categories of financial ratios

There are several ways to divide financial ratios in different categories. In my master thesis I use the division that was used by Čater (2017), which divides financial indicators into five groups: asset management ratios, liability ratios, asset versus liability management ratios, profitability and other performance ratios and market value ratios. Only the first four are relevant for the purposes of my thesis, which is why the last group of ratios (market value ratios) is not presented.

Asset management ratios measure the ability of an organization to use the assets at its disposal. This group of ratios often includes accounts receivables, the turnover ratio and total assets (Baker & Powell, 2005) (Table 1).

Table 1. Asset management ratios

Ratio	Formula	Explanation/Meaning
Current assets turnover	Sales/Current assets	This ratio indicates the number of times the current assets were turned over during a period, which is one year in most cases.
Duration of turnover of current assets	360 days/Current asset turnovers	It indicates the number of days in which the current assets were turned over.
Inventories turnover	Sales/Inventories	It indicates how many times the inventories were turned over during a period (usually one year).
Duration of turnover of inventories	360 days/Inventories turnover	It indicates the number of days' worth of inventory that the company has at any given moment.
Accounts receivable turnover	Sales/accounts receivable	It indicates the number of times the accounts receivables were turned over in the period of a year.
Duration of turnover of accounts receivable	360 days/Accounts receivable turnover	It indicates the number of days that the company waits to collect sales after they are already done.

Source: T. Čater, *Strategic control: study material. Unpublished work,* 2017.

Liability ratios are ratios, which indicate how much of a company's funds were either borrowed or owned for financing a company's assets. It shows how much of its own funds a company has to operate.

Table 2. Liability ratios

Ratio	Formula	Explanation/Meaning
Owner's equity to liabilities ratio	Owner's Equity/Total liabilities	It indicates the extent to which the owned funds have been used to finance the company's assets.
Debt to liabilities ratio	Debt/ Total liabilities	It indicates the extent to which the funds that were borrowed have been used to finance the company's assets.
Debt to owner's equity ratio	Debt/Owner's equity	It indicates the founds provided by lenders (banks) versus the funds provided by the owners.

Source: T. Čater, *Strategic control: study material. Unpublished work,* 2017.

Asset versus liability management ratios are mainly focused on a company's ability to pay its long-term and short-term obligations. These ratios provide information on a company's financial health and are therefore an important piece of information and an indicator for a bank, as well as a potential customer.

Table 3. Asset versus liability management ratios

Ratio	Formula	Explanation/Meaning
Financial stability ratios	(Fixed assets + Long-term investments)/ (Long-term debt + owner's equity)	It indicates the ability of a company to pay its long-term obligations from long-term assets (around 1).
Current liquidity ratio	Current assets/ Current liabilities	It indicates the ability of a company to pay off its short-term obligations from current assets (at least 2).
Quick liquidity ratio	Current assets-Inventories/Current liabilities	It indicates the ability of a company to pay off its short-term obligations from current assets (excluding inventories).
Cash liquidity ratio	(Cash + Cash equivalents) / Current liabilities	It indicates the ability of a company to pay off its short-term obligations from cash and cash equivalents (should be at least 0.5).

Source: T. Čater, *Strategic control: study material. Unpublished work,* 2017.

The group of ratios in Table 4 are the ones that are the most useful and interesting for my research. These ratios provide the information about a company's profitability. Because my focus is to identify KE's performance in comparison to its competitors, some of these ratios are used in this research.

Table 4. Profitability and other performance ratios

Ratio	Formula	Explanation/Meaning
ROE (Return on equity)	Net profit (after taxes)/ Average owners' equity	It indicates the rate of return on the owner's equity.
ROA (Return on assets)	Gross profit (before taxes) + Interest paid/ Average total assets	It indicates the rate of return on the total assets utilized in the company.
ROS (Return on sales)	Gross profit (before taxes)/Sales	It indicates how much profit before taxes, is generated by each EUR of sales.
Revenue to expenses ratio	Total revenues/ Total expenses	It indicates how many revenues are made by each EUR of expenses.
Labour productivity ratio	Sales/Average number of employees	It indicates how many sales are generated on average by each employee.

Source: T. Čater, *Strategic control: study material. Unpublished work,* 2017.

From the previously described categories of ratios, only the ROA, ROE and the labour productivity ratio will be used. Additionally, I have added debt to sales and EBITDA to sales. The focus is not on measuring everything, but on achieving that what is measured will let us know if KE is on the right path to achieving its strategic goal, which is to remain

a highly profitable power transformer producer with the focus on quality products and sustainable debt.

1.1.3   The problems of the traditional performance measurement systems

In the past years there were several concerns expressed about the limitations of the traditional performance measurement systems. These concerns were raised both in academic circles and by most businessman.

Ghalayini & Noble (1996) identified and described several general limitations of traditional performance measures in their work. One general limitation is that they are based on the traditional accounting system, which was initially developed for attributing the overall costs of operating a railroad, steel and mills to a specific product or department. At this time, the labour cost was the major cost driver that the management of the accounting system emphasized. Other costs were less important and were put together as an overhead category. However, nowadays it does not often happen that labour costs exceed 12 % and on the opposite, the overhead is around 50 to 60 % of the total manufacturing cost. Due to the fact that, in this case, the overhead is allocated as a minor cost element of direct labour, this allocation approach is not valid.

Another limitation is the so-called Lagging metrics. This limitation was created because the financial reports are closed monthly in most cases, so they are lagging metrics that are the result of decisions that were accepted in the past. Consequently operators, supervisors and managers treat financial reports as too old to be useful for the operation performance assessment.

The third limitation is that traditional measures have not integrated strategy. The main focus of traditional performance measures has been how to minimize costs, increase labour productivity and equipment utilization. The limitation identified by the authors is the limitation of relevance to practice. Traditional measures always want to express performance and improvement efforts in financial terms. However, most of the improvement efforts are hard to express financially. Additionally, most operators struggle with the understanding of financial reports, which can potentially lead to frustration and dissatisfaction. Traditional measures are also inflexible. Different departments within the company have their own characteristics and the traditional performance measures use a predetermined format across all departments. This is a big limitation of the traditional performance measures, as some might not be relevant for all departments. It is also very expensive to prepare traditional financial reports, for which a lot of data is needed. All of this information gathering and analysing is, in most cases, very expensive and time consuming work.

Additionally, according to Maskell (1992), traditional measures are not suitable due to

their inability to meet the customer's requirements for higher quality of products and short lead time.

Most of the performance measures in the past were far away from the processes where the activities that add value to the customer are made. That is why one of the biggest identified shortcomings is that traditional measures do not consider the customer's perspective. Consequently, this can then lead to the attitude which is based on the "lets carve the market for ourselves" idea. Traditional measures also produce bottom line financial results from which it is hard to implement corrective actions (Zairi, 1994).

1.2 Modern/contemporary measurement systems

Traditional or financial measures were accepted as the only suitable measure of organizational performance for a long time. In 1980, there was a growing realization that due to a higher complexity of organizations and the markets on which they competed, financial or traditional measures were no longer sufficient criteria for the evaluation of the organizational success. Due to that, as well as the other shortcomings of the traditional performance measurement system, a performance measurement revolution has started. The focus of consultancy and the academic communities pointed to how organizations can replace or upgrade the traditional cost-based measurement system that led to the development of many different frameworks for measuring performance, such as the balanced scorecard (Kaplan & Norton, in Kennerley & Neely, 2002), the performance prism (Kennerley & Neely, 2000) the performance measurement matrix (Keegan, Eiler, & Jones, in Kennerley & Neely, 2002) and the performance pyramid (Lynch & Cross, in Kennerley & Neely, 2002).

The goal of these frameworks was to help organizations define the set of measures which will reflect their objectives and evaluate their performance appropriately. These frameworks are multidimensional and include financial and non-financial measures (Kennerley & Neely, 2002).

The comparison between the traditional and non-traditional performance measures is summarized in Table 5.

Table 5. Comparison between the traditional and non-traditional performance measures

Traditional performance measures	Non-traditional performance measure
Based on traditional accounting system	Based on company strategy
Mainly financial measures	Mainly non-financial measures
Intended for middle and high managers	Intended for all employees
Lagging metric (weekly or monthly)	On time metrics (hourly or daily)
Difficult, confusing and misleading	Simple, accurate and easy to use
Lead to employee frustration	Lead to employee satisfaction
Neglected at the shop-floor	Frequently used at the shop-floor
Have a fixed format	Have no fixed format
Do not vary between locations	Vary between locations
Not applicable for JIT,TQM,CIM,BPR,OPT	Applicable

Source: A. M. Ghalayini & J. S. Noble, *The changing basis of performance measurement,* 1996, p. 65.

Despite the overall usefulness of non-financial measures, there are also some problems which need to be taken into consideration. It is very challenging to assign value to improvements in non-financial measures. Also, the measures can come to a conflict with each other in the absence of theoretical frameworks. Additionally, it is possible that some managers try and optimize performance at the expense of others (Chandra, 2008).

Complementarity of financial and non-financial indicators: There is often a debate about which measures are more objective or subjective. The answer to this question can be found in the study by Sandeep and Harpreet (2016) that is based on a sample survey which includes 171 companies listed on Bombay Stock Exchange in India. Their study has shown that organizational performance can be measured either with subjective or objective performance measures. Based on the results of the study, neither subjective nor objective measures of the organizational performance can be perceived as superior. Authors of the article do not suggest that we should replace objective business performance with the subjective, but rather give a researcher the opportunity to decide which measures to use based on the research problem.

Non-financial measures are operating with information and are as such not expressed in dollar terms. Examples of non-financial measures of performance include lead time, value-added ratio, setup time, the number of product line stops and the number of failed inspections (Duchac, 2009).

As both financial and non-financial performance measures have some limitations, most companies use a combination of financial and non-financial operating measures for making decisions. The latter are referred to as key performance indicators (or KPIs). Non-financial measures are more often available more quickly than the financial measures, which require the translation into dollars and then summarization, and are as such used for day-to-day operating decisions that require a relatively fast feedback. By contrast, the traditional

financial accounting measures are often used for long-term operating decisions (Duchac, 2009).

In their research, Sandeep and Harpreet (2016) also pointed out that managers should, in addition to financial indicators, also include operational indicators to include all stakeholders (owners, employees, customers). They argue that the success and the competitiveness of the organization does not only come from financial success, but rather from customer and employee satisfaction, quality and ability of an organization to generate new and innovative products and processes (Sandeep & Harpreet, 2016).

The two characteristics that are the most desired for the performance measures are the completeness of the measure and controllability, which means it is important that measures capture all of the important information and that they are only influenced by the elements under unit control (Gunasekaran & Sandhu, 2010). Financial and non-financial measures need to be perceived as complementary to each other (Chow & Van der Stede, 2006) to generate a valuable conclusion for the employees (Ahn, 2001). Several frameworks were developed that use financial and non-financial performance measures together, such as a sustainable corporate performance, the balanced scorecard approach and others (Singh & Schmidgall, 2002).

Sustainable corporate performance (triple P)

Today we are living in a global world and almost every company, with its existence and performance, has a circumlocutory effect on society. Organizations are exposed to various challenges such as water pollution, child labour, social standards, climate change etc. It has become indisputable that companies need to consider the effects of their actions on society and as such the society has become the main part of the creation of shareholder value (Epstein & Buhovac, 2014). Therefore, one of the most critical challenges is how to manage social, environmental and financial performances simultaneously (Epstein, Buhovac, & Yuthas, 2010), especially seeing as most managers are under significant pressure to increase organizational short-term earnings (Epstein & Buhovac, 2014).

Corporate social performance is defined as a company's construction of social responsibility, social responsiveness and the apparent effect in relation to the organizational relationships with the society in which it is operational (Fauzi, Svensson, & Rahman, 2010). This concept is multidimensional and also very complex from an empirical perspective. Its complexity lies in the fact that each dimension has multiple variables (Griffin, 2000).

In corporate social performance, three dimensions of performance measures are included, which are also known as "the three Ps":

- profit, a dimension that is mostly concerned with the financial aspect of performance;
- people, a dimension focusing on the social aspect of performance and
- planet, where performance measures are concerned with the environmental aspect of performance.

The "three Ps" described above are also presented as "the triple bottom line" in accounting. This term was first described by John Elkington in Slaper and Hall (2012). In contrast to the traditional reporting frameworks, the triple bottom line framework also includes environmental and social dealings which are hard to measure in most cases (Slaper & Hall, 2012). According to Epstein and Buhovac (2014), the identification and measurement of the social and environmental strategies is particularly difficult because of the longer time spans, higher level of uncertainty and impacts that are, in most cases, hard to quantify.

Brusseau (2011) describes how to successfully accomplish an economic, social and environmental balance:

- Economic sustainability promotes long-term financial stability rather than volatile, short-term profits.
- Social sustainability appreciates stability and balance in people's lives and how people live.
- Environmental sustainability is mostly focused on preserving resources, which are limited and are as such very important to preserve, such as oil, clean air and water. This preservation can be achieved by recycling, cleaning up the pollution that already exists and by limiting or decreasing the allowed level of pollution that comes from factories.

To conclude, in order for the companies to be socially responsible, they need to accomplish what can be called the "hybrid middle ground" equilibrium that comprises of economic and social sustainability (Figure 1) (Hardi & Mulloth, 2013).

Figure 1. Representation of Hybrid Middle Ground Sustainability Equilibrium
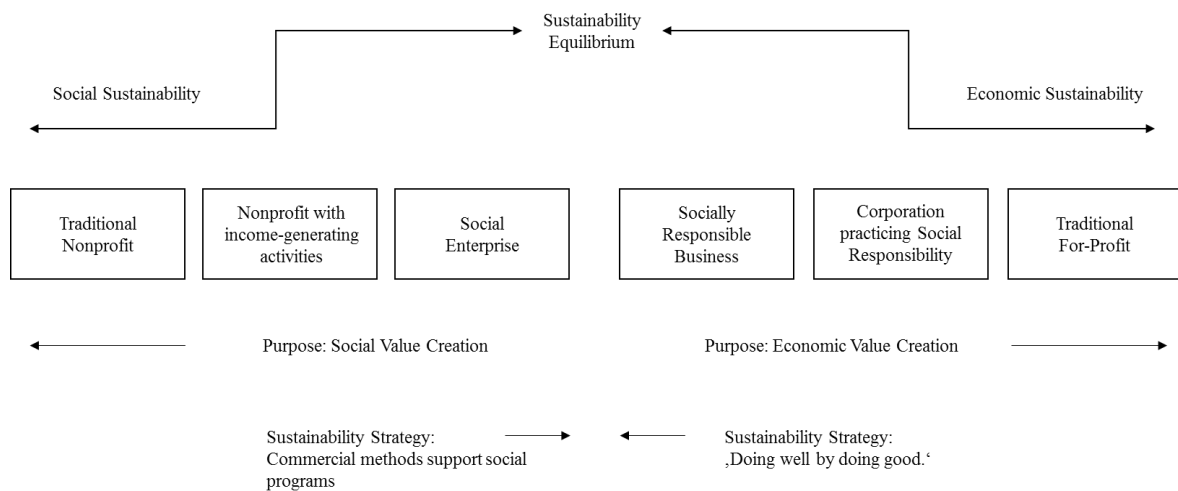
Source: P. Hardi & B. Mulloth, *Using Strategic CSR to Achieve the Hybrid Middle Ground in Social Entrepreneurship: The Case of Telenor Hungary,* 2013, p. 2699.

1.3 The performance measurement models

As there is much literature and a lot of research has been done on the topic of performance measurement, there is an equally high amount of different performance measurement models that can be found in the literature. Below I identify and describe models that are most frequently used in the literature.

1.3.1 The performance prism

The performance prism is a framework that has been designed in a way that includes all of the factors that a quality and efficient performance measurement system depends on. This framework considers all stakeholders. It does not only include stakeholders and customers but also embraces employees, suppliers, intermediaries, regulators and communities (Adams & Neely, 2000). It helps managers select the best performance measures for their organization. The prism model consists of five different faces (Matthews, 2011):

- Stakeholder satisfaction: In this step managers first need to identify which are the organizational stakeholders and what their needs and wants are.
- Strategies: This step is focused on providing strategies that will bring stakeholders their required needs and wants.
- Processes: Establishing or creating processes which are needed so that strategies are delivered. For example, generating demand, fulfilling the demand and the development of new products or processes.
- Capabilities: In this step the answer to the following question needs to be found: what are the resources or capabilities that we need in order to operate the business

processes?

- Stakeholder contribution: This emphasizes the relationships between the stakeholders and the firm and their expectations.

This framework was not developed with the purpose of a prescriptive measurement system but more as a tool which helps managers in big organizations understand and identify the factors which are important for the organizational performance (Figure 2).

The performance prism addresses the following questions: (a) "Who are the important stakeholders in the organization and what do they want and need?", (b) "What are the strategies we require to ensure the wants and needs of our stakeholders are satisfied?", (c) "What are the processes we have to put in place in order to allow our strategies to be delivered?", (d) "What are the capabilities we require to operate our processes?" and (e) "What will individual stakeholders contributed to the organization?" (Neely, Adams, & Crowe, 2001).

Figure 2. The performance prism
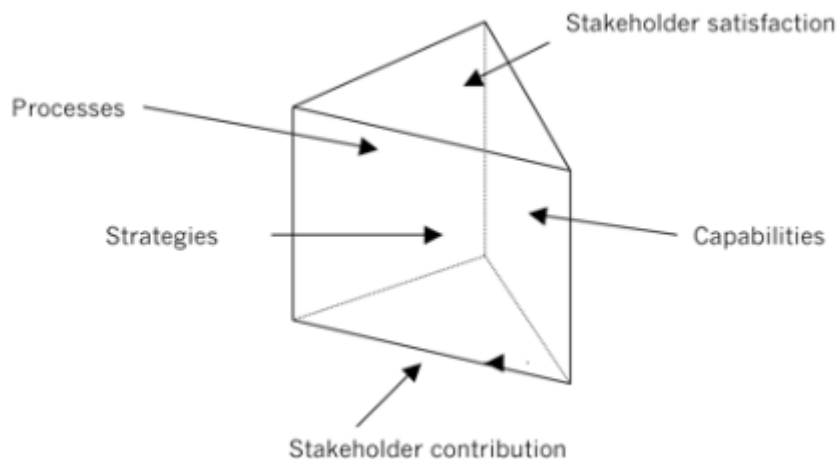
Source: C. Adams & A. Neely, *The performance prism to boost M&A success,* 2002, p. 20.

The performance prism's biggest added value is that it embraces all of the critical factors on which a successful performance measurement depends. The prism can be applied in various situations. Because it addresses various stakeholders' wants and needs, it is also often used in the post-merger integration (hereinafter: PMI) process. Due to its characteristics, it provides a more realistic picture of the drivers which the success of the merger depends on (Adams & Neely, 2000).

The performance prism operates within multiple measurement hierarchies and is as such as good as the people who apply it. It can also contribute to the successful delivery of desired

outcomes and it also increases the possibility of successfully performing a post-merger integration by (Adams & Neely, 2000):

- making stakeholders the primary focus of measures design,
- forcing the identification of critical strategic success factors and their associated measures,
- emphasizing the four generic business processes as the fundamental engines of value creation and
- focusing on integrating and leveraging the combined organization's capability components.

When considering when the performance prism could be used, it should be noted that it is a model which is mostly used to influence the thinking of the management teams when they are looking for or identifying the key questions which they want to address to successfully manage their business (Neely, Adams, & Crowe, 2001).

1.3.2 The balanced scorecard

The balanced scorecard was proposed by Kaplan and Norton (1992) for measuring the organizational performance. They suggested that the organizational performance should be measured with the measures that are not only financial in nature. Their argument is based on the fact that most of the accounting measures report only what happened in the past and not the investments into future opportunities. Measures in the balanced scorecard include market share, changes in intangible assets, for example patents, human resource skills and abilities, product innovation, customer satisfaction and stakeholder performance. Because of this the balanced scorecard offers a multidisciplinary view on organizational performance (Carton & Hofer, 2006).

The goal of the balanced scorecard framework is to create a comprehensive model which will translate organizational strategies in a way that will help with achieving the organizational vision (Maheshwari, Maheshwari, & Maheshwari, 2012).

The balanced scorecard framework has incorporated four main perspectives (O'Donnell & Duffy, 2005):

- the financial perspective,
- the customer perspective,
- the internal organizational perspective and
- the learning and growth perspective.

These four perspectives should be considered a template and not a rule. There is no mathematical theorem that could confirm how many perspectives are sufficient or

necessary. Some companies incorporate more and some less of them in their balanced scorecard, which strongly depends on the industry's circumstances and the strategy of the organization. It is the most valuable if all of the stakeholders' interests that are important for the success of the organization are incorporated in a balanced scorecard (Kaplan & Norton, 1996).

Using a balanced scorecard enables the organization to benefit from some important improvements of the budgeting process. Firstly, a substantial amount of time is saved, because fewer items need to be budgeted and also, the whole system is less complex. Consequently, a fewer number of measures means that people employed in the organization can be reviewed more effectively and can also understand how they are being evaluated more easily. Secondly, the balanced scorecard links the company's goals to budgeting more closely than any other budgeting process (Rasmussen, Eichorn, Barak, & Prince, 2003).

Some of the problems or disadvantages of the balanced scorecard are (Deng, 2012):

- **Dynamic insufficiency:** The balanced scorecard has incorporated non-financial and leading indicators, but nevertheless, it still estimates the organization's current performance and is not able to predict future performance. That is why the static evaluation can inform the manager of the current status of an enterprise and as such it cannot forecast development of the organization in the future.
- **One-way causality:** The balanced scorecard is not able to reflect the causal feedback effectively. The result can be caused by different reasons, but the balanced scorecard can lose sight of the most important source of this result. Additionally, when the strategy is converted into activities using the balanced scorecard's so called simple linear causality, it can, in most cases, lead to a conflict in different teams or departments.

Based on Neely, Gregory and Plats (1995), there is one more important limitation of the balanced scorecard. It could happen that a manager, who relies solely on a set of measures introduced in the balanced scorecard, would not be able to know what his competitors are doing.

1.3.3   The performance pyramid

The performance pyramid (Figure 3) was designed for being a control system to define success. This framework is mostly used in big organizations which have a lot of operating units. The top part of the pyramid is focused on the organizational mission, vision and strategy and then the part just below the top is dedicated to defining the objective for each operational unit. In the middle focus, the pyramid provides specific measures for operating

success. The bottom, or the last level, delivers measures that can be applicable for a specific department within a certain business unit (Matthews, 2011).

Figure 3. The performance pyramid
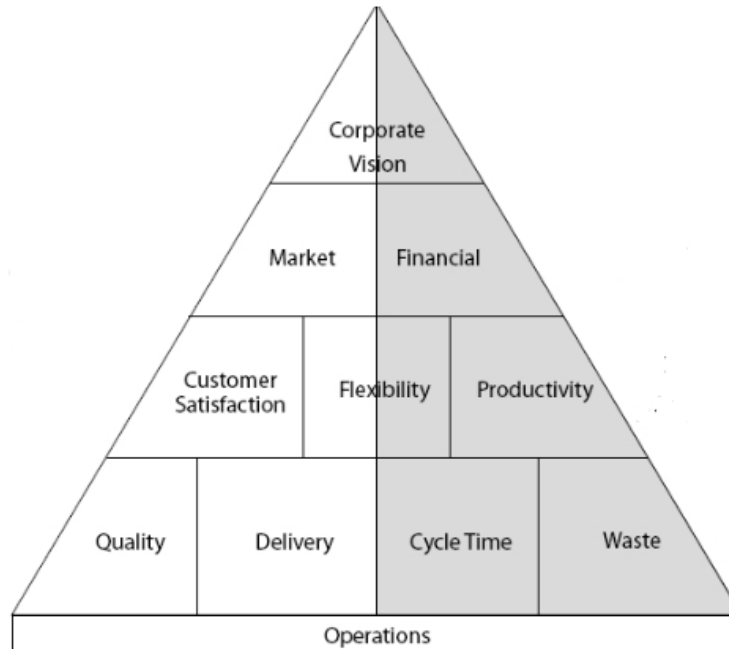
This model connects the hierarchical view of a business performance measurement with the business process view. It also provides a division between the measures that are interesting for external parties (customers, satisfaction, quality and delivery), and the measures which are mostly of interest within the business, such as productivity, cycle time and waste (Neely et al., 2000).

All of the aforementioned models can be useful for evaluating a company's performance and for the purpose of developing a company strategy. However, the presented models are, in my opinion, not the most suitable for making a comparison between the companies. In order to successfully use the models, you need to have information that cannot be easily gathered from annual reports or other publicly available sources. The models require the user to have access to information which is, in most cases, known only by the members of a company and so it is almost impossible to gather all of this data for the companies that I decided to analyse.

It is very important that we now know how performance can be measured, because after knowing how to measure organizational performance, we can move on to the next step, which is the comparison of performance between the different organizations, which can be

in competition within the same industry or not. The concept of the comparison of performance between the organizations is introduced in the following chapters.

Despite the previously described advantages of financial and non-financial measures, only the financial, or the so called traditional measures, are used and compared in the analytical part of the thesis. This decision was made due to the limited public availability of data for different companies. Furthermore, the measuring of the strategic performance in KE is mostly based on financial measures. However, it should be noted that when sufficient data is available, the comparison based on non-financial measures between the companies can also be valuable.

2 BENCHMARKING

Benchmarking is a very general business concept and is used in many forms by every company (Prašnikar, Debeljak, & Ahčan, 2005). Different scholars use different definitions for explaining the benchmarking tool. Camp (in Williams, Brown, & Springer 2012) defined benchmarking as a strategy which pursues the best practices, creating high quality services, products and also processes. According to Rolstadas (2001), benchmarking is an ongoing task, at all levels of organization of looking, finding and implementing the world's best practice with the goal of delivering customer satisfaction (Rolstadas, 2001). A company mainly uses this tool with the goal to analyse competitors and gain valuable insights, which can help them improve their own organizational performance. Xerox was the first company that formalized and developed benchmarking into a valuable performance tool and with it, managed to decrease waste and costs and drive up quality. Since then, benchmarking has further developed and now offers different organizations and users an even broader range of benefits and gains.

2.1 The definition of benchmarking

Many different definitions of benchmarking can be found in literature. It is mostly explained as a process of looking for and examining the best practices of competitors with the purpose of implementing these practices in one's own organization. The main goal is to improve organizational performance (Stapenhurst, 2009; Bogan & English, 1994). Benchmarking forces organizations to look outside of themselves to become competitive (Landry, 1993). With the help of benchmarking, the standards of industry improve and organizations that are not able to maintain a competitive edge can be removed (Bhutta & Huq, 1999). Stapenhurst (2009) defines benchmarking as a method, which is used for measuring and improving organizational performance by comparing it to the best in class.

Watson (1993) suggests that benchmarking is a tool that has evolved trough time and identified five generations of benchmarking:

- 1st generation: "reverse benchmarking" - this generation of benchmarking was mostly focused on product. They were comparing products by their characteristics, performance and functionality. This generation was set around the time of Xerox and its introduction of benchmarking, which was around the 1980s.
- 2nd generation: "competitive benchmarking" was mostly focused on comparing organizational performance to that of competitors.
- 3rd generation: "process benchmarking" implemented the idea that organizations can also learn something if they compare themselves to someone who is not in their industry.
- 4th generation: "strategic benchmarking" - this generation of benchmarking developed around the 1990s, and within it, benchmarking was performed as a systematic process with the purpose of understanding and the adopting of the competitor's strategy to your own organization.
- 5th generation: "global benchmarking" involves applying and learning globally.

2.2 The types of benchmarking

In literature, numerous varieties of benchmarking can be found. The types of benchmarking can be distinguished between themselves by the object that is being benchmarked, the partners which are involved in the benchmarking process and with whom the comparison is being performed (Stephen, 1997). Different types of benchmarking focus on performing different comparisons. Some types compare different organizational processes, products and other different functions. Based on that, different types are more useful to use in a particular context (Bhutta & Huq, 1999).

Stephen (1997) identified the following three main types of benchmarking:

- **Process benchmarking,** which is used for the comparison of actions, work practices and processes.
- **Product or service benchmarking,** which is used for the comparison of the products or services.
- **Strategic benchmarking**, which is used for comparing the structure of the company, management practices and business strategies.

On the other hand, Bhutta and Huq (1999) broadened the number of types of benchmarking and all together provided the following five distinguished types:

- **Performance benchmarking**, which is focused on the comparison of the performance measures to other organizations, with the goal of identifying its own performance.
- **Process benchmarking,** which is focused on the comparison of the processes with the mission to improve them in one's own organization.

- **Internal benchmarking,** which is focused on the internal comparison in the organization. The comparison is made between departments and teams in the same organization.
- **Competitive benchmarking,** which is comparing one's own organization to the "best in class".
- **Functional benchmarking,** which focuses on the comparison of the technology/process in the industry. The goal is to become the best in the industry when performing or implementing that process or technology.
- **Generic benchmarking,** which is focused on the comparison of the processes to the best performing company, concerning processes regardless of industry.

Based on the division of benchmarking types that was performed by Bhutta and Huq (1999), I focus on two types of benchmarking in the thesis, i.e. performance benchmarking and competitive benchmarking. With the first type of benchmarking, I want to identify how well KE is preforming compared to other similar companies in the industry and with competitive benchmarking, the goal is to find what the best in class are doing differently than KE to be more successful.

2.3   The approaches to benchmarking

There are as many different models of benchmarking in different literature as there are definitions and types of benchmarking. In some models, a higher number of steps can be found, however most of them follow the PDCA (plan, do, check, act) cycle (Pulat, 1994). Below, I describe two models, the first is the Xerox's benchmarking model, which is one of the most widely known models (Figure 5) and the second is a generic framework for benchmarking (Figure 4).

Anand and Kodali (2008) have listed several reasons why one should choose the Xerox model. Firstly, according to them, this model is one of the most methodological approaches and is considered to be the most effective and generic way of conducting a benchmarking project. Secondly, it was also one of the most often cited and quoted models in literature and is assumed to be the most common by different practitioners. And lastly, it has been used for a very long time without the implementation of any new modifications.

Figure 4. Xerox's benchmarking process steps
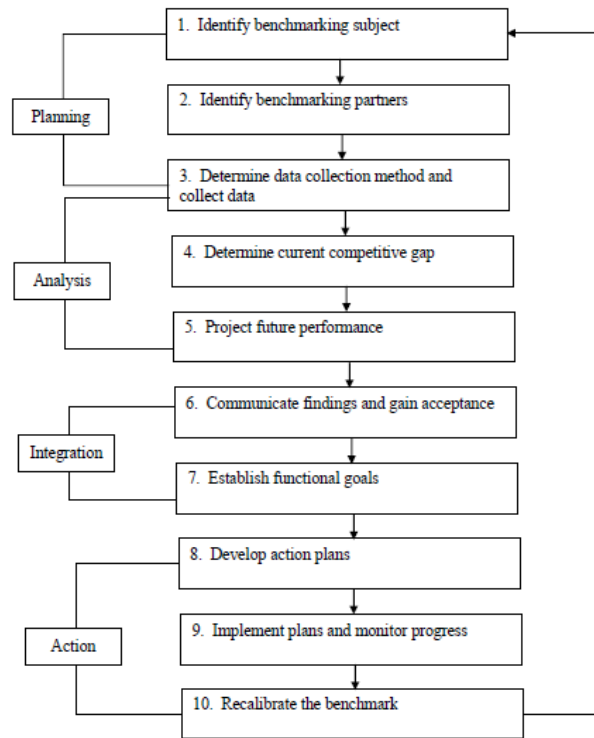
Source: R. C. Camp in G. Anand & R. Kodali, *Benchmarking the benchmarking models*, 2008, p. 270.

Figure 5. A generic benchmarking framework
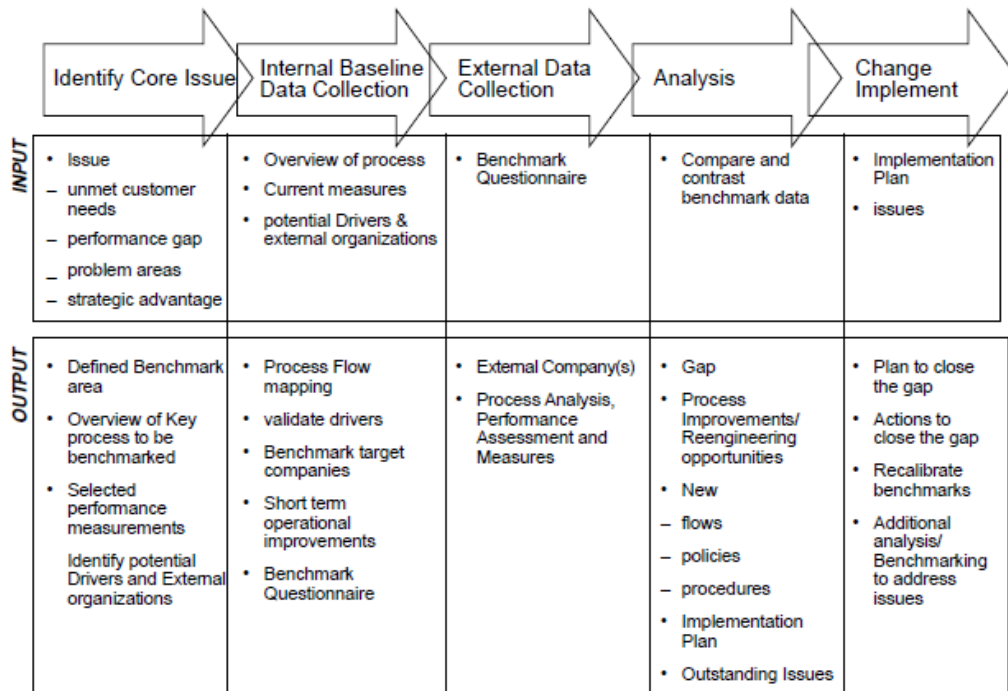
Source: K. H. Leibfried & C. J. Mcnair, *Benchmarking A tool for Continuous Improvement,* 1992, p. 39.

There are many different descriptions of the benchmarking process, but most of them are built around a classical four-step general management approach. This approach is described by Watson (1993) as an approach that consists of the following four steps, which can be named differently in different literature:

1. **Plan**: In this step, the process that will be studied needs to first be identified and then the suitable measurements of performance must be defined. The last phase of the first step is the identification of the companies which will be included in the benchmarking analysis. This step can also be summed up into the following two questions: what should be benchmarked and whom should we benchmark?
2. **Do**: In this step, a researcher should preform secondary and primary research with the purpose of learning and getting as much as possible about the inside of the company, before making contact.
3. **Check**: In the thirds step, the goal is to check and analyse the data that was gathered and to determine the study – the findings and recommendations. Besides that, the purpose of this third step is to also determinate the size of the performance gaps between the companies and identify the process enablers that enable the leading companies to perform better than the rest.
4. **Act**: This is the final step and consist of adaptation, improvement and implementation of appropriate processes and techniques which will enable the initial company to increase and improve company performance and operations.

2.4 The key benefits of benchmarking

Benchmarking can have several benefits for organizations due to its practicality and usefulness. Matykiewic (in Jaques & Povery, 2007) identified the main benefits that this tool has. One of them is that performing benchmarking helps an organization implement changes and help them start thinking more strategically. Another benefit, as seen from a client's point of view, is that benchmarking can be a trigger and a stimulation for change, which might not happen if benchmarking is not performed. With this tool, an organization can get motivational targets, which they can then monitor, so that they will implement a certain improvement. From the advisory's point of view, it was detected that benchmarking can give credibility to the advice that they are giving.

Benchmarking is also perceived as an efficient tool that speeds up improvements and enables the innovation of the product or of the processes (Boxwell, 1994).

It is important to perform benchmarking, because it adds a new angle, a dimension, a view to strategic thinking, since it causes, or triggers, innovation and organizational changes. It is the trigger because people become exposed to the unknown approaches, systems and procedures. Also, benchmarking ensures that the strategy formulation and its implementation is being tracked, because performance is always compared to the "best in

class". For the company to be successful and for it to survive in the long run, it needs to be committed to constantly improving and to implementing the changes that will enable it to be better than before (Marti & Do Rosario Cabrita, 2012).

To summarize, the following main benefits of the benchmarking procedure can be identified (Marti & Do Rosario Cabrita, 2012):

- Performing benchmarking helps an organization make better-informed decisions.
- It enables an organization to make innovations and reach breakthroughs.
- It enables an organization to think above its known frontiers.
- It equips an organization with the tools and a plan to implement and manage change.
- It motivates an organization to look at and investigate the external environment's best industry practices, strategies and operations.

Because changes are happening rapidly and globally in today's economy and the modern economy is not based on mass production and consumption as it used to be, the organizations must have better quality than the competition in order to survive, implement technology before their competitors and have lower costs. It should be acknowledged, based on the previously described benefits, that benchmarking is an important tool or the catalyst for improvement and innovation in an organization (Anand & Kodali, 2008). Based on the survey results among the Fortune 1000 companies, 65% of the organizations use benchmarking as a management tool to gain a competitive advantage (Korpela & Tuominen, 1996). A similar survey was conducted by the Commerce et d'Industrie in which they identified that 50% of the 1,000 companies use benchmarking regularly and 80% of them regard it as an effective approach to change (Maire, Bronet, & France, 2005). These survey results indicate that benchmarking is a useful tool for improving the overall organizational performance.

For every good research, there must be a certain level of resources and support provided to the researcher. These limitations, or key enablers, can be summed up into tree main points (Watson, 1993):

- a supportive and motivated management team with the purpose of solving a problem,
- the access to a prospective benchmarking partner, who has a lot of experiences and is willing to share them with us and
- a knowledgeable and experienced benchmarking team.

2.5   The problems and critical factors of benchmarking

Based on the survey of 599 organizations in the United Kingdom, which was being performed from 1997 to 1999, several problems with benchmarking were identified. The

problem that occurs most often is a problem of identifying and finding the appropriate benchmarking partner and comparable data. Other problems that can occur when performing it, are also resource constrains (time, finance, and expertise) and staff resistance. Benchmarking is perceived to be a time-consuming tool for the organizational staff that can often correlate with high expenses. Interestingly, confidentiality problems such as commercial sensitivity, the openness of companies in taking part in the research and the problem of detail comparison due to commercial sensitivity, were not indicated often. It seems that confidentiality is a problem which can be identified at the beginning of the benchmarking partnership, mostly in the initial phases of the process, where the trust among different participants is not yet well established (Hinton, Franci, & Holloway, 2000).

Zairi (1994) defined the following critical factors of benchmarking:

- The overall impact on customer satisfaction: benchmarking should optimize activities so that higher value is delivered to end customers.
- The extend of the contribution to raising competitive standards: benchmarking should be used for rising competitive standards in the industry.
- Enhancing the pool of knowledge: the benchmarking process shifts culture from one where the changes tend to be evolutionary to a culture where different ideas are generated based on the best practices. It also helps companies identify the customers' wants and needs objectively.

Based on the division of the benchmarking types that was performed by Bhutta and Huq (1999), I focus on two types of benchmarking. The first is performance benchmarking and the second is competitive benchmarking. With the first type, I want to identify how well KE is preforming compared to other similar companies in the industry, and with the second type, the goal is to find what the best in class are doing differently in order to be more successful than KE. Because of this, only these two types of benchmarking will be more widely explained and analysed. All the previously described characteristic and models also apply for these two types of benchmarking and the main difference between them, is what the comparison between the organizations is focused on and what the final goal of the performed benchmarking analysis is.

2.6 Performance benchmarking

The main purpose of performance benchmarking is to identify the company's own organizational performance based on competitors' performances (Walleck, O'Halloran, & Leader, 1991). According to Prašnikar et al. (2005), when conducting performance benchmarking, there is always the question of what should be compared. Companies should compare and analyse the performance indicators or areas of competitors, which will enable them to yield the integral comparative assessment of business performance. Various

methods for the performance measurement are suggested by Prašnikar et al. (2005):

- The comparison and analysis of the performance of another company is based on areas that are connected with the major and important company objectives.
- The comparison and analysis of the performance of another company is performed with the help of a balanced scorecard concept, which is mostly used when the company that is preforming the analysis also uses this same concept in strategic planning and controlling.
- The comparison and analysis are preformed based on the areas which are connected to specific company stakeholders.
- The comparison and analysis of the performance of another company is performed in any other way.

By performing this type of benchmarking, a company can get information on how good their own performance is in comparison to its competitors. This can be very useful when preparing the strategy of a company, because once you know how well you are performing compared to others, you set the strategy goals that you want to achieve.

2.7   The benchmarking of competitive advantages

The main purpose of performing competitive advantage benchmarking, is to gain knowledge of the factors which enable competitors to have competitive advantage on the market. According to Prašnikar et al. (2005), the insights and information gained in this way enable the company to:

- determine the main elements of the competitive advantages in the industry,
- affirm the alignment of suitable competitive advantages with the mission of the organization and its strategic objectives and
- make better and more quality decision of planning a strategic objective and different strategies for their realization.

The basic goal of performing the benchmarking of competitive advantages, is to identify the main factors that influence the economical profitability of the superiorly performing organizations in the industry. Performing this type of benchmarking should not only give us the information about which organizations are able to create superior value and economic profits, but also how they achieve it and what the reason is behind their superior performance. The following questions should be answered when performing this type of benchmarking (Prašnikar et al., 2005):

- Which competitive advantages are the enablers for the above-average benefits for customers?

- Which competitive advantage facilitates that an organization achieves cost benefits that are higher than those of other organisations?
- Which are the industry's characteristics that enable higher economic profits?
- Which are the characteristics of the broader economic and business environment that facilitate superior economic profit?

3 COMPANY KOLEKTOR ETRA D.O.O

3.1 The history of Kolektor Etra d.o.o

KE is a transformer manufacturing company located in Ljubljana, the capital of Slovenia. Company Kolektor Etra d.o.o, previously known as Etra 33, was established in 1933 as a small workshop for repairing transformers. The company changed its name quite a few times throughout its history. Several milestones shaped the company into what it is known as today (Kolektor Etra d.o.o., 2017), and the first was in 1949, when the company changed its name to Elektromehanična delavnica Črnuče, using this name until 1951, when it was again changed into Jambor. The big breakthrough was made in 1954, when the company managed to build its first transformer with its own knowledge. In 1961, the first merger happened between the companies Jambor and Energoinvest. This company operated under name Energoinvest Sarajevo Tovarna transformatorjev Ljubljana. This newly established company then signed a 10-year license agreement with Alsthon-Savoisienne (France) in 1965, and specialized in producing transformers of up to 150 MVA. After that, the company started to invest into new production capacities, which enabled it to increase the annual production to 1282 MVA by the year 1969. Due to the increased number of transformers produced in the 1980s, the company also invested into a high voltage laboratory, which enabled them to test the transformers of up to 220 kV. In 1997, the company started to operate as a limited liability company with a new name ETRA 33 Energetski transformatorji d.d. In 2008, the company's annual production exceeded 3,000 MVA for the first time. The year 2010 was a year of big changes, since the company was acquired by one of the most successful Slovenian groups, Kolektor Group d.o.o. (KE internal source, 2017).

Since the acquisition of KE by Kolektor Group d.o.o., several new investments were made into new capacities for producing power transformers of up to 500 MVA and 420 kV. The new production facility is one of the most advanced in Europe and as such enables KE to produce high quality transformers, the quality and performance of which is comparable to the best European and global producers (KE internal source, 2017).

3.2 Production assortment

Transformers

Transformers are crucial in power transmissions and distribution networks. They are used for transforming electricity from one circuit to another without the change of frequency. There are different types of transformers. They can be classified based on their use, power and manufacturing process. Figure 6 represents a graphical presentation of why and where the transformers are being used in electrical power systems.

Figure 6. The use of power transformers in electrical power systems
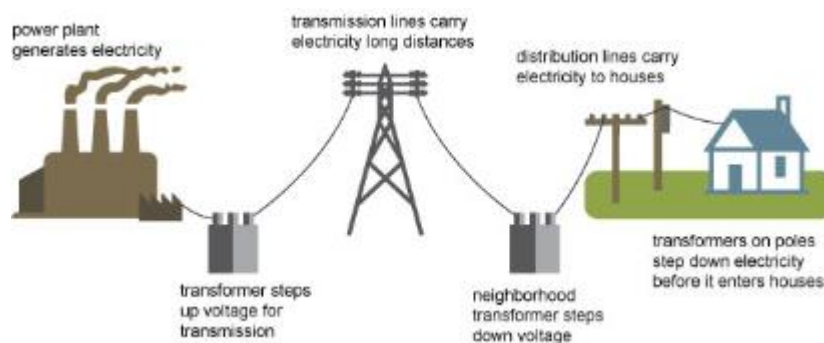
Different companies use different boundaries to distinguish between the types of transformers. In KE, the following types of transformers can be distinguished (Kolektor Etra d.o.o., 2017):

- **Distribution transformers** are transformers with 2.5 MVA (three phase) rated power or 833 kVA (one phase) and rated voltage commonly between 10-20 kV and max 36 kV. These boundaries are determined based on the IEC 70067-7 standard.

- **Power transformers** are the core business of KE. These are the transformers that have a higher power level than distribution transformers. They are mostly used by companies which distribute or produce electricity. Power transformers are also indispensable in big production factories, which need a lot of energy for their operations.

- Under **special transformers,** KE is producing the (URT) rectifier transformers, dry transformers and furnace transformers. Rectifier transformers are mainly used in the railway, steel and iron industries. Dry transformers are not produced in KE, but are outsourced to an Italian manufacturer, the TMC Transformers. The dry type of transformers is mainly used in areas where there is a higher possibility of a fire and

27

where any presence of oil in the transformers could significantly increase the risk of fire. The last type of special transformers that KE is offering to its customers, are the so-called furnace transformers, which are mainly used for heating industrial ovens.

- **Service and maintenance:** besides producing transformers, KE also has its own team, which is responsible for the installation and the service work on transformers. Most of the installation of the new transformers is performed by KE teams. However, the repairs or the servicing of the transformers are mostly done on the domestic market.

The company increased its production portfolio and capacities throughout the years. Despite a wide production portfolio, the company's main focus and core business is producing power transformers with the rated power of up to 500 MVA and 420 kV.

3.3 The division of Kolektor Etra's sales on different markets

KE is present on 26 European markets. The majority of the sales are generated through the sales of power transformers. The most important markets for KE are high demanding markets such as Sweden, Norway, Germany, Slovenia, Denmark and the United Kingdom (Figure 7). In 2015, these markets represented approximately 76.5% of the sales of the whole company (Kolektor Etra d.o.o., 2017). The management is aware that too high of a concentration of sales on just a few markets represents a huge risk, which is why, in the last few years, a lot of effort is being put into increasing the sales share on existing low performing markets and acquiring new potential ones. KE has signed contracts with agents that are responsible for local and after sales activities on almost all markets. The exception is Sweden, where KE is represented by the company Kolektor Etra Sverige AB.

Figure 7. The sales of Kolektor Etra in 2016 by countries (in %)

■ Norway ■ Sweden ■ Others ■ Slovenia ■ Germany ■ Denmark ■ Great Britain ■ Austria
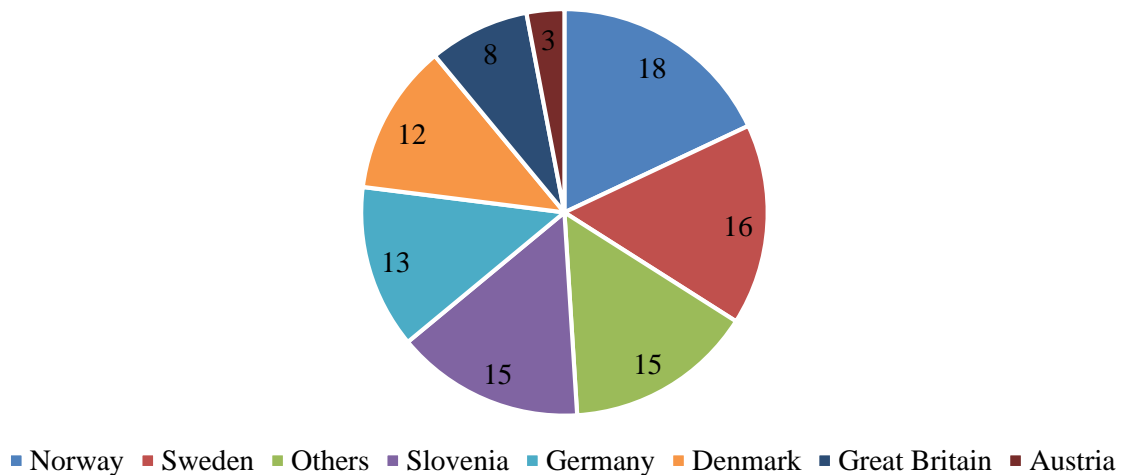
Source: KE*, Company profile, 2017.*

Up until now, the most important markets for KE were the Scandinavian markets, which the company's sales depend heavily on. The share of KE's sales on these markets was constant in the past five years. The recent goal of the company was to expand its presence and enter new markets to decrease dependability solely on the Scandinavian countries. One of such markets is the United Kingdom market, which they expanded to in 2012. After only 5 years, 8% of the company's sales are already generated on this market, which is a great success. Another market which has, in the past few years, contributed to the company's success, is the Netherlands' market. The characteristic of this market is that the sales of transformers depend on the on and off shore projects. In the last 5 years, the country invested a lot of resources into such projects and therefore, the sales of the transformers on this market are rising. However, it is expected that, in the future, there will be a lower number of such projects and, consequently, it can be expected that the sales will decrease. We can say that the volatility of KE's sales is relatively high and KE compensates for it by increasing its presence on different and smaller markets. Because of this, KE recently started activities in Spain, Russia, France and Belgium. These markets are currently not generating a lot of sales, but they can potentially become the drivers of the company's growth in the future.

3.4 Financial performance

Kolektor Etra is a strong company that has been rapidly growing throughout the last ten years. The biggest increase in revenue could be detected once the company was bought by the Kolektor group, which also made new investments into the company. These investments enabled KE to increase the scope of its production portfolio and to produce high-quality transformers. Together with the increase of turnover, the company also increased the number of employees. In 2008, the company employed around 212 people and by today, KE nearly doubled the number of employees and is now very close to providing work and salaries for four hundred people.

According to its performance, KE can be classified into the group of the best performing companies in Slovenia. The company is very successful at increasing its market share and sales and at lowering its debt. The company's Earnings before Interest, Taxes, Depreciation and Amortization (hereinafter: EBITDA) grew by 23% between the years 2014 and 2015 (Figure 9) and the company's revenues were increased by 16.9% (Figure 8). This highly positive and successful trend has also continued in the year 2016. KE managed to increase its revenues to 86.5 million, which is a more than 20% growth. The company's EBITDA also increased for 66% and consequently, due to a very successful year, the company further managed to decrease its financial debt. As confirmation of a very successful performance in the year 2016, KE received an award from the Chamber of Commerce and Industry of Slovenia.

Figure 8. Company sales in millions of EUR by years and market
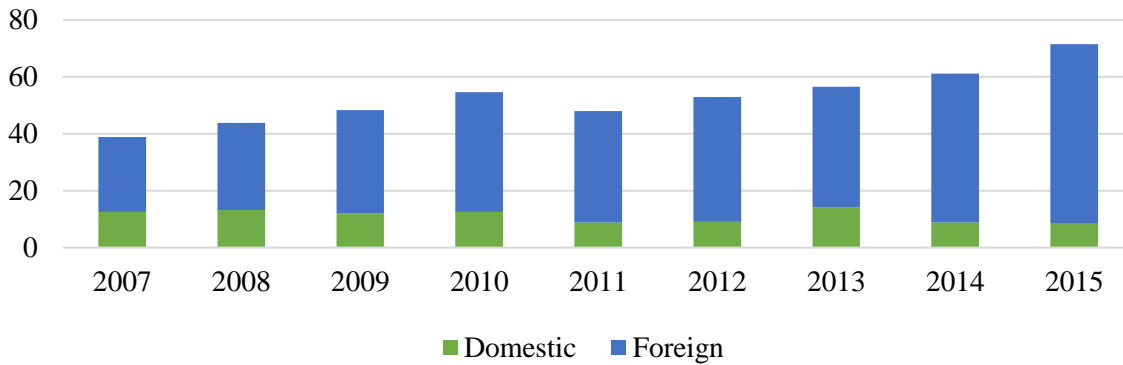
Source: KE, *Annual report,* 2015.

The company's EBITDA has been increasing after a sharp fall between the years of 2010 and 2011.This fall mainly occurred due to the acquisition of the company and because of some construction activities, which also affected the production capacities. In 2015, KE managed to increase its EBITDA for 23% and the forecasts for 2016 show that the company's EBITDA could reach as high as 14 million EUR.

Figure 9. Kolektor Etra's earnings before the interest, taxes, depreciation and amortization in millions of EUR, 2009-2015
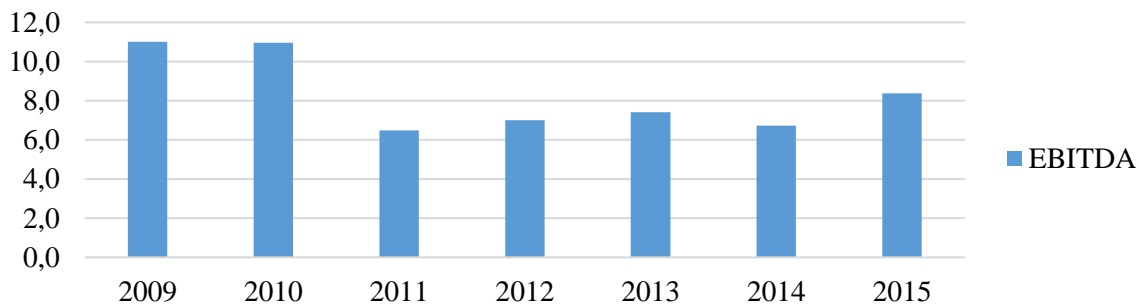
Source: KE, *Annual report,* 2015.

3.5 Production

KE has been producing transformers with its own knowledge since 1954. Since then, the production capacities and the range of power to which the company can now produce transformers has increased. The biggest change and increase in the production capacities has happened once KE was bought by the Kolektor group. This happened in 2010, when the new owner invested into a new production facility, where they are now able to produce transformers of up to 500 MVA and 420 kV. With this investment, KE entered a new segment of power transformers in which it competes with elite global companies. The factory is one of the most advanced ones and enables KE to produce transformers in a very

clean and low humidity environment. This gives it a huge competitive advantage in producing high quality transformers.

The production of transformers in pieces has not substantially increased from the year 2014 to the year 2015 (Figure 10), but if we look at the deliveries of transformers measured in MVA for 2015, they have increased by 22 % compared to 2014 (Figure 11). This means that customers have begun to purchase bigger and more complex transformers than in previous years.

Figure 10. The delivery of transformers in pieces (2007-2015)

	2007	2008	2009	2010	2011	2012	2013	2014	2015
■ Power T.(pcs)	72	91	105	118	89	101	110	137	139
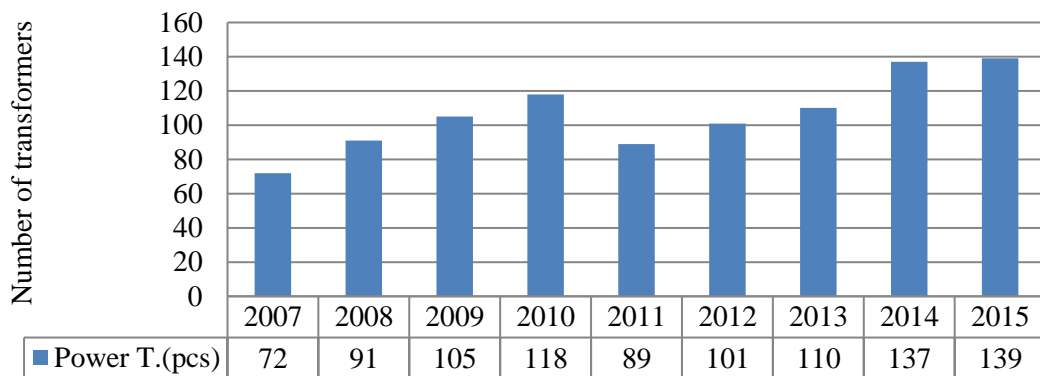
Source: KE*, Company profile,* 2017.

In Figure 11, we can see that there is quite a big increase in the production of transformers measured in MVA. On the contrary, the increase in the number of transformers produced has not increased with the same pace, so we can conclude that in 2015, KE produced transformers which were much bigger, more complex and consequently, more expensive. Much of this increase can be, as was already mentioned, contributed to higher customer trust (bigger and more expensive transformer) and the huge increase of demand on the Scandinavian markets and in the United Kingdom.

Figure 11. Delivery of the transformers measured in MVA (Mega Volt Ampere)
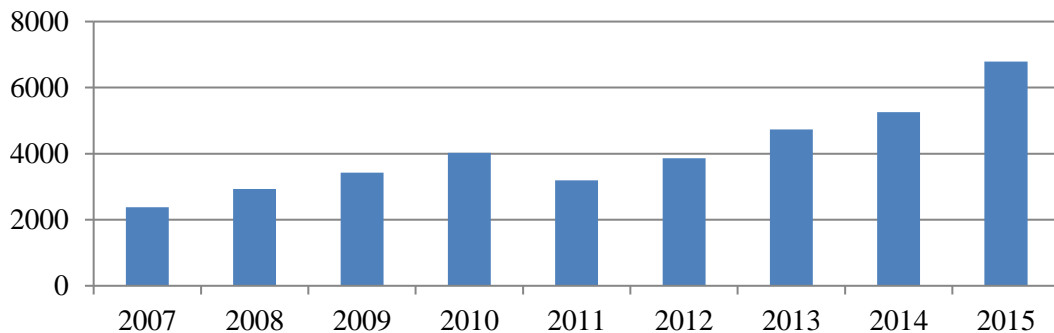
Source: KE*, Company profile,* 2017.

3.6 Measuring and monitoring KE's and its competition's performance

There are different performance measures for monitoring a company's performance. For these purposes, KE is using financial as well as non-financial measures. Specific measures for measuring and monitoring KE's performance are agreed on during team discussions which are formulated every five years, with the purpose of defining the company strategy. Ratios and performance measures are selected by KE's top management and are based on the company's strategic goal and past strategies. It is important that the chosen performance measures are in alignment with the information that the management wants to monitor, the overall strategic goals of KE and with its past strategies. This enables the gathered results to be compared through the years. The chosen measures must let the management know whether the company is on the right path to achieving set goals. KE wishes to stay a highly profitable power transformer producer with the focus on quality. Taking this into consideration, despite monitoring financial and non-financial measures, KE's overall performance is mostly focused on financial measures.

Some of the financial measures, which were agreed to be the measures for evaluating KE's successfulness based on the strategy that was formulated for the period from 2015 to 2019, are the following:

- Turnover
- EBITDA/SALES (%)
- EBITDA margin (%)
- Compound Annual Growth Rate (hereinafter: CAGR) in (%)
- Return on Assets (hereinafter: ROA) in (%)
- Return on Equity (hereinafter: ROE) in (%)
- Work expenses (%)
- Material expenses (%)
- Revenues per employee (EUR)
- EBITDA per employee
- Average Credit/Collection period
- Debt/Sales

The chosen financial measures are mostly focused on productivity, debts and the level of costs. If KE wishes to achieve its goal, it is very important that all financial measures are closely monitored, compared and improved at the end.

Some of these already agreed upon performance measures are then further used for the evaluation of KE's performance compared to other competitors on the European transformer market. This decision was made because Globerson (1985) suggested that the performance criteria should be chosen based on a company's objective. Because these

same measures are used for evaluating the successfulness of KE's strategy and the company's performance, these criteria are certainly fulfilled. Due to the convenience of these measures having already been checked and approved by KE's management, some of these same measures were also used for the evaluation of the performance of KE's competitors. After gathering the performance indicators for all chosen competitors, a direct comparison with KE can be conducted. Non-financial performance measures were not used in evaluating KE's performance in comparison to its competitors, due to the limited availability of such information.

The analysis and the comparison of KE's performance with its competitors was partially conducted with the help of the benchmarking practices and tools. One of the steps in the benchmarking model is choosing the and connecting with the appropriate benchmarking partner, who then shares valuable insights and information with you about breaching the problem – the performance gap. With a benchmarking partner, the non-financial performance measures can also be analysed and compared. Benchmarking partners were not available in this research and that is why all of the research is based on the previously mentioned performance measures that were accepted by KE's management.

4   THE TRANSFORMER MARKET AND THE BENCHMARKING ANALYSIS

4.1   Research design

4.1.1   Research objectives

The company KE is growing rapidly and is as such strengthening its share on the market of power transformers in the European Union. It is becoming an important player in providing high quality transformers. With its growth, it is getting very important for KE to monitor not only the market and trends, but also its competitors. KE has more competitors every year with which it has to not only compete, but also perform better than in order to sustain its growth and increased expenses that arise due to the increasing production capacities. It is becoming increasingly important for KE to monitor its performance compared to its competitors and to try to identify the key drivers that give them a competitive advantage over KE. Thus, the main purpose of this master thesis is to identify the key market specifics, future market trends, KE's performance compared to its competitors' and the key reasons for why two competitors, which were chosen through the process of using a focus group, are in some aspect performing better than KE. This research will provide answers to the following questions:

- What are the characteristics of the global and the European transformer market?
- What are the future trends on the transformer market with regards to the global demand

and supply trends, including technological changes?

- How is KE currently performing?

The company KE is growing rapidly and is as such strengthening its share on the market of power transformers in the European Union. Because of its growth it is becoming very important that KE closely monitors its competitors and the overall market trends. With an extensive literature review and an established focus group, I gathered information on the global and European transformer market, its trends and specifics. This information is valuable for making decisions regarding KE's expansion and investments.

→ The benchmarking analysis - what is KE's performance when compared to its European competitors?
→ What is the reason that the chosen competitor is in some ways performing better then KE?
→ Where should KE improve and how?

4.1.2 Methodology

This research is based on primary and secondary sources. Secondary sources are used in the first step of the research, where the benchmarking type, as defined by Bhutta and Huq (1999), is used with the goal of identifying what KE's performance is compared to its competitors. In order to find as much information about the individual companies, research through KE's database and through the company's annual reports was conducted. Additionally, to gather even more descriptive information about the individual companies, different presentations, videos and webpages were also checked. Later, the researchers also defined another type of benchmarking, i.e. competitive benchmarking, which was also performed in the research.

Beside the secondary sources, a focus group was conducted to gain a better insight into identifying which of KE's competitors are the most aggressive and present on relevant markets. In the focus group, four of Kolektor Etra's area sales managers participated, and we mainly discussed which competitor is, by their experience, the most aggressive on their market and what its main competitive advantage is. All the participants have years of experiences on the transformer market and work with different competitors on a daily basis. We then determined the two competitors that were further analysed.

4.2 Kolektor Etra and its competitors

4.2.1 Global transformer market

When companies analyse their competitors and formulate their strategies, it is very important that they have information about the market on which they are competing.

Having that information can help one understand why some competitors are performing better, or why they have decided on a certain strategy or investment in some specific markets. It is also valuable to know what the market potential and its trends are, so that the company can formulate its long-term strategy in accordance with them. In this chapter I identify the current status and the future trends on the transformer market and see which markets have a high potential.

For the better understanding of the transformer market, one needs to understand how transformers are classified. They can be classified by various parameters, for example, the power phase, the cooling mechanism and the output power. For a basic understanding of the transformer market, it is sufficient to know the division between the transformers by their output power (Figure 12).

Figure 12. The classification of transformers (output power based)
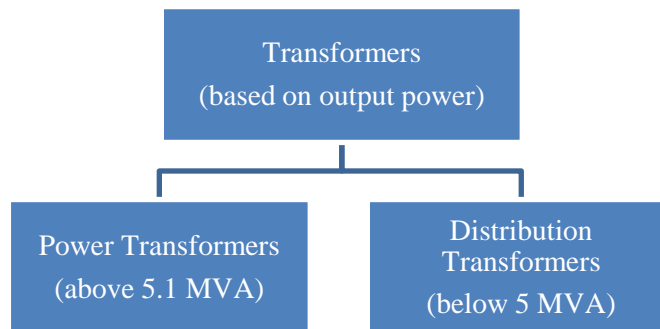
The demand for transformers is increasing every year. On the global level, Compound Annual Growth Rate (hereinafter: CAGR) of 5% during 2015-2020 is expected. In value, the global power & distribution of transformers will reach 50.2 billion USD by 2020. It is expected that 59.4% of the demand will be generated by transformers that are classified as power transformers, by 2020 (Figure 13). The main reason for such a high percentage is a continuous increase in the power demand and a new installation of large new power plants in the coal, oil and nuclear energy industries. Another reason for an increase in demand for power transformers is also the countries' desire to generate more energy from renewable sources. The European Union set a goal that by 2020, 20% of its energy will be produced from renewable sources, the same decrease it wishes to achieve by lowering green-house gas emissions. The leading demand will be generated in the segment from 100.1-500 MVA. It is expected that by 2020, 29.1% of the global demand for transformers will arise from this segment of transformers (TechSci Research, 2016).

Figure 13 shows what kind of a market share was covered by individual types of transformers in 2015 and what is predicted for 2020. We can see that the share of power transformers will increase slightly. This information indicates that the demand for power transformers will further increase and that this is also a segment of transformers that KE should be focused on.

Figure 13. Global and distribution transformers market share, by type and value for 2015 and 2020 (in %)
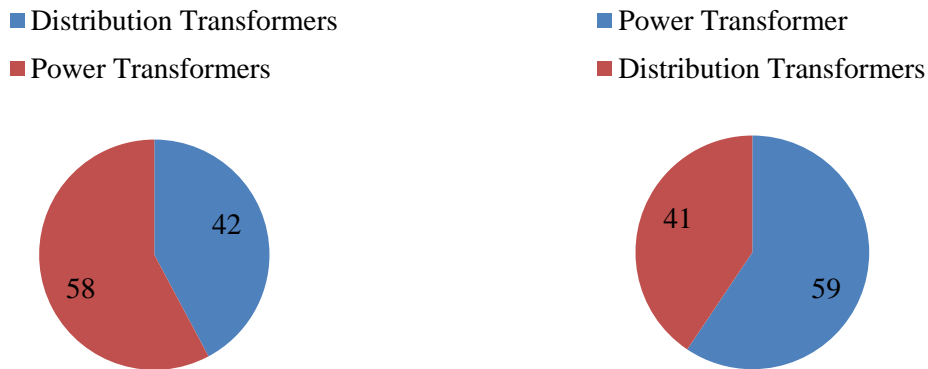
Source*: TechSci Research, Report on the Global Power and Distribution Transformers Market Forecasts & Opportunities, 2016.*

In Figure 14, the forecast of a trend in the global demand for different groups of transformers is presented. As was already mentioned, forecasts show that transformers of 100 MVA and up to 500 MVA will occupy the biggest share on the global market. The share of other ratings will either stagnate or increase slightly. Based on this data and predictions, it can be concluded that the highest demand and competition will be for transformers of a rating power from 100.1 to 500 MVA. Based on this data, we can also see that the companies that are the best in this group of transformers have the most potential for their growth.

Figure 14. Past, current and forecasted global demand for different types of transformers (in %)
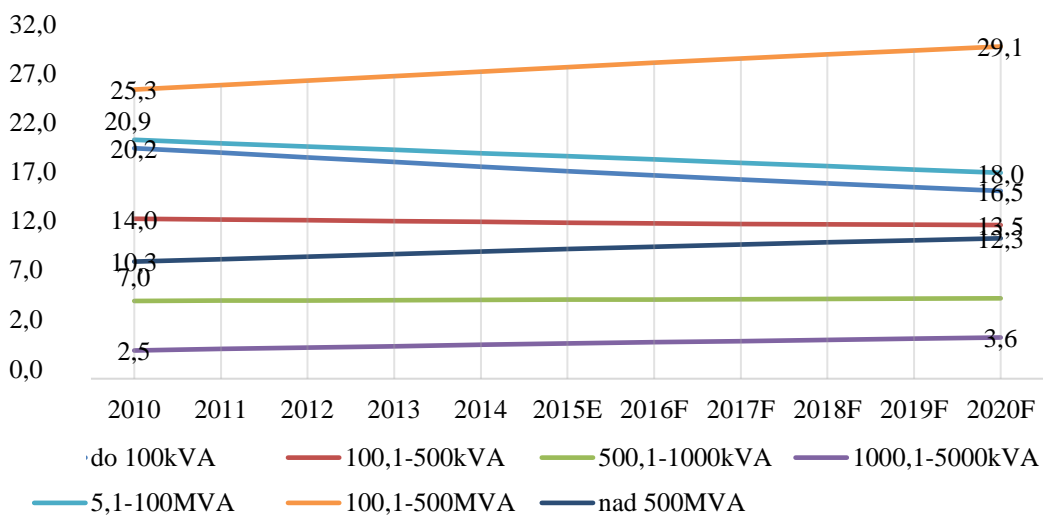
Source: TechSci Research, *Report on the Global Power and Distribution Transformers Market Forecasts & Opportunities, 2016.*

In Figure 15, it can be seen that the biggest increase in the share of power distribution transformers, measured in value, will be in the Asia-Pacific region by 2020. In Europe and North America, the share is expected to fall slightly in comparison to the year 2014.

Figure 15. Global power & distribution transformer market share in value, by region (in %)
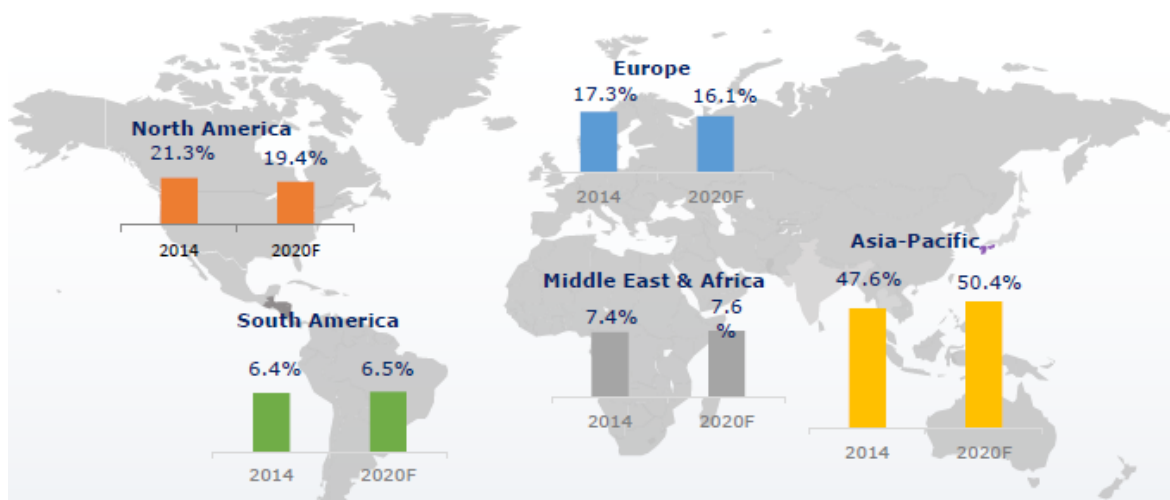
Investments by regions: Based on the World Energy Investment Outlook 2014, 4 trillion USD will be invested across all regions. 16.58% of these investments will be used for building a new plant, the refurbishment of the existing ones and the rest will be invested in the replacement and refurbishment of the transmission and the distribution infrastructure, for example, power transformers and cables. Figure 16 represents the forecast of the investments for an individual region. Most investments are planned in Asia, America and Europe.

Figure 16. Forecast of global investments in the power sector (2014-2035) (in %)
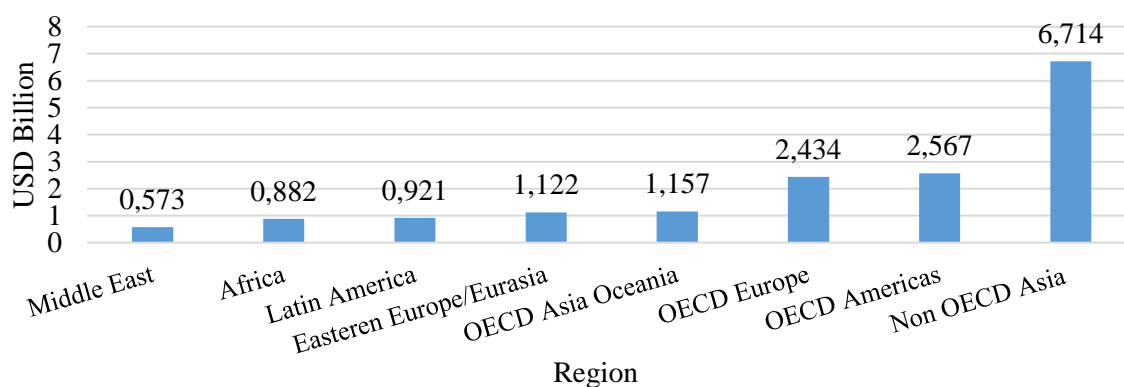
4.2.2 The European market

For KE, the most important market is the European market. More than 80% of the company's revenue is generated from sales on the European market and KE's performance mostly depends on it. This chapter represents a short analysis of this very important market for KE and its forecast for the future.

In 2014, around of 5,242.14 TWh of electricity were generated in Europe. It is believed that by 2020, this will increase for 0.4%, to 5,159.25 TWh. The growth is not very high due to the better energy efficiency of buildings and the move of big manufacturing facilities to the Asia-Pacific region. In 2014, the rating of transformers from 100.1-500 MVA accounted for 46% of the revenue share on the European transformer market. It is forecasted that this percentage will increase to 48.71% by 2020. This rating of transformers will also be the only one for which the biggest increase is predicted by the year 2020, the demand of transformers rating from 5.1-100 MVA (2014- 32%, 2020F- 27.94%) and above 500 MVA (2014-22%, 2020F-23%) is predicted to slightly increase (1%) or decrease (TechSci Research, 2016).

The increase of power transformers of the rating power of 100.1-500 MVA will be mainly driven by the investments into new high voltage transmission lines and the installation of new power generation plants (TechSci Research, 2016).

Figure 17. The European power transformer market share by value (2014-2020F)
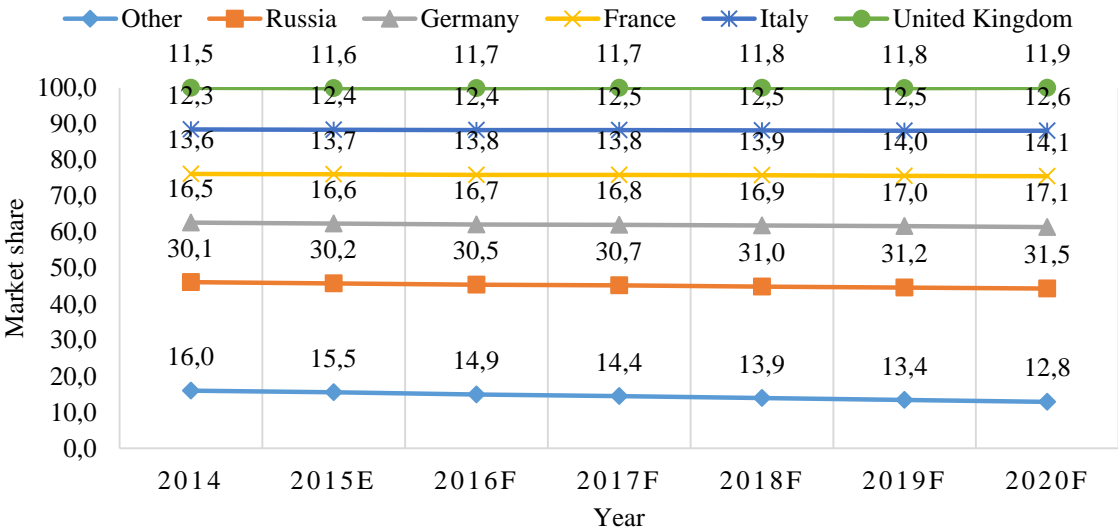
Legend: E- estimation, F-forecasted data

Source: TechSci Research, *Global Power & Distributon Transformers Market Forecast & Oportunities, 2020,* 2016, p. 39.

In 2014, Russia accounted for the biggest revenue share on the European power transformer market. Also, in 2020, Russia is expected to have by far the biggest share

among the European countries with 31.45 % of the revenue. The other countries that had generated a substantial amount of electricity in 2014, beside Russia, are Germany (614.0 TWh), France (555.7 TWh), the United Kingdom (335.0 TWh) and Italy (278.1 TWh). It is expected that by 2020, 1.1 trillion USD will be required for the development of energy infrastructure in Europe. The main part of these investments will take place in Russia, Germany and France and will also indirectly drive the demand for power transformers. Beside the previously mentioned countries, some larger investments will also be made in Poland, as their plans are to build additional power plants to generate 13GW of electricity by 2020. Every power plant also needs several transformers for its operation, so this will further increase the demand for transformers in this country (TechSci Research, 2016).

To summarize, we can say that the most prosperous market, beside the Asia-Pacific one, is the European market. The European countries from which most of the demand will be generated are Russia, Germany, the United Kingdom and France. Power transformers with the power rating between 100 MVA and 500 MVA will be the drivers of this demand. These markets and product ranges should be the future focus of KE's developments.

4.2.3   The major producers and their market share

Because of various technological developments, the global transformer market is rapidly growing. The competition on the market becomes stronger every year. Companies are more competitive mostly in terms of design, manufacturing and testing facilities. They are also investing into Research and Development (hereinafter: R&D) and their employees. This industry is very much a niche and satisfied and quality employees can often help the company increase its competitiveness.

In 2014, 45.5% of the global transformer market was controlled by four big multinational companies (ABB, TEBIAN, SIEMENS, GE). The other 54.5% of the sales were scattered between other smaller market players (Figure 18).

Figure 18. Market share of the main competitors based on the values of sales 2014 (in %)
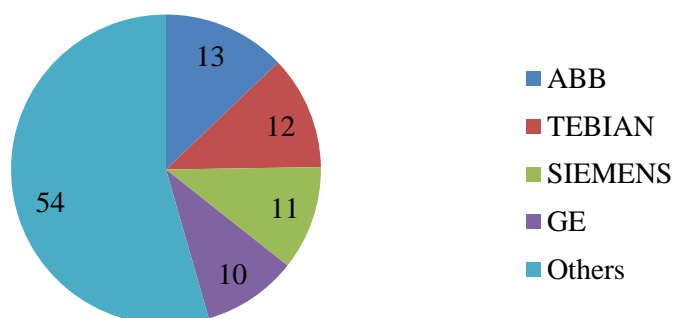
Source: TechSci Research, *Global Power & Distribution Transformers Market Forecast & Opportunities, 2020,* 2016, p. 43.

The forecasts are even more optimistic for the four main global players on the market. It is forecasted that these four market leaders will further increase their share on the market and own half of the sales on the transformer market by 2020 (Figure 19). This implies that there will be less of a market for smaller competitors such as KE. This can lead to the increase of competition between the smaller providers and put more pressure on the final price of the transformers.

Figure 19. Market share of the main competitors based on the value of sales 2020 F (in %)
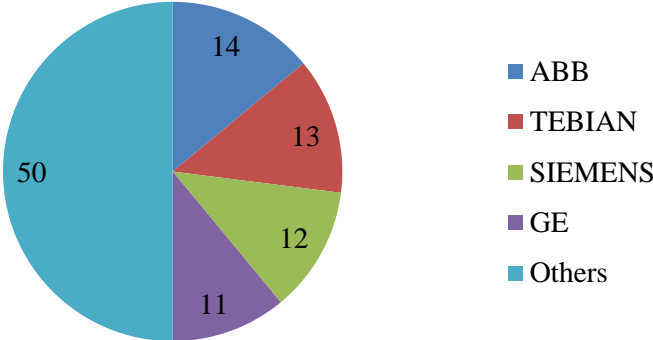
Legend: F-forecast

Source: TechSci Research, *Global Power & Distribution Transformers Market Forecast & Opportunities, 2020,* 2016, p. 43.

4.3   Performance and the competitive benchmarking analysis

4.3.1   The description of the performed benchmarking process

Due to several limitations that are listed under research limitations (found in the later section), the performance benchmarking process was performed based on the classical four-step approach (Watson, 1993). This approach is divided into the following phases: plan, do, check and act. Some of the steps were performed in a restricted scope, due to the previously mentioned limitations.

The description of the individual steps

I. Plan

The purpose of the first step is to identify what will be benchmarked and what the purpose of this research is. In other words, answers to the following questions must be provided in this first step:

• what should be benchmarked and
• which companies will be included in the benchmarking analysis?

The companies that are included in the benchmarking analysis were selected based on the discussion with KE's top management and the focus group. Based on their experiences and opinions, a list of 23 competitors was formed, against which KE's performance will be compared. KE has more than 23 competitors, but these competitors were chosen based on their aggressiveness, geographical location, their presence on KE's markets and the frequency of participation on the tenders. We could say that these are standard competitors and that through the years more or less the same are competing on the tenders, mostly because this is a traditional industry in which special craftsmanship and knowledge is needed and so changes and new competitors are very few. Most of the changes happen due to the acquisitions between already established companies. Under this first step, the performance measures had to be defined as well. These measures were chosen based on the five-year strategy that KE has in place and with which it is monitoring its performance based on the strategy objectives that were agreed. With its strategy, KE is monitoring its successfulness in achieving its objectives with the financial and non-financial measures, but, due to the fact that the non-financial measures are mostly not publicly available, only the financial measures were chosen for the performance comparison.

II. Do

The purpose of this step is to gather as much primary and secondary information about the chosen competitors as possible. Secondary sources were gathered from publicly available data (yearly reports, internet and the companies' presentations) and KE's internal data sources. Twenty-three companies' annual reports, presentations and webpages were analysed all together, with the purpose of gathering valuable insights into different competitors' performances, production capacities and production portfolios. Relevant financial information was gathered for the period from 2010 to 2014/15. In some cases, where no recent data was available, older data was used as well.

Primary information was gathered through a focus group, discussion with KE's consultants and top management. Four KE area sales managers participated in the focus group, all of them responsible for some of the most important markets, for example, Sweden, Norway and the United Kingdom. The purpose of the focus group was to identify which of the competitors are the most present on KE's markets and how competitive they are. Area sales managers who are responsible for the individual markets have the best and most updated information regarding these questions. They are in a daily battle with our competitors on different tenders or quotations for the business. After the primary and secondary research, all of the data was gathered and structured in order to be prepared for performing further analysis. The questions which were raised among the focus group participants are listed in section 4.2.2.

III. Check

The data that was gathered in the second step was now analysed. Firstly, the previously agreed performance measures were found and calculated for each company. For some companies, it was not possible to calculate all of the performance measures because some data was not publicly available. Calculated performance measures were then gathered in a graph where they were then compared. In the last part, the summary of the research is conducted, and new findings are presented.

IV. Act

The findings that were identified were then presented to top management in the last step. These findings were then used for two main purposes. The first was to identify what the performance of our competitors is and where we should improve. The second was that this research also served as a basis for updating the five-year strategy and for positioning the new objectives in the strategy. These findings were also used for identifying a potential target for acquisition.

4.3.2 The focus group

To gather valuable information about the competitors on different markets, I conducted a focus group which was held on Friday, May 19th, 2017, on KE's premises. Four area sales managers from KE's most important markets participated. They provided valuable insights and opinions about the current market situation. The discussion of the focus group was focused on the following points and questions:

- The main and the most aggressive competitors on the market **(Which companies most often participate on the same tenders as KE and how aggressive are they?)**
- KE's main competitors on the market **(Based on our advantages, which competitors are, in your opinion, those which are our direct competitors?)**
- The main competitive advantages of our competitors **(What kind of competitive advantages do previously identified direct competitors have, compared to KE?)**
- Suggestions for increasing KE's competitiveness and performance **(What would be your suggestion for improving KE's competitiveness and performance?)**

When we debated about the competitors with which we compete most often, quite a lot of names were listed. However, due to the frequency, aggressiveness, size and locations we concluded that our biggest competitor is Končar DISTistributivni I Specjalni transformatorji d.d. (hereinafter: Končard DIST). The decision that this is our biggest competitor was taken almost unanimously. Končar DIST is a Croatian company that is geographically located very close to KE. Its size is comparable to KE and the company is also present on almost identical European markets as KE. Because of all of these facts, the

company Končar DIST is a good choice for a further analysis. There are also other bigger companies such as ABB and SIEMENS on the European market. However, those companies are much bigger and have a wide production portfolio in which the production of power transformers is not their only focus, therefore they would not be the best choice for a further analysis and comparison. The most fruitful discussion, which also generated a lot of different opinions, was about the competitive advantages of other manufacturers and the suggestions for increasing our competitiveness. There were several different ideas about and opinions on these two topics, which were then gathered under the points that are written in Figure 20. Most members agreed that the price and quality of our competitors are their main advantages when compared to us. There were a lot of different suggestions for the improvements that would increase KE's competitiveness and the most frequently mentioned were the optimization of production, having a subsidiary factory in lower cost countries and a better after sales service.

Figure 20. The focus group's main findings

Main competitors
- Getra
- SGB-SMITH
- TIRONI
- KONČAR D
- ABB
- Brush
- SIEMENS

Key competitor advantages
- PRICE
- QUALITY
- The advantage of a domestic market
- A higher number of references
- Better processes
- Better customer support (subsidiary offices)

Suggestions for incresing competitivnes and performance
- Optimising production, lower costs, potentially lower prices
- Having a subsidary company in a country with lower operational expenses (Poland, Romania.Srbia...)
- Representative offices on the markets with small workshops
- Increase the number of people employed in the installation team
- Better control over the costs (after-sales services)
- Additional products (selling just winding to other manufacturers, financing of transformers)

The summary of some direct quotations from the focus group:

- "Končar DIST has lower prices compared to KE."
- "Končar DIST is one of our strongest competitors, present on all of KE's important markets."

43

- "SGB-SMITH, ABB, SIEMENS, TIRONI, GETRA, Končar DIST - biggest competitors."
- "SGB-SMITH - perceived as a high-quality manufacturer."
- "KE should try to optimize its costs and offer lower prices."
- "KE has high transportation costs due to bad transportation connections."
- "KE should strengthen its after sales service because this is one of the most important points where the company has direct contact with the people who are responsible for the operation of the transformers, and the development of future projects."

These are of course their subjective opinions, which are nevertheless based on the experiences that they have with different markets; therefore, one should interpret the data having this in mind.

4.3.3   The performance benchmarking analysis

The bubble size in figures 21 and 22 represents the company's turnover. The higher the company's turnover, the bigger the size of the bubble in the graph.

For an easier and clearer graphical presentation of the companies' performance, I divided the companies into two groups. In the first graph there are only companies with negative CAGR and in the second, only those with positive CAGR (Figure 21 and Figure 22).

Figure 21. Companies' (-) CAGR, EBITDA margin and turnover in millions of EUR
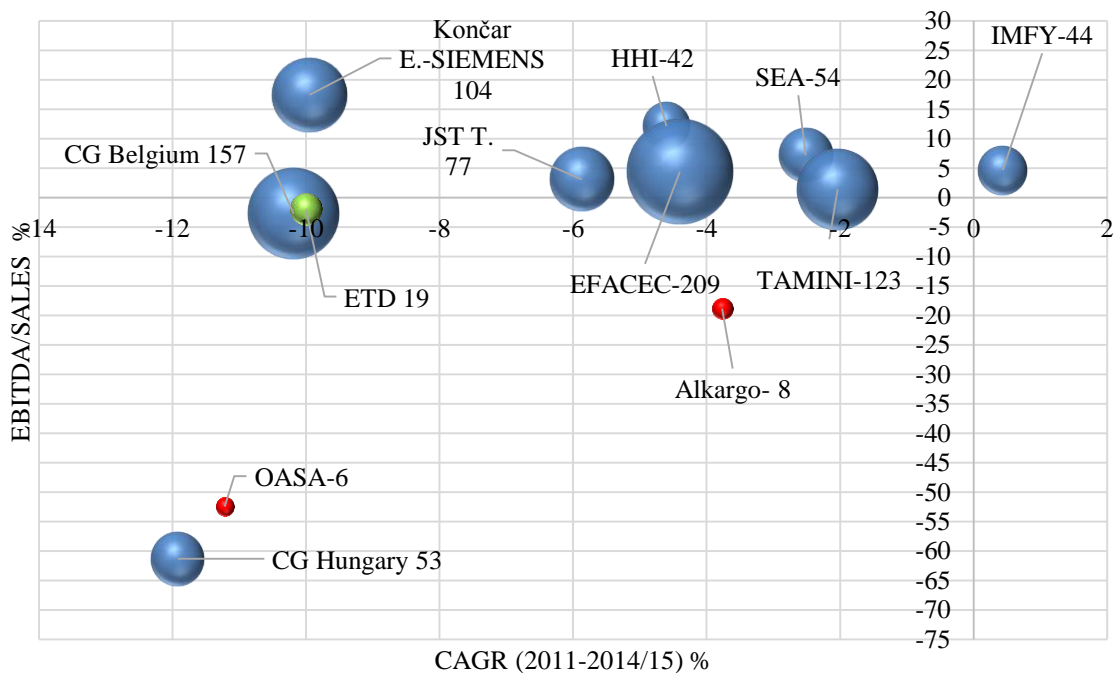
Source: KE internal source, 2017

The companies with a red-coloured bubble are insolvent. However, they are still possible/potential acquisition targets, which is the reason they are included in Figure 21.

In Figure 22, we can see that the bubble that is painted green represents the company Kolektor Etra d.o.o. KE is one of the best preforming companies in the upper graph and is outperformed only by a couple of smaller companyes. Only SGB-RETRASIB, Gedelsa and Minel Dinamo have a better CAGR. However, we must take into consideration that SGB-RETRASIB was just recently acquired by the SGB-SMITH Holding and that extensive investments were made into this subsidiary since then. SGB-RETRASIB also gained access to a wider market due to this acquisition, and these are all factors that contribute to a company's rapid growth. Minel Dinamo and Gedelsa also have a better CAGR, however they cannot be directly compared to KE due to their size as well as their production portfolio. The companies mostly produce distribution transformers and smaller power transformers up to 40 MVA.

Regarding the EBITDA margin, BR USH-UK and Gedelsa have higher margins. The company BRUSH did not perform very well before, but its owner invested heavily into their production capacities and the automatization of the processes in the last year. This contributed significantly to the better utilization of resources and to the higher EBITDA margin.

Figure 22. Companies' (+) CAGR, EBITDA margin and turnover in millions of EUR
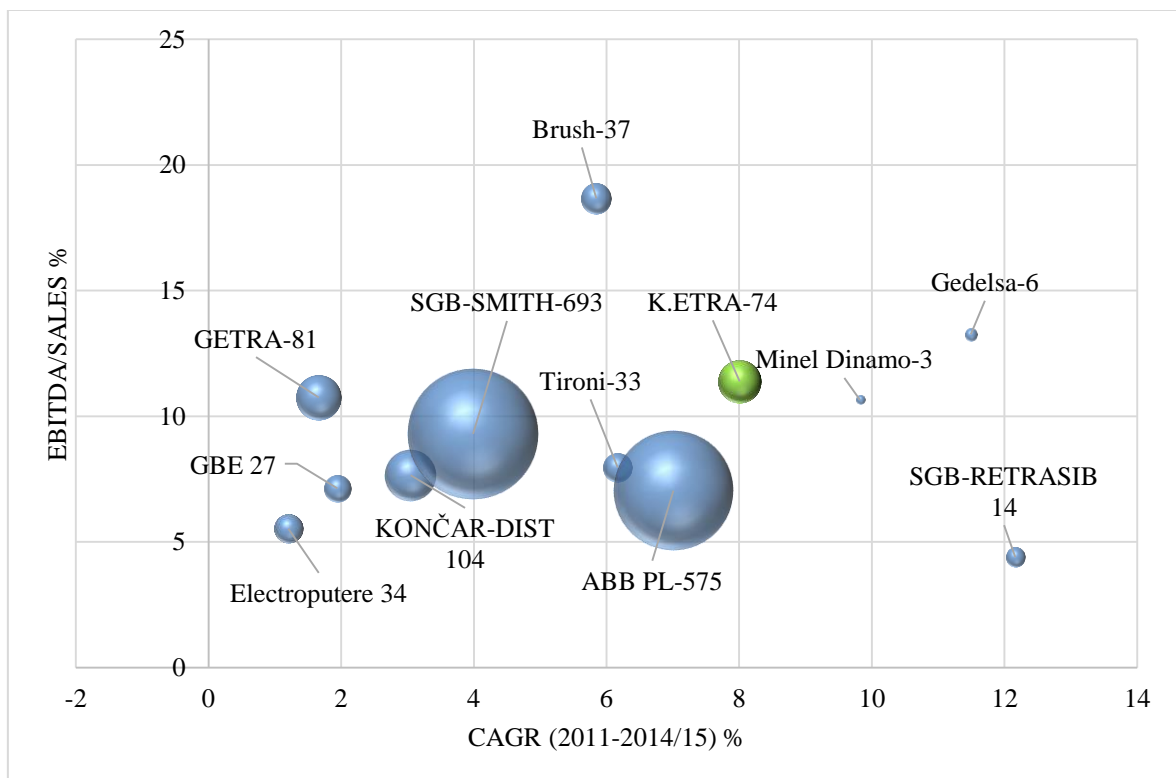
Source: KE internal source, 2017.

Figure 23 represents revenue per employee in EUR. There are two columns for each company. Blue indicates the company's revenue per employee in 2011 and the green one is for the last available year - 2014/15. There was no information on the date for some companies and in those cases, there is no column.

From Figure 23 we can see that out of the 24 companies, for which the data for both years is available, only 8 companies increased their turnover per employee. The company BRUSH achieved the biggest increase in turnover per employee from the year 2011 to 2014. They managed to increase their turnover per employee for almost 2.5 times in the period from 2011 to 2015.

Figure 23. Revenue per employee in EUR for the years 2011 and 2014/15

46
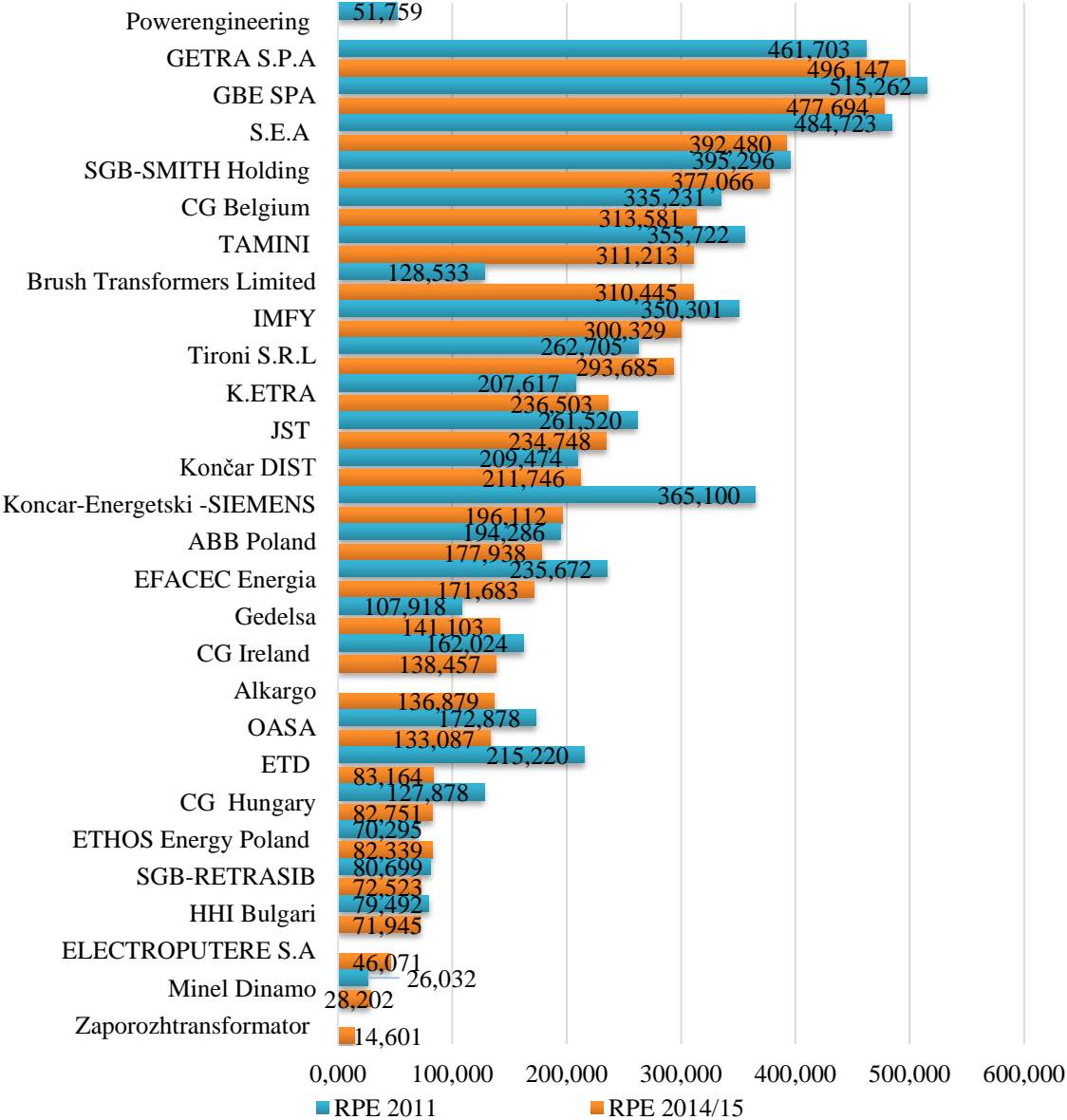
Figure 24 represents the companies' EBITDA per employee. Companies are listed in the order from the smallest EBITDA per employee to the largest. Only six companies have better EBITDA per employee than KE. These companies are: SEA (Italy), GBE SPA (Italy), Končar Energetski (Croatia), SGB-SMITH (Germany), GETRA (Italy) and Brush (United Kingdom). Brush is again one of the best performing companies in Figure 24, which indicates that the 5-million-pound investment was invested wisely and increased the productivity.

Figure 24. EBITDA per employee in EUR for the year 2014/15
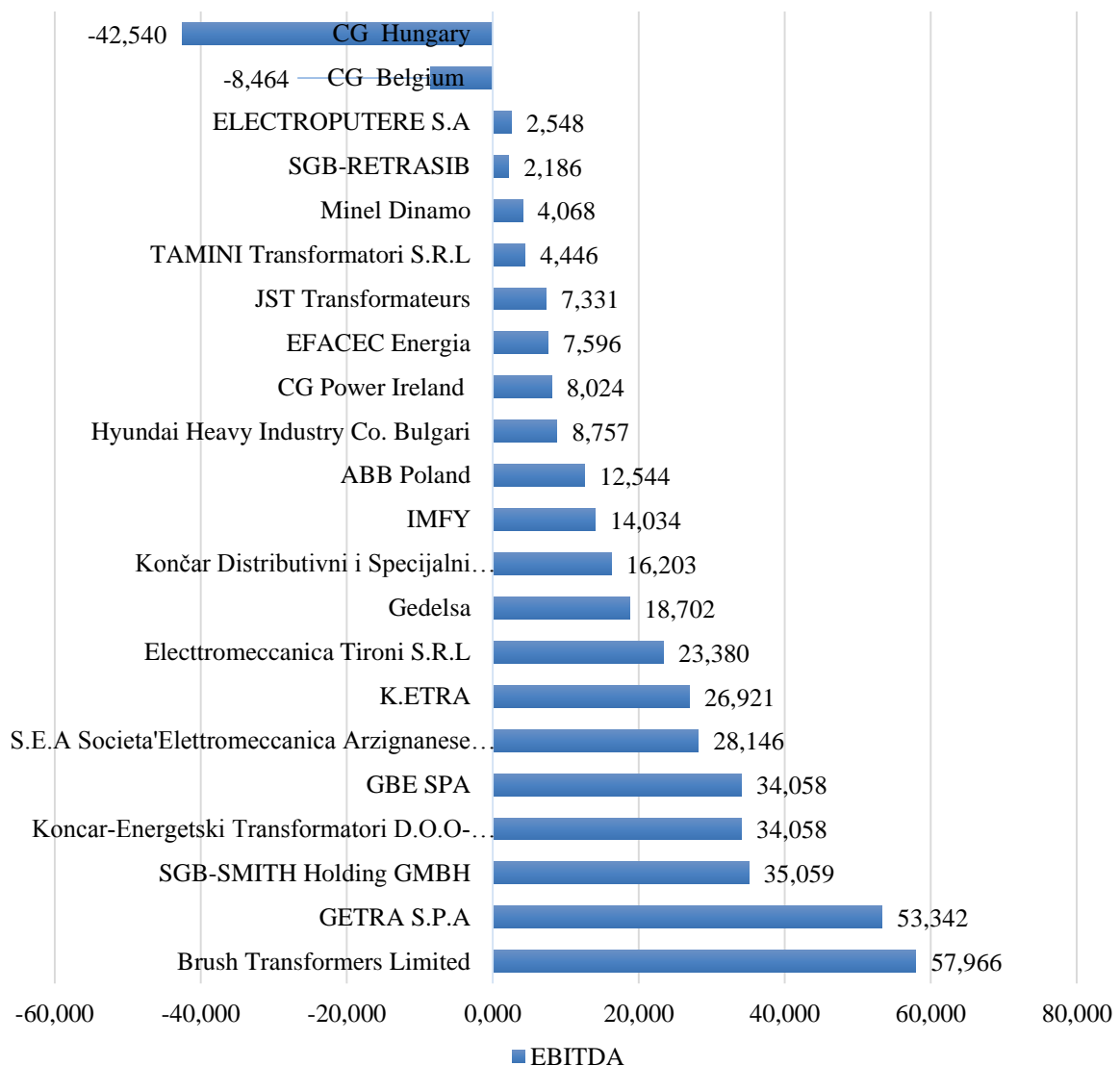
Source: KE internal source, 2017.

Figure 25 represents the turnover per square meter in EUR. This measure can be an indicator of how good the company is in utilizing its space. The more equipment and atomization it has in its production, the higher can the turnover per square meter be. I would like to point out that this data is not necessarily entirely accurate. The public

information regarding a company's area in square meters can differ between the companies because some companies only report the area of the production facilities, whereas others also include their office space and the logistics area. When preparing this graph, I tried to include only the companies' production area, but due to the previously listed limitations, the below information should be used with this in mind.

Figure 25. Turnover per square meter

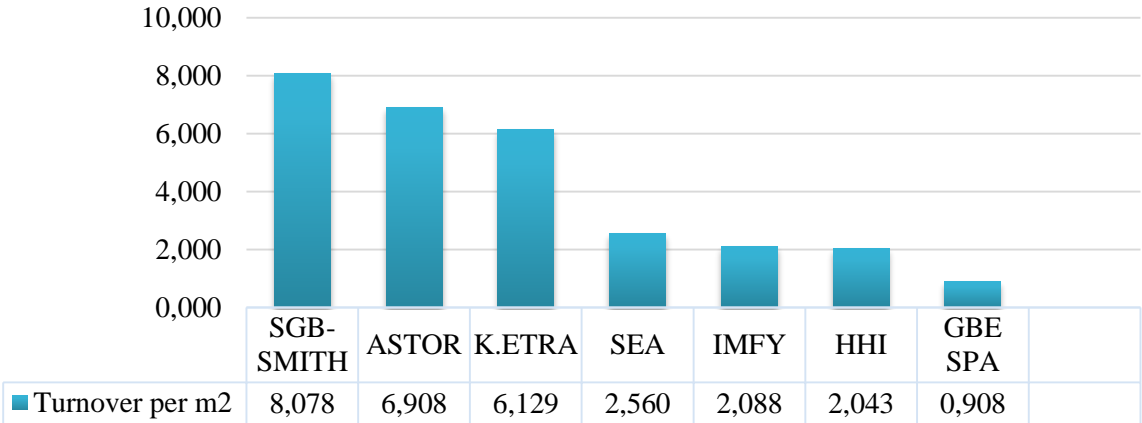|	SGB-SMITH	ASTOR	K.ETRA	SEA	IMFY	HHI	GBE SPA	
■ Turnover per m2	8,078	6,908	6,129	2,560	2,088	2,043	0,908	

Source: KE internal source, 2017.

In Figure 25, we can see that KE is in third place by the turnover generated per square meter among the compared competitors. Astor is a company which also produces a lot of distribution transformers, for which a lot of automated processes can be used in production. More important for the comparison is the company SGB-SMITH, which produces more or less the same type of products as KE. We can see that their production space is better utilized, so their efficiency per square meter is higher. It is difficult to determine the exact reason for that, but we can assume that SGB-SMITH has equipment that is more advanced and better organized processes and the layout of the workshop. One part of KE's production is in a very old workshop, which was mostly modernized through time by the installation of new equipment, whereas the layout, the width and size of individual areas stayed the same. Because of that, several improvements could be made in this area, such as new equipment, a different and more efficient layout of the workshop and the machines and so on.

In Figure 26, I gathered the credit and collection period for each of the analysed companies.

The credit period is an important indicator because it shows the number of days that the customers can wait before paying their invoice. In the graph below, this is represented with **yellow columns**. The number of days in which the customer is obligated to pay is important, because it indicates the amount of the working capital that a business is willing to invest into its accounts receivables in order to generate sales. This indicator indicates

how many days a company needs to cover their short-term liabilities.

The **blue column** in the graph indicates the collection period. This period is the approximate amount of time that it takes the company to receive payments owned in terms of accounts receivables.

Some companies that are presented do not have a clear separation of the office space and the production area. In those cases, rough estimations were made. Due to that, results might not reflect the exact size of a company's area.

In Figure 26, we can see that KE has a surprisingly high average credit and a low collection period, compared to other European manufacturers. This might seem strange at first, because KE pays liabilities to their suppliers in around 70-90 days on average. A possible explanation for this discrepancy in the data could be that these results are a consequence of the possibility that, on the last month of the year, it takes KE much more time than on average to pay their suppliers. These figures are calculated by taking the information from the balance sheet for the last day in the year and this can, consequently, lead to a discrepancy in case the liabilities in the last month are not paid in a similar time period than in the 11 months prior.

Figure 26. Average credit/collection period in days, for the years 2011-2014/15
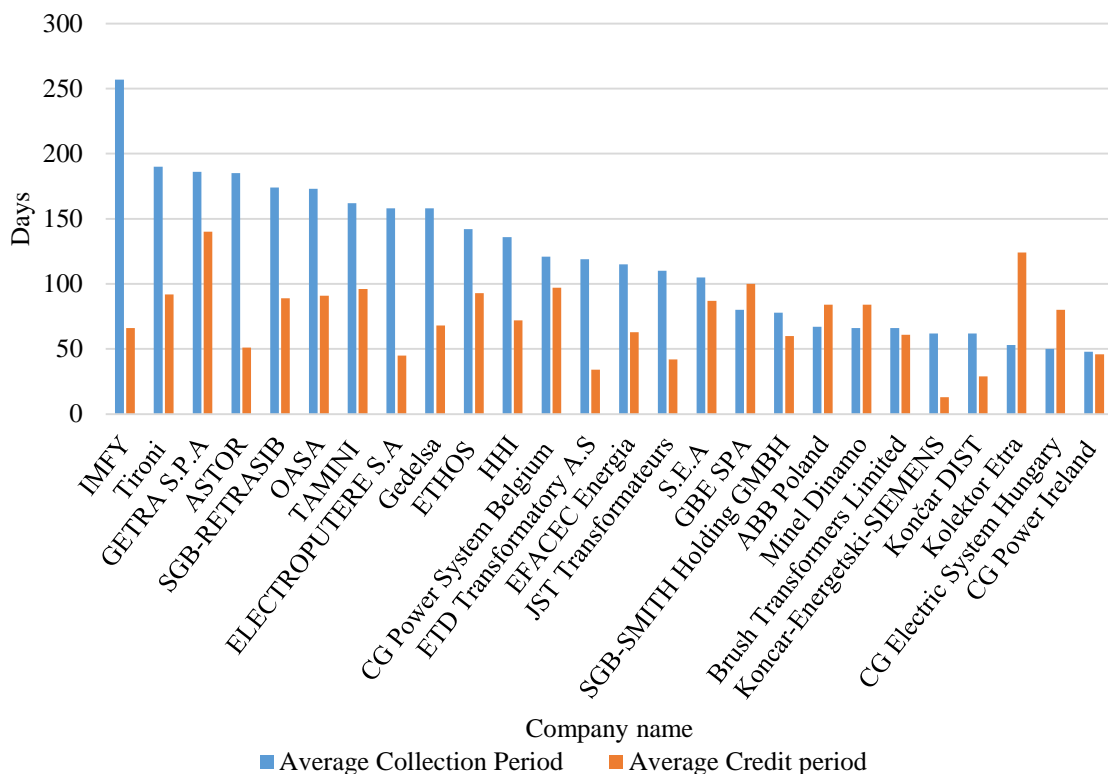
Source: KE internal source, 2017.

Figure 27 represents the percentage of the two main costs – the labour and material costs in a company's turnover. These figures were calculated by dividing a company's turnover with its material or labour cost that are identified in the company's balance sheets. For some companies, there was no information regarding their material costs, therefore, in such cases, information is missing. Depreciation is not included in either of these two costs. We can see that, on average, for most of KE's competitors, the percentage of the material costs in revenues is around 59% and around 17% for the working expenses. For material and labour costs, KE has a lower percentage of cost of revenues than average. This is a positive result, however, what this share is at KE main competitors' in even more important, for example at Končar DISTIST's. This is analysed and compared in more detail in the discussion section and a recommendation for the company's improvement is given.

Due to the missing data, the material costs of SGB-SMITH Holding were calculated as the average of the previous years (2010-2012). The result is the best approximate of the available data.

Figure 27. Cost of revenues 2014/15 (in %)

Source: KE internal source, 2017.

50
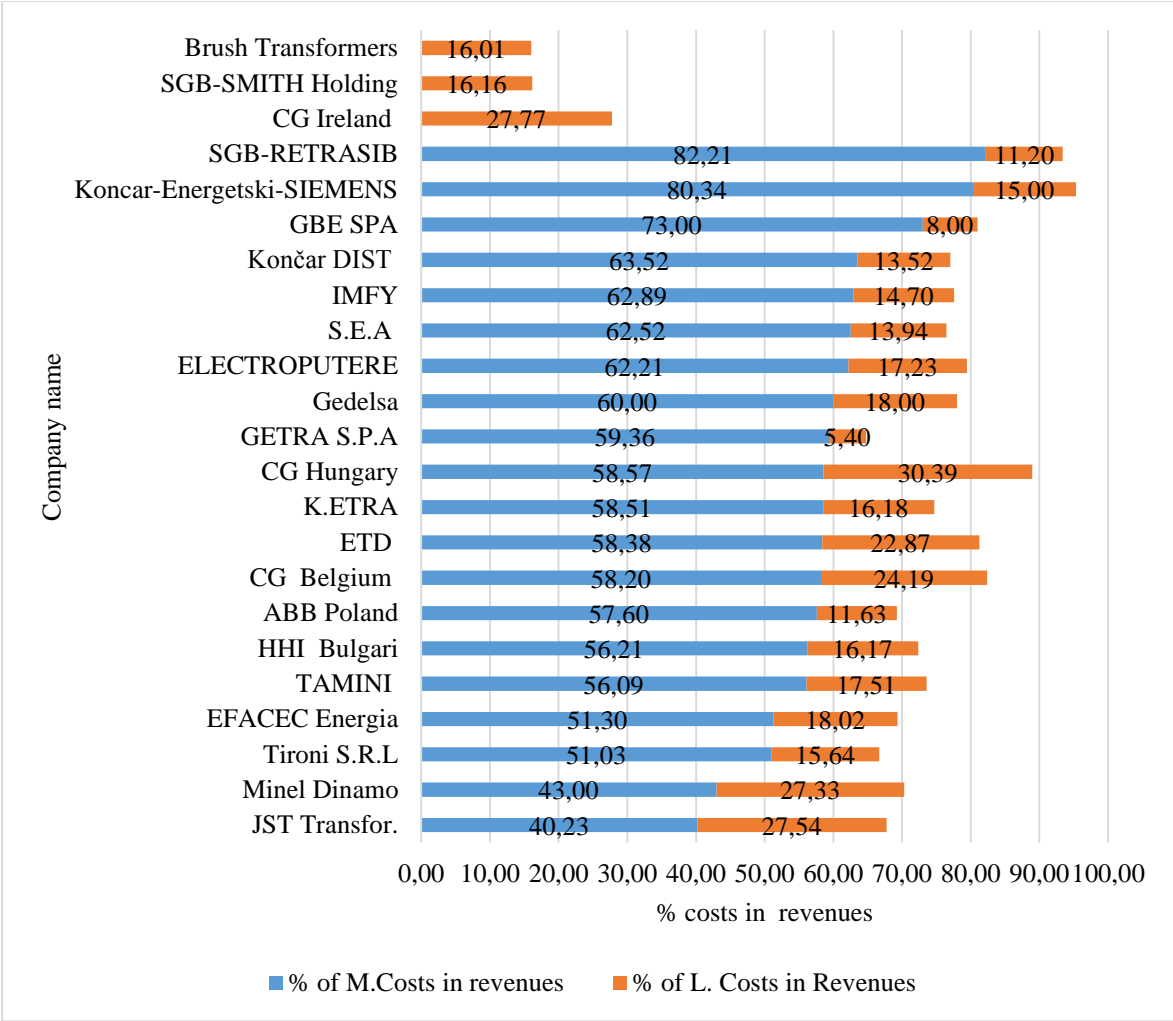
4.3.4 The competitive benchmarking analysis

The competitive type of the benchmarking analysis was performed by comparing KE with the company Končar-Distribution & Special Transformers Inc (hereinafter: Končar DIST). There are several reasons for why I have decided to perform a competitive benchmarking analysis on this company. The first, and the most important one, is that through the focus group and my personal experiences, we concluded that Končar DIST is a company that can be perceived as one of the closest competitors on several markets, which are very important for KE. This company also produces high quality and reliable transformers, which are characteristics KE likes to associate their own products with as well. One of the biggest perceived advantages of Končar DIST, compared to KE, is that they have lower price levels, which was identified with the help of the focus group. In my further analysis, I try to find the reason behind Končar DIST's ability to offer its transformers for lower prices. I must emphasize that my research was made on the assumption that the quality of the product, the equipment installed on the transformers and the materials used in KE's production are the same as Končar DIST's. This assumption was partially confirmed by the focus group and by checking Končar DIST's offers.

4.3.5 The individual comparison of performance indicators

By comparing indicators such as ROE, ROA, DEBT/SALES, turnover and the EBITDA margin, I tried to identify, if the lower prices severely influence the financial performance of Končar DIST. This was done with the direct comparison of the same performance indicators for both companies.

In the past four years the ROE was higher at Končar DIST's, which means that this company was more successful at generating profits from the money that the shareholders have invested. But there was an important turn in 2014, when KE's ROE severely increased and we can see that Končar DIST's ROE is on the negative trend. In the period from 2013 to 2014, the shareholders' equity did not substantially increase for either company - at KE, this change is almost neglectable and at Končar DIST it has increased for one million EUR. Consequently, the increase of ROE for KE is mainly due to the high rise of the company's turnover in the year 2014. The decreasing trend of ROE for Končar DIST is mainly because of the fact that their turnover is quite constant, but at the same time, they have substantially increased the shareholder equity. In 2010, the shareholder equity of the company was 21,652.00 EUR and almost 32.000.000 EUR in the year 2015.

Figure 28. ROE (in %)
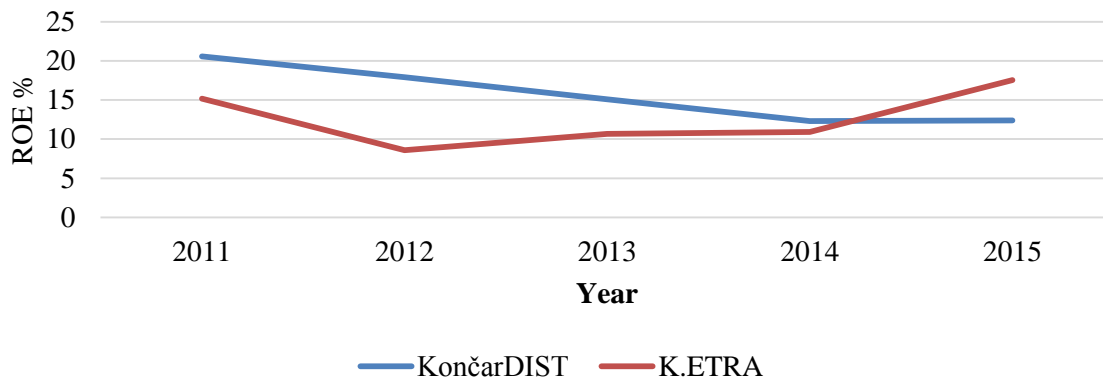
Source: KE internal source, 2017.

Regarding the profitability relative to its total assets, Končar DIST is performing better then KE, but this gap is closing and in the year 2015, the companies almost reached the same level ROA. The gap between both companies has decrease because, in the examined period, KE has substantially increased the amount of turnover generated from its own assets. On the other hand, Končar DIST did not manage to increase its sales on such a level as KE had.

Figure 29. ROA (in %)
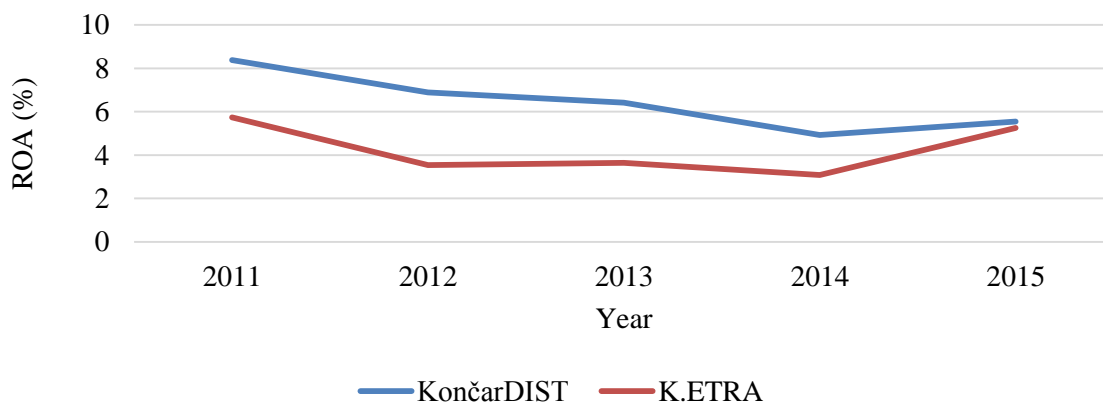
Source: KE internal source, 2017.

The debt/sales ratio is better at Končar DIST, due to the high past investments of KE in 2010 and 2011. KE has heavily invested into new manufacturing capacities this year, which enabled it to increase its capacities and offer bigger and higher quality transformers to its customers. This was amortized very quickly in the past years, so the levels were almost the same in 2015. We can see that Končar DIST is very conservative when it comes to the debt ratio and the level is almost constant on 20% throughout the whole examined period.

Figure 30. DEBT/SALES ratio
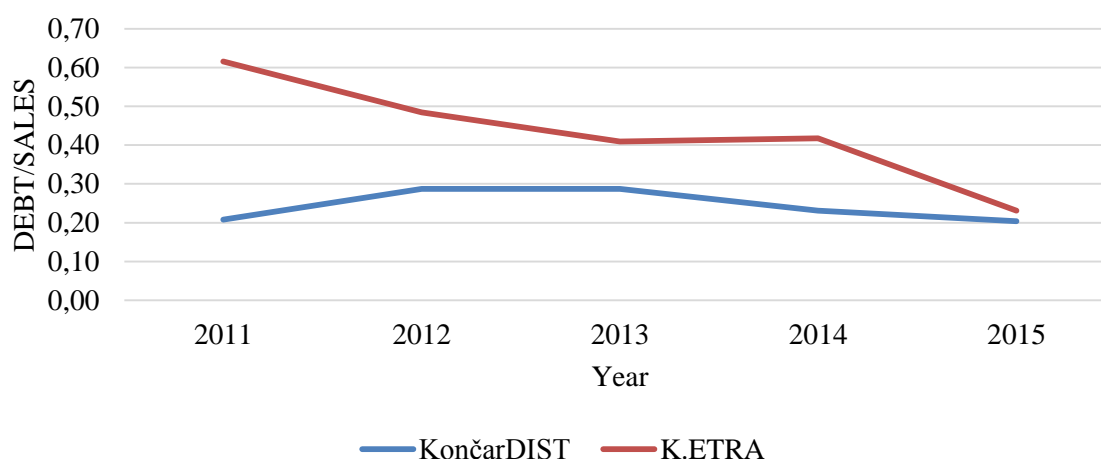
Source: KE internal source, 2017.

Below I chose some performance indicators, which can correlate with the possibility of Končar DIST's lower price offerings compared to KE. Figure 31 shows that the turnover per employee is almost on the same level in both companies, which means that efficiency per employee is on a similar level. What is interesting, and seen from Figure 31, is that when one company's turnover increased, the turnover of the other company decreased. One possible explanation for this could be that Kočar D and KE are one of the main suppliers of transformers for the Scandinavian market. Therefore, when one producer wins a larger part of the pie (orders), there is less demand for the other. However, through the last 5 years we can see that on average, KE was more successful than Končar DIST. This shows that it is very important that KE tries to identify in advance what kind of a price strategy they should attack the market with, to safely guarantee enough orders on the Scandinavian market, which is very important for both companies.

Figure 31. Turnover per employee in EUR
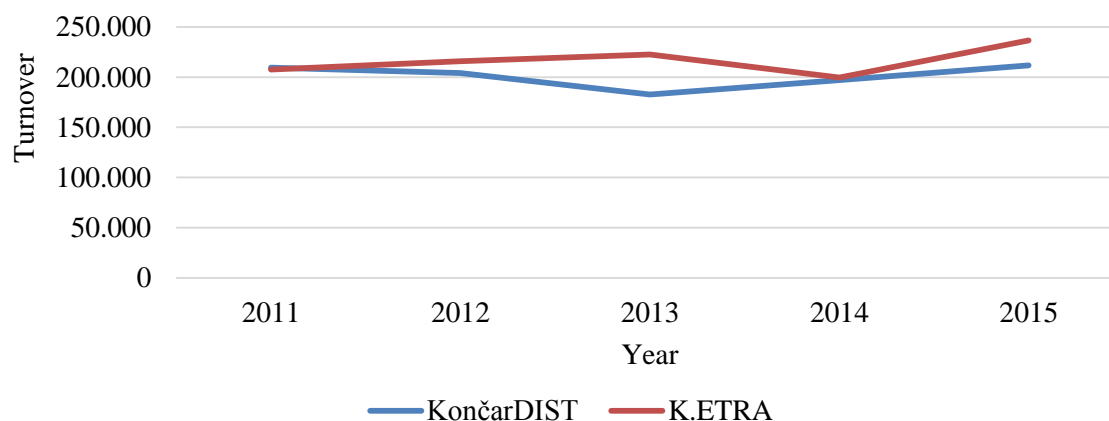
Source: KE internal source, 2017.

We can see from Figure 32 that throughout the whole examined period KE had, on average, a higher margin than Končar DIST. From the table under the section on performance benchmarking (Figure 27), we can see that Končar DIST and KE have a very similar percentage of material and labour costs. However, Končar DIST's material costs are a little bit higher and labour costs slightly lower then KE's. Taking into consideration that Končar DIST buys more material due to a higher turnover, the material costs in percentages should consequently be lower than KE's, who buys lover quantities of material from its suppliers. This statement is made based on the assumption that both producers are buying from the same suppliers and that the more you buy, the better are the prices that you can negotiate. Based on that, I made the assumption that higher material cost in percentages at Končar DIST are due to the lower price levels, which confirm what was already identified in the focus group. Also, when checking other cost for both companies, the differences are not significant. Consequently, we can assume that KE's higher EBITDA margin, identified in Figure 32, is also due to the higher prices of transformers. In Figure 32 it can also be seen that the margins of both companies are coming closer together in the last years.

Figure 32. EBITDA margin (in %)
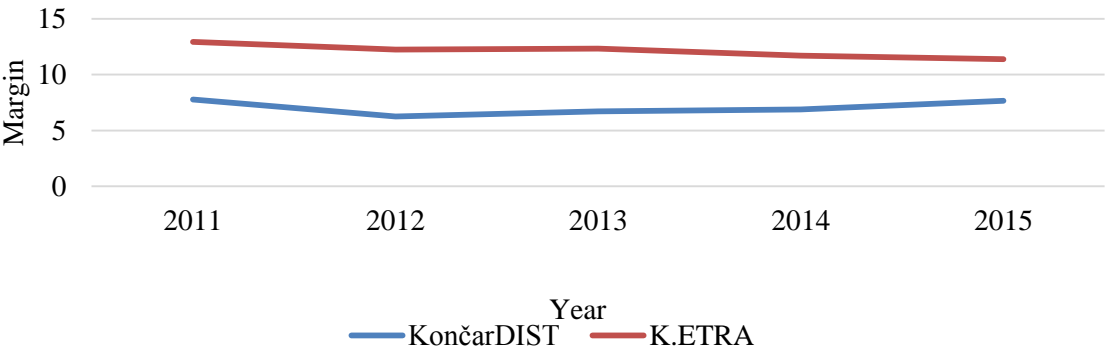
Source: KE internal source, 2017.

Figure 33. Working expenses expressed in percentages of turnover (in %)

Source: KE internal source, 2017.

54
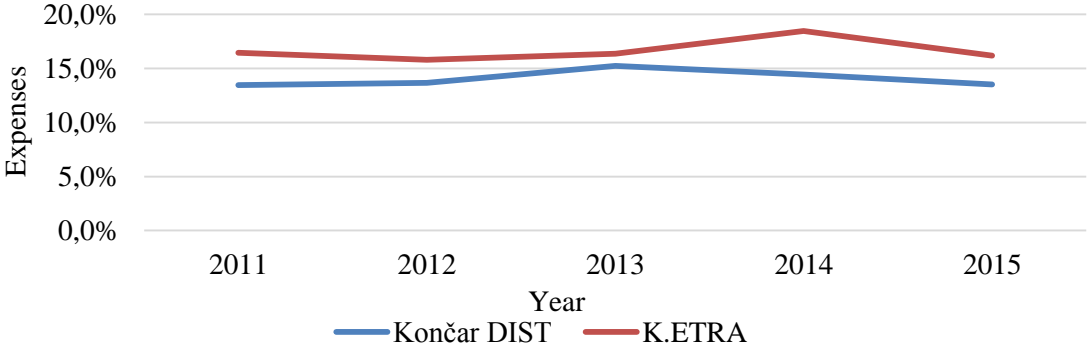
As already mentioned, KE has more working costs than Končar DIST. In order to identify the potential reason, I wanted to check what the difference in the total monthly labour cost for each company is. This comparison is presented in Table 6.

Table 6. Comparison of total monthly *»bruto-bruto«* cost per employee of both companies

	2011	2012	2013	2014	2015
KE	2.846	2.839	3.034	3.068	3.189
Končar DIST	2.346	2.321	2.315	2.369	2.386
Difference in EUR	500	518	719	699	803
in %	**18**	**18**	**24**	**23**	**25**

Source: KE internal source, 2017.

For calculating the total monthly cost, only full-time employees were considered and not agency workers. KE has a very small percent of such workers (less than 10%) and therefore the assumption is that it is the same at Končar DIST. The reason for this is that building transformers requires a lot craftsmanship and skills that can only be obtained through a long learning process, which can last up to 4 years.

The total monthly cost is, on average, higher in Slovenia, from 18% to 25% and surprisingly, this difference increases every year. The reason for the difference is mostly because in general, the salaries and their taxation are higher in Slovenia than in Croatia. This can also be concluded from the data of the Eurostat Press Office, which indicates that the average labour cost in Slovenia in 2015 was 15.8 EUR per hour and 9.6 % lower in Croatia (Eurostat, 2016).

4.3.6   Discussion and the recommendations for the company's improvement

Kolektor Etra is a company with a lot of knowledge and experiences in building reliable and high-quality power transformers. It is also one of the best performing companies in the Kolektor Group, within which several successful global companies operate. In 2017, KE received a reward from the Chamber of Commerce and Industry of Slovenia for extraordinary achievements in business. All of this indicates that we are talking about a very successful organization with a huge potential for further growth. However, in todays' global environment, it is not enough for a company to perform well only on the domestic market, but it also needs to be present and competitive on foreign markets. In order to be and stay competitive, it needs to compare its performance to its competitors and actively monitor the market on which it is operating. By doing so, it can promptly change its competitive strategy if needed.

The purpose of this thesis is to provide valuable information and recommendations for Kolektor Etra's further growth. Having this in mind, I identified the characteristics of the

global and the European market, compared the performance of KE to its competitors and in the last part, identified the competitive advantage of one its European competitors. Therefore, in this part I provided the answers and recommendations for the questions which were initially raised at the beginning of the thesis.

These questions are the following:
  I.   What are the characteristics of the global and the European transformer markets?
 II.   What is KE's performance compared to its European competitors?
III.   What is the reason that the chosen competitor is in some aspect performing better, or has strong competitive advantages compared to KE?
IV.   Where and how should KE improve?

Based on the performed research and the gathered information, the results and recommendations for each of the above-mentioned questions are the following:

- In the period from 2015 to 2020 CAGR for the global transformer market is predicted to be 5%. This will mainly be driven by the demand for power transformers above 5.1 MVA, the production of which is KE's core business. Globally, the highest demand will be in the Asia-Pacific region, North America and Europe. KE generates the most turnover on the European market, where more than 80 % of the company's turnover is generated. The European market is known for its demand for very high-quality transformers and therefore, not a lot of low price and low-quality manufacturers are present. It is predicted that the following countries will have the highest share of power transformers in value by 2020 on this market: Russia, Germany, France and the United Kingdom. As a downside, it is predicted that globally, big corporations that are involved in the production of power transformers, will further increase their market share by 4% in the next 5 years. Consequently, there will be a stronger competition among the smaller manufacturers such as Kolektor Etra. From the information presented, I can conclude that the predictions for the market are very good for KE, as the demand for transformers is expected to grow globally and locally (Europe), which will give KE good opportunities for further growth and development. Based on the information gathered and presented, I would suggest that KE gives special attention to and allocates additional resources for the most promising markets (Germany, Russia, France and the United Kingdom). Currently, KE has quite a low market share on these markets, which means that with a clear strategy, there is a lot of potential for growth.
- For a company to grow further, it is important for it to stay competitive and monitor its competition. Therefore, in the second part of the thesis, I conducted a performance benchmarking analysis and compared KE's performance to the performance of its main European competitors. The comparison was based on 8 performance indicators which are also used internally by KE's management with the purpose of measuring its own progress and performance and for formulating the company's 5-year strategy. The results of this comparison analysis show, that KE is one of the best performing

companies when compared to other European competitors. It has one of the highest CAGR for the examined period from 2011 to 2015, as well as a very high EBITDA/SALES and EBITDA per employee. There are some companies with higher ratios, however, a direct comparison would not be accurate because they produce several types of transformers where automatization is easier to adapt. The compared performance indicators where KE was not at the top level were revenue per employee, average collection and credit period and turnover per square meter. The percentage of the costs in revenues were at the average level of the examined group. Based on the results of the conducted comparison, my main recommendation would be to increase the productivity of the workers. Productivity can be increased by providing the means that enable the employees to do more. This can be achieved by either providing more efficient technology, improving the work process or by educating the employees. Additionally, productivity can also be increased by establishing a better relationship with the management and the motivation and inspiration of employees (Daft, 2008). Investments and a good work organization could also improve the turnover per square meter, which was also not the highest when compared to other manufacturers. However, it should be taken into consideration that Kolektor Etra produces customized products, which means that the exploitation of the space and the automatization cannot be as high. By lowering the average collection and credit period, the company could lower its short-term liabilities and improve the relationships with its suppliers. Having a good and strong relationship with the suppliers can be crucial due to KE's size and the long lead times of some crucial transformer equipment. Good relationships and payment time can be a strong negotiation point that can lead to negotiating better prices and delivery terms.

- In the last part of the thesis, I conducted the competitive type of a benchmarking analysis. Based on the focus group and previously gathered information, I decided that the target company for this analysis is the Croatian company Končar DIST. With the help of the focus group, it was identified that Končar DIST is a very strong competitor for KE due to its strong presence on the same markets, on which it offers products of similar quality, but with lower prices. With the competitive benchmarking analysis, I wanted to identify what the reason or the competitive advantages that enable Končar DIST to have lower prices are.

In the first step, I decided to check what Končar DIST's performance is when compared to KE. I wanted to see if lower price levels influence its performance. The following indicators were used: ROA, ROE and DEBT/SALES. Additionally, I also checked the performance benchmarking analysis and concluded that, on average, KE's performance in 2015 was, in all aspects, better than the performance of the compared company. However, both companies operate quite similarly. After concluding that lower prices do not severely influence the company's performance, I tried to find out, what enables Končar DIST to have lower prices than KE. I have compared the turnover per employee, the EBITDA margin (%), the credit period and the work expenses for both companies for the period

from 2011 to 2015. The indicator which shows the amount of turnover generated by each employee is really close for both companies. On average, KE performs a bit better in this perspective, but not severely, which might indicate that the efficiency of the employees is on a similar level. Therefore, the employee efficiency, and consequently the lower costs, are most probably not the reason that the Croatian company can sell its product at lower prices.

The second indicator that was directly compared is the EBITDA margin (%). From this comparison, I identified that KE had substantially higher margins throughout the last 5 years, however, the gap between the companies has shrunk in recent years. This margin can be a consequence of higher prices or the better utilization of resources. It is hard to conclude that KE has margins that are too high, because this is something that is indicated by the market. If the customer would not be willing to the pay price levels of KE, then this could mean that the margins are too high. But if this happens, it should be further analysed whether the unwillingness of the customers to pay the price levels of KE is due to the overall market price decrease, product quality or customer perception of the company.

This could be answered by the help of the Customer Relationship Management system (hereinafter: CRM) which KE already has in place. With the correct adaptation and usage, CRM can lead to the smooth flow of the business processes, help the company to better understand the customers' requirements, increase customer loyalty, reduce the marketing cost and generally increase the value for clients (Pedron, Picoto, Dhillon, & Caldeira, 2016). Globally, companies in various industries have realized that their customers are at the centre of their business and that the information about them is the company's key asset (Linoff & Berry, 2011). As much information as possible about the individual customer should be gathered for further analysis or data-mining to be possible. Having customer feedback about their perception and opinion of the organization can help with the making of better decision and with determining whether the organization is meeting their requirements or not (Hayes, 1998). This can also help KE provide an answer to the question about whether the lower prices are the effect of the market or just an attempt of the company Končar DIST to start a price war. In the article that was published by the Harvard Business Review written by Rao, Bergen and Davis (2000), the following strategies for fighting a price war are presented:

Table 7. Strategies for fighting a price war

Tactic	Example
Non-price Responses	
Reveal your strategic intentions and capabilities	Offer to match the competitor's prices, offer low pricing every day, or reveal your cost advantage.
Compete on quality	Increase product differentiation by adding features to a product, or build awareness of the existing features and their benefits. Emphasize the performance risk in low priced options.
Co-opt contributors	Form a strategic partnership by offering cooperative or exclusive deals to suppliers, resellers or providers of related services.
Use complex price actions	Offer bundled prices, two-part pricing, quantity discounts, price promotions or a loyalty program for products.
Introduce new product	Introduce a flanking brand that competes in customer segments that are being challenged by competitors.
Deploy simple price actions	Adjust the product's regular price in response to a competitor's price change or another potential entry into the market.

Source: A. R. Rao et al., *How to fight a price war,* 2000.

The CAPA system is a continuous process, product and quality management system (QMS) improvement tool. The goal of the CAPA system is to continuously improve the company's production process and the quality management system. This system consists of two main loops (Figure 34) (Muchemu, 2006).

Figure 34. CAPA System
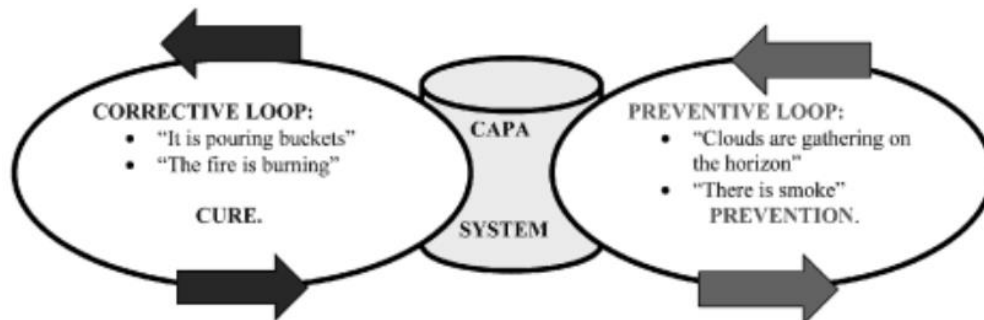
Source: D. Muchemu, *How to design a world-class corrective action preventive action system for FDA-regulated industries: a handbook for quality engineers and quality managers,* 2006, p. 4.

In the first, so called corrective loop, the company deals with current problems and ways to solve them, whereas the second, preventive loop, is mostly focused on identifying the potential problems that can occur. The problem appears when you invest a lot of your resources in the first loop (putting out fires) and you do not invest resources into looking for and the prevention of the potential problems that could occur (Muchemu, 2006). Implementing CAPA can then lead to improved customer satisfaction, increased

productivity, better product quality and the avoidance of different costs such as non-compliance fines (Markens, 2014).

The last comparison between the companies was based on working expenses. In the examined period, Končar DIST had lower working expenses throughout all years. A further analysis of the total monthly expenses per worker employed revealed that these expenses are 18-25% higher on average for Kolektor Etra. What is even more surprising, is that the gap is increasing. In 2011, the difference was 18% and in the year 2015 it already rose to 25%. We must also consider that it was previously identified that the workers of both companies generate the same amount of turnover in general. From the publicly available data, total hourly cost per employee in Slovenia is 64% higher than in Croatia. The cost of the employees represents around 15% of all costs that each of the examined companies have. This is not a negligible advantage for Končar DIST. Nevertheless, a solution for shrinking the gap between the costs, in my opinion, is not in lowering the salaries in KE. Building powerful transformers requires very experienced workers with a lot of knowledge, therefore, my opinion is that, in a time where the access to the best technologies is limitless, the biggest company advantage can be a skilled, motivated and experienced work force. Increasing the knowledge of employees and their productivity should be one of the main concerns of companies nowadays. Incentives are already proven to be a good stimulator for increasing employee performance, as employees put a far greater effort into their work when these efforts are rewarded financially (Bryson & Freeman, 2016). KE already has a good system in place, which rewards its employees for their good performance and the performance of the company, through several reward systems, therefore increasing the motivation with financial incentives is already very well established. However, the increased employee efficiency and productivity can also be achieved by non-financial incentives. The employees can also be motivated to perform better by knowing that they are appreciated for the work they do, have job security, do interesting work, receive appropriate feedback for the work performed and have the ability of a promotion and growth in the organization (Wiley, 1997). It is also known that the increased engagement of the employees correlates with organizational performance. Wayne & Walden (2014) suggest that increased engagement can be achieved by improved trust and respect among the people employed in the organization and by appropriate leadership. Due to the very well established financial incentives system for improving employee productivity and motivation in KE, the company should further focus on developing some of the aforementioned non-financial incentives as well.

The summary of findings based on the questions listed above:

I. It is estimated that, for the period between 2015 – 2021, the global transformer market will further grow with an expected CAGR of 5 %. Most of the demand will be generated by the demand for transformers above 5.1 MVA. It is also predicted that global players will further increase their strength on the markets.

II. Based on the benchmarking analysis, using the selected performance indicators, I concluded that KE is one of the best performing power transformer producers in the EU.

III. Due to limited information, I could not find the definite answer to this question, however, it was identified that one of the biggest advantages of Končar DIST are the lower product prices. There can be several reasons for that, but one of the identified and proven reasons are lower labour costs.

IV. My recommendations for improvement are the following:
   o investment into R&D,
   o improved quality,
   o the increased efficiency of the workers and processes and
   o the increased differentiation of KE products.

4.3.7 Research limitations

A benchmarking research requires a lot of resources, knowledge and the involvement of different people in and out of the company. When preforming this analysis, I had limited resources and was not able to create a large benchmarking team, which could help me perform this study. Another large limitation was that I did not have a benchmarking partner, therefore the benchmarking research was done so that I analysed the competitors without their knowledge. Because of that, most of the data on which this research is based was gathered from publicly available sources such as annual reports, the internal KE database and the companies' web pages. These limitations enabled me to include each indicator for all of the 26 examined companies, so that for some indicators, smaller groups of companies are compared. This can be strongly detected in the comparison of the turnover per square meter, where only seven companies are compared. It also needs to be stressed that some information was gathered from the companies' web-sites or their presentations, which can mean that this information can be subjective. The limitation of not having a benchmarking team and partner was partially compensated with the forming of a focus group. This focus group provided valuable information on which companies should the research focus on and which performance indicators should be analysed. Workers who have been at KE for a longer period of time were included in the focus group, which means that they can also be partially biased, and they can suffer from group thinking. Overall, despite these limitations, I think that useful and quite accurate information was gathered, which can be beneficial to KE's management and for the other workers in the company.

CONCLUSION

The main goal of this research was to perform a benchmarking analysis and examine different competitors that are present on the European transformer market. It is particularly valuable because it will help KE's management identify which areas the company is

underperforming in, as well as which areas are in need of improvement. The results of this research will also serve as a basis for formulating KE's 5-year strategy. The last part of this thesis is focused on the direct comparison of the performance and characteristics of Končar DIST and KE, with the purpose of identifying the potential advantages of competitors.

For the purposes of informing the reader about the situation on the transformer market and because of the applicability of this information in the process of shaping the company strategy, the first part of the thesis provides answers to the question "What are the characteristics of the global and the European transformer market?" Globally, the demand on the transformer market will further increase in the years between 2015 and 2020 with the expected CAGR of 5%. Most of the demand will be generated from the demand for power transformers, which are transformers ranging from 100 and 500 MVA. This demand will mostly be motivated by the continuous increase in the power demand and the wish of the countries to generate energy from renewable sources. This trend is especially strong in the European Union. Geographically, the biggest demand will come from the Asia-Pacific, North American and European regions. The main global players, which cover around 45% of the global market, are ABB, TEBIAN, SIEMENS and GE. It is expected that by 2020, their share will further increase and that they will cover 50% of the global market. We can conclude that the projections for the demand are very positive and as such represent a good potential for KE's further growth.

The next very important questions that needed addressing, was what is KE's performance compared to its European competitors'? This comparison was made between KE and its closest competitors, based on seven different performance measures. From the comparison we can conclude that KE is, almost in all aspects, one of the better performing companies, if not the best. It is a company with a very high CAGR, little debt, high turnover and high worker productivity. Of course, there is still some place for improvement, especially in terms of the productivity of employees and the costs.

After conducting a focus group, the decision was made that for the detailed comparison, KE will be compared to the company Končar DIST. Based on the comparison of performance of both companies, we can conclude that, on average, KE's performance in 2015 was, in all aspects, better than the performance of Končar DIST. One of the advantages that were highlighted in the focus group, was that Končar DIST offers its products at lower price levels than KE. It is hard to determine with certainty what enables the company Končar DIST to do so, assuming the quality of both producers is equal. I have checked several indicators which could potentially provide an answer to this question. The comparison of these indicators showed that both companies are profitable and that KE's EBITDA margin is much higher than the one of Končar DIST. Despite this comparison, I did not receive an answer to the question why Končar DIST can offer products at lower prices. Furthermore, I looked into labour expenses, in order to check if this is the advantage that enables Končar DIST to have lower prices. This comparison has shown that

the total monthly expenses per employee are 18-25% higher on average for KE. What is even more surprising is that this gap is increasing. In 2011, the difference was 18% and in the year 2015 it already rose to 25%. It cannot be directly proven that this is the reason why Končar DIST can offer its products at lower prices, but lower working costs are not neglectable. In order to increase KE's competitiveness, I also recommended the following activities which can potentially help KE improve: increased focus and additional resources for the most promising markets, investment into new technology and employees (increased productivity), better utilization of CRM (systematically gathered information about its customers), investment into R&D and the processes which will increase the quality of products and help with the differentiation of its products.

To conclude, I can say that, based on the market overview, there will be a lot of opportunities which are favourable for Kolektor Etra's further growth. Additionally, compared to other European manufacturers, KE has one of the best financial performances. Končar DIST is one of its most dangerous and aggressive competitors, as it has a lot of experience and is producing high quality transformers with lower costs. However, through the new investments into R&D, people and facilities, KE has a good possibility of becoming one of the most prestigious producers of power transformers in Europe. The most important thing is that the company strongly differentiates itself with one or two characteristics, for example, the quality and R&D. If the customers associate Kolektor Etra with these two characteristics, future growth and success are not questionable. Even though there are many ways of determining the companies' performances, as covered in the theoretical part, looking from the financial perspective and chosen indicators, KE is truly one of the best performing producers of power transformers on the European market.

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APPENDIXES

TABLE OF APPENDIXES

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APPENDIX A: List of abbreviations

CRM – Customer Relationship Management system
CAGR –Compound Annual Growth Rate
KE – Kolektor Etra d.o.o.
Končar-DIST – Končar DISTistributivni I Specjalni transformatorji d.d.
PMI – Post merge integration

APPENDIX B: Povzetek

Glavni cilj magistrske naloge je bil izdelava primerjalne analize uspešnosti poslovanja različnih konkurentov podjetja Kolektor Etra na evropskem trgu transformatorjev. Končne ugotovitve naloge bodo služile kot informacija vodstvu o poslovanju podjetja ter usmeritev, na katerih področjih se lahko uspešnost oz. delovanje preučevanega podjetja še izboljša. Zadnji del magistrske naloge zajema primerjavo med poslovanjem KE ter podjetja Končar DIST. Ta primerjava je narejena z namenom ugotovitve konkurenčnih prednosti posameznega podjetja ter razlogov, ki mu omogočajo to prednost.

Zaradi pomembnosti seznanitve bralca ter tudi zaradi pomembnosti samih informacij pri izdelavi strategije, je prvi del magistrske naloge osredotočen na evropski ter globalni trg transformatorjev. Prvi del magistrske naloge ponuja bralcu odgovor na vprašanje "Kakšne so značilnosti globalnega in evropskega trga transformatorjev?« Globalno se bo povpraševanje na trgu transformatorjev med letoma 2015 in 2020 še povečalo, pričakovan CAGR je 5%. Največji delež povpraševanj bo izhajal iz potreb po transformatorjih ranga med 100 in 500 MVA. Del teh povpraševanj bo nastal zaradi vse večjih potreb po električni energiji ter tudi zaradi želja držav, da je čim večji delež električne energije pridobljen iz obnovljivih virov. Globalno bo največ povpraševanja v azijsko-pacifiški, severnoameriški in evropski regiji. Svetovne korporacije, ki trenutno pokrivajo okrog 45% svetovnega trga so ABB, TEBIAN, SIEMENS in GE. Njihov tržni delež naj bi se do leta 2020 še povečal, in sicer iz trenutnih 45% na 50%. Na podlagi raziskave ter pridobljenih podatkov lahko sklepamo, da so napovedi na globalnem ter evropskem trgu zelo pozitivne, kar ponuja dobre obete za še nadaljnjo rast podjetja Kolektor Etra d.o.o.

V osrednjem delu naloge sem odgovoril na vprašanje »Kako uspešno je poslovanje podjejta Kolektor Etra v primerjavi z izbranimi konkurenti na evropskem trgu transformatorjev«. Primerjava je bila narejena na podlagi osmih finančnih indikatorjev, na podlagi katerih lahko povzamemo, da je Kolektor Etra eno izmed najbolj uspešnih podjetij v regiji. Podjetje ima skozi celotno preučevano obdobje zelo visoko rast, nizko zadolženost, ter visok dobiček pred amortizacijo ter davki. Izboljšave so predvsem možne na strani produktivnosti zaposlenih ter stroškov.

V naslednjem delu je bila izvedena direktna primerjava med podjetjem Kolektor Etra ter izbranim konkurentom. Na podlagi izsledkov fokusne skupine je bila primerjava narejena med podjetjem Kolektor Etra ter hrvaškim konkurentom Končar DIST. Na podlagi primerjalne analize lahko vidimo, da je uspešnost podjetja Kolektor Etra v skoraj vseh primerjanih kazalnikih boljša od primerjanega podjetja. Ne glede na to pa je bila v sklopu fokusne skupine identificirana zelo močna konkurenčna prednost podjetja Končar DIST, in sicer nižje cene. V nadaljevanju je bila narejena analiza, na podlagi katere bi bilo mogoče predpostaviti, kaj podjetju Končar DIST omogoča, da nudi svoje izdelke po nižjih cenah od podjetja Kolektor Etra, ob predpostavki, da je kvaliteta obeh proizvajalcev enaka.

Najprej sem preveril ali nižje cene negativno vplivajo na samo profitabilnost podjetja, vendar temu ni tako. Profitabilnost ter uspešnost podjetja Končar DIST je nižja od Kolektor Etre, čeprav je poslovanje ter stabilnost podjetja daleč od slabega. Primerjava EBITDA marže je pokazala, da je le-ta v celotnem obdobju višja pri podjetju Kolektor Etra, kar ima lahko neposredni vpliv na ceno transformatorja. V drugem koraku sem primerjal stroške dela obeh podjetij – v letu 2015 so bruto bruto stroški dela do 25 % višji pri Kolektor Etri. Še bolj presenetljivo je to, da ta vrzel od leta 2011 narašča. Neposredno nisem mogel dokazati, da nižji stroški dela omogočajo podjetju Končar DIST prodajo transformatorjev po nižjih cenah, vendar nižji stroški prav gotovo niso zanemarljivi. V sklopu priporočil za izboljšanje konkurenčnosti podjetja sem predlagal sledeče izboljšave:

- Povečanje sredstev za najbolj obetavne trge (Francija, Nemčija, Rusija, Velika Britanija).
- Naložbe v nove stroje ter izboljšava procesov v proizvodnji.
- Vzpostavitev nefinančnega motiviranja zaposlenih.
- Sistematična uporaba CRM sistemov.
- Investicije v razvoj ter diferenciacijo produkta.
- Povečanje kakovosti (CAPA sistem).

Na podlagi izvedene analize lahko zaključim, da ima podjetje Kolektor Etra veliko možnosti za nadaljnjo rast. V primerjavi z drugimi proizvajalci transformatorjev v Evropi je Kolektor Etra eno izmed najbolj uspešnih podjetij. Končar DIST je eden izmed najbolj močnih konkurentov z veliko izkušenj z izdelavo transformatorjev, ki jih nudi po nižjih cenah. Kljub temu ima Kolektor Etra z novimi investicijami v raziskave in razvoj, ljudi ter objekte zelo dobre možnosti, da postane eno izmed najbolj prestižnih ter h kupcu osredotočenih proizvajalcev transformatorjev v Evropi. Najpomembneje je, da se podjetje pri kupcih identificira z eno ali dvema močnima značilnostma. Predlagane značilnosti so visoka kakovost ter prilagojene rešitve. Če bodo kupci prepoznali te značilnosti, ter v kolikor jih bo podjetje znalo ohraniti, prihodnja rast ter uspešnost podjetja nista vprašljivi.