УДК 338.12.017 DOI: https://doi.org/10.18664/btie.84.301422

INTERCONNECTION OF DIVERSIFICATION AND VALUE BASED MANAGEMENT IN SMALL WHOLESALE BUSINESS

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In the paper, we found out types of diversification suitable for small wholesale business in Ukraine in wartime. The most suitable types of diversification are: service, product, financial and geographic diversification. Also, horizontal, vertical, conglomerate and concentric types of diversification can be applied, taking into account their benefits and potential pitfalls defined in this paper.

We also considered diversification as a value-creating strategy, outlined its main benefits and pitfalls. It offers several benefits, such as risk reduction by spreading investments across industries, thus reducing dependence on one market. It allows for synergies in related diversification through shared resources and expertise, enhancing efficiency and profitability. Additionally, diversification enables portfolio optimization, *balancing performance across various sectors. However, it entails challenges like integration difficulties, potential overextension, and the risk of not realizing expected synergies. Effective diversification requires a clear strategic rationale, meticulous execution, and continuous monitoring, with willingness to divest from underperforming areas to sustain value creation.*

We suggested using Value Chain Analysis for choosing the most effective strategy of diversification for small wholesale business and developed Value Chain of a Small Wholesale Business (particularly, with heating equipment wholesale as a main type of activity).

By understanding how each activity affects customer value, businesses can tailor their strategies to enhance customer satisfaction and loyalty. This might involve improving product quality, customer service, or any other activity directly impacting the customer experience. Value Chain Analysis is a strategic lens through which a business can view its activities and make informed decisions about where to focus its resources to maximize value creation.

The next step of choosing the most effective value-creating strategy is building a Value Drivers Tree for each strategy considered and choosing the one creating the highest value of business.

Key words: diversification strategy, small wholesale business, Value Based Management, Value Chain Analysis, choosing the best diversification strategy

ВЗАЄМОЗВ’ЯЗОК ДИВЕРСИФІКАЦІЇ ТА ВАРТІСНО-ОРІЄНТОВАНОГО УПРАВЛІННЯ НА МАЛОМУ ПІДПРИЄМСТВІ ОПТОВОЇ ТОРГІВЛІ

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У роботі ми виявили види диверсифікації, придатні для дрібнооптового бізнесу в Україні у воєнний час. Найбільш придатними типами диверсифікації є: сервісна, продуктова, фінансова та географічна диверсифікація. Також можна застосовувати горизонтальні, вертикальні, конгломератні та концентричні типи диверсифікації, беручи до уваги їхні переваги та потенційні недоліки, визначені в даній статті.

Також ми розглянули диверсифікацію як стратегію створення вартості, окреслили її основні переваги та підводні камені. Вона має кілька переваг, таких як зменшення ризику за рахунок розподілу інвестицій між галузями, що зменшує залежність від одного ринку. Це дозволяє досягти синергії у відповідній диверсифікації за рахунок спільних ресурсів і досвіду, підвищуючи ефективність і прибутковість. Крім того, диверсифікація дає змогу оптимізувати портфоліо, збалансовуючи продуктивність у різних секторах. Однак це тягне за собою такі проблеми, як труднощі інтеграції, потенційне надмірне розширення та ризик нереалізації очікуваної синергії. Ефективна диверсифікація потребує чіткого стратегічного обґрунтування, скрупульозного виконання та постійного моніторингу, а також готовності відмовитися від неефективних сфер для підтримки створення вартості.

Ми запропонували використати Value Chain Analysis для вибору найефективнішої стратегії диверсифікації для малооптового бізнесу та розробили ланцюг створення вартості для малооптового бізнесу (зокрема, з оптовою торгівлею опалювальним обладнанням як основним видом діяльності). Аналіз ланцюга створення вартості – це той інструмент, за допомогою якого бізнес може розглядати свою діяльність і приймати обґрунтовані рішення про те, де зосередити свої ресурси для максимізації створення вартості.

Наступним кроком у виборі найефективнішої стратегії створення цінності є побудова дерева рушійних факторів вартості для кожної розглянутої стратегії та вибір тієї, яка створює найбільшу цінність бізнесу.

Ключові слова: стратегія диверсифікації, малий оптовий бізнес, Value Based Management, Value Chain Analysis, вибір найкращої стратегії диверсифікації.

Introduction. The full-scale war that began on February 24, 2022 has forced many small and medium-sized businesses to close or relocate. Due to constant shelling, the enterprises of Kharkiv, Chernihiv, Sumy, and Kherson regions were the most affected, not to mention Donbas. But gradually the situation began to improve, businesses set up production in new locations, business gradually began to revive in 2023. Thus, according to the results of the Advanter Group study on the state of small and medium-sized businesses in the conditions of the great war [1], conducted on August, 2023, the Ukrainian Business Index shows gradual growth during several phases of the study, but remains at a low level (38.2 out of 100). Business sees no prospects for improving the economic situation and business environment. Business also points to negative factors that hinder the development of entrepreneurial activity: the unpredictability of the state's actions in relation to business, increased pressure from security forces and control bodies, lack of access to financial resources.

UBI (Ukrainian Business Index) business activity index in August 2023 is 38.23 out of 100 possible. The index increased slightly compared to June 2023 (35.34) and the local minimum of September 2022 (33.9). Such an increase in the index continues to indicate business fatigue from uncertainty and a desire to intensify, rather than an improvement in the economic situation. The number of orders from customers does not change, but the volume of production increases and the demand for labor resources recovers slightly [2].

In such difficult conditions, one of the directions of survival is a diversification strategy that will allow the enterprise to explore multiple revenue streams, reduce risk, and adapt to evolving market and consumer demands. Although diversification in small wholesale businesses during war times is not just a strategy for survival; it's a proactive approach to manage risk, seize opportunities, and ensure long-term sustainability and growth amidst the uncertainties and challenges presented by such turbulent times.

In addition, the implementation of Value Based Management, especially in small enterprises, will allow them to focus on maximizing their value in the long term, and on strengthening competitive advantages. Therefore, it is important to choose the best diversification strategy that will make the greatest contribution to maximizing the market value of an enterprise.

Analysis of recent researches. The issue of developing small business in Ukraine is discussed in the works of V. L. Dykan, O. V. Dykan,. M. V. Korin, Gh.V. Obruch, V. O. Ovchynnikova, O. M. Poliakova, I. V. Tokmakova, A.V. Tolstova and others [3 – 6].

There are a lot of scientific papers devoted to diversification. For instance, diversification as a direction of development and strengthening competitive advantages of trading companies is studied in a paper by Morschenok T.S., Ostrik A.Yu. [8], diversification as a strategic direction for the development of trade enterprises is studied in a paper by Shymko O. V. [9], development of diversification in enterprises is researched in Kh.V. Drymalovska’s PhD thesis [10], diversification of the activities of business networks in trade and the risks of their implementation is studied by O.O. Kavun [11], etc.

Value Based Management has been widely discussed in the economic literature too. The development of Value Based Management concepts is outlined in the paper by C. Lukas and M. J. Rapp [12], along with an overview of selected empirical studies on their use in corporate practice being provided. In the paper «Origin of Value Based Management» [13], both external and internal factors that influence growing firms are identified, with a focus on the necessitated shift from traditional profit-maximization – suitable for small startups and family businesses – to a prioritization of shareholder value as the primary management objective. The research conducted by F. Krol [14] examines the internal and external drivers and opportunities for implementing Value Based Management in Small and Medium Enterprises.

In our paper [5] we worked out a value drivers tree for a small family retail business entity which sells optic goods, in [16] we researched the issue of VBM in Small Family Retail Business affected by quarantine. In another paper [17] we considered the prospects of implementing VBM in Ukrainian retail enterprises and its potential advantages and problems for their development in the wartime.

Unexplored aspects of the issue. But until now, there has not been paid enough attention to interconnection of choosing the diversification strategy for a small wholesale enterprise and its impact on the enterprise's value, as maximizing this value is a key point of Value Based Management.

The purpose of the study is to find out types of diversification suitable for small wholesale business in Ukraine in wartime, their benefits and potential pitfalls, to consider diversification as a value-creating strategy**,** and to use Value Chain Analysis for choosing the most effective strategy of diversification for small wholesale business.

Main body of the study. In [11], a definition of the concept of "diversification of business networks in trade" is proposed: the process of expansion and integration of various types of activities, both related and unrelated, based on the integrated use of key competencies and resources, which allows obtaining sources of synergistic effect, achieve competitive advantages in business environment and increase the efficiency of business networks in trade. Based on this definition, we consider the diversification of a wholesale trade enterprise to be a process of expansion and integration of various types of enterprise activities, both related and unrelated, based on integrated use of key competencies and resources, which allows to obtain sources of synergistic effect, to achieve competitive advantages in the business environment and increase the efficiency of a wholesale trade enterprise.

We have identified **Types of diversification for small wholesale business in Ukraine** which are suitable to be used under current sircumstances. Their benefits and potential pitfalls are given in the Table 1.

Horizontal Diversification, where a small wholesale business adds new products or services related to its current offerings, can have various pros and cons, especially in the context of wartime. While horizontal diversification offers avenues for growth and risk mitigation, it also poses challenges related to resource allocation, supply chain management, and market unpredictability, which are amplified in a wartime context. A careful assessment of the potential risks and rewards is crucial before pursuing this strategy.

Vertical Diversification, where a small wholesale business expands into different stages of the production or supply chain, also has its unique set of advantages and disadvantages, especially under wartime conditions. In summary, while vertical diversification can offer increased control and potential cost savings, it also involves significant investment, operational complexity, and risks that are heightened during wartime.

Table 1.

Types of diversification for small wholesale business in Ukraine in wartime: benefits and potential pitfalls

Types of diversification	Benefits	Potential pitfalls
1	2	3
Horizontal Diversification	*Market Expansion*: It allows the business to reach new customer segments within the same industry, potentially increasing market share. Risk Mitigation: By offering a wider range of products, the company can reduce dependence on the sales of a single product line, which is particularly important in a volatile market environment. *Leveraging Existing Capabilities*: The business can capitalize on its existing distribution channels, customer relationships, and market knowledge, making it a relatively low-cost expansion strategy. *Increased Revenue Streams*: Adding new products can open up additional revenue streams, which is crucial for maintaining cash flow during economic uncertainty. *Adaptability to Market Needs*: In a rapidly changing market, the ability to quickly introduce products that meet emerging customer needs can be a significant competitive advantage.	*Resource Strain:* Diversifying can strain financial and human resources, especi-ally if the business needs to invest in new inventory, marketing, or staff training during already challenging times. *Supply Chain Complexity:* Adding new products can complicate the supply chain, which might already be disrupted due to the wartime situation. This can lead to increased logistics costs and operational challenges. *Market Uncertainty*: In wartime, consumer behavior can be unpredictable, making it challenging to gauge the demand for new products accurately. *Increased Competition:* Entering new product segments might bring a business into direct competition with established players, requiring additional efforts in marketing and quality assurance. *Distraction from Core Business:* Focusing on new product lines may divert attention and resources from the core products that have been a business's mainstay, potentially weakening its position in those areas. *Regulatory and Compliance Issues*: New products might come with additional regulatory requirements or need specific certifications, which can be challenging to manage during wartime.
Vertical Diversification	*Increased Control Over Supply Chain:* By integrating vertically, the business can have greater control over its supply chain, which is especially valuable during wartime when supply chains are often disrupted. *Cost Reduction:* Vertical diversification can lead to cost savings by eliminating the need for middlemen or reducing transportation costs, which is crucial in a high-cost environment like wartime. *Improved Quality Management*: Having control over different stages of production allows for better quality control and consistency in product standards. *Enhanced Market Responsiveness:* The ability to oversee the entire supply chain can make it easier to respond quickly to market changes or customer demands, an important factor during uncertain times. *Stabilized Supply:* Direct access to raw materials or control over distribution channels can help ensure a steady supply, mitigating risks of shortages or delays.	*High Initial Investment:* Vertical integration often requires significant capital investment, which can be a chal-lenge, especially during wartime when financial resources might be limited. *Operational Complexity:* Managing different stages of production or distri-bution adds complexity to operations, which may be difficult in a wartime context with already strained resources. *Lack of Flexibility:* Being vertically integrated can reduce the company's flexibility to switch suppliers or adapt to new market conditions quickly, as it might be locked into its supply chain structure. *Potential Regulatory Challenges:* Vertical integration might face more stringent regulatory scrutiny, especially if it leads to a significant market share in any stage of the supply chain. *Resource Allocation Challenges:* Focu-sing on different stages of the supply chain might divert attention and resour-ces away from the core competencies of the wholesale business. *Increased Risks:* By being involved in multiple stages of the supply chain, the business may be exposed to risks at each stage, including risks specific to wartime like damage to production facilities or distribution networks.

Table 1.

1	2	3
Concentric Diversification	*Leveraging Existing Strengths*: Utilizes the company's current market knowledge, customer base, and distribution channels, which can lead to more efficient and effective market penetration. *Reduced Risk:* By diversifying into related areas, the business can mitigate risks associated with dependence on a single product line or market, which is particularly crucial during uncertain wartime conditions. *Synergy Opportunities:* There are potential synergies in marketing, production, and distribution, as the new products are related to existing ones, potentially leading to cost savings and increased efficiency. *Easier Customer Acceptance:* Exis-ting customers might be more receptive to trying new, but related, products from a trusted supplier, which can facilitate easier market entry. *Flexibility in Supply Chain Management*: Having related products can offer more flexibility in managing supply chains, especially if there are common suppliers or production processes.	*Resource Allocation:* Diversification requires investment in new products, which might strain the company's financial and human resources, particularly in a wartime economy where resources are already stretched. *Market Uncertainty*: The instability of market conditions during wartime might make it difficult to predict demand for new products, even if they are related to existing ones. *Operational Complexity*: Managing an expanded product line can increase operational complexity, particularly in logistics and inventory management. *Potential for Overdependence*: If the new products are too closely related to the existing ones, it might lead to overdependence on a particular market or consumer segment. *Risk of Distraction*: Focusing on new product lines might distract from the core business, especially if the new ventures require significant attention and resources. *Compliance and Regulatory Issues*: New products might bring additional regulatory challenges, which can be more complicated during wartime due to changing regulations and compliance requirements.
Conglomerate Diversification	*Risk Reduction:* Diversifying into unrelated industries can spread and mitigate risks, as the business is not reliant on the performance of a single market or sector. This is particularly beneficial in unstable economic conditions like wartime. *Opportunity for Growth:* Entering new industries can open up new growth opportunities, especially if the current market is saturated or facing decline due to wartime conditions. *Financial Stability*: Profits from one part of the business can support others that might be struggling, aiding overall financial stability. *Balancing Cash Flows*: Different industries often have different business cycles. This can help in balancing cash flows, as downturns in one sector may be offset by upturns in another.	*High Complexity and Management Challenges*: Managing businesses in completely unrelated industries can be highly complex, requiring diverse expertise and potentially leading to management inefficiencies. *Significant Investment Requirement*: Entering new industries often requires substantial investment in terms of capital, research, and human resources, which might be a significant hurdle during wartime. *Lack of Synergy*: Since the diversified industries are unrelated, there are few, if any, operational synergies, unlike in concentric or horizontal diversification. *Dilution of Focus and Expertise*: Expanding into unrelated areas might dilute the company's focus and weaken its core competencies, as efforts and resources are spread too thin. *Market Unfamiliarity*: Entering an unfamiliar industry comes with significant risks, including a lack of market understanding, which can lead to poor strategic decisions. *Regulatory and Compliance Risks:* Different industries often have different regulatory landscapes, and navigating these can be challenging, especially with the added complexities of wartime regulations. *Potential for Higher Operational Costs*: Running businesses in different industries can lead to higher operational costs due to a lack of shared services or economies of scale.

Table 1.

1	2	3
Geographic (Market) Diversification	*Risk Mitigation*: Expanding into new geographical areas can reduce the business's reliance on a single market, which is especially important in wartime when local markets may be unstable or unpredictable. *Access to New Markets*: Geographic diversification opens up opportunities to tap into new customer bases and demand in different regions or countries, potentially increasing sales and revenue. *Reduced Market Saturation*: If the local market is saturated or declining, especially during wartime, entering new markets provides a pathway for growth. *Balancing Economic Fluctuations*: Different markets may experience economic fluctuations at different times. Geographic diversification can help balance these variations, stabilizing overall business performance. *Learning and Innovation*: Exposure to new markets can bring in new ideas, business practices, and innovations that can be beneficial for the overall business.	*Increased Operational Complexity:* Managing operations across different geographic areas adds complexity, including logistics, distribution, and managing a geographically dispersed workforce. *Higher Costs*: Entering new markets often involves significant costs related to market research, establishing new distribution channels, marketing, and compliance with local regulations. *Cultural and Language Barriers:* Understanding and adapting to different cultural norms, consumer preferences, and language barriers can be challenging and requires additional resources. *Regulatory and Legal Challenges:* Each new geographic market may have its own set of regulatory and legal hurdles, which can be particularly daunting in wartime due to rapidly changing policies and restrictions. *Market Unfamiliarity Risks:* Lack of lo-cal market knowledge can lead to mis-judging consumer behavior, competitive dynamics, or effective marketing strategies. *Supply Chain Vulnerabilities:* Expanding geographically can expose the business to new supply chain risks, including tran-sportation delays and customs issues, which might be exacerbated in wartime. *Exchange Rate Risks*: If the expansion involves dealing in different currencies, the business may face risks associated with currency exchange rate fluctuations.
Product Diversification	*Increased Market Reach:* Introducing new products can help reach new customer segments or deeper penetrate existing markets. *Risk Spreading:* By offering a wider range of products, the business can reduce its reliance on the sales of any single product, which is crucial in uncertain wartime conditions. *Leveraging Existing Relationships:* The business can capitalize on esta-blished relationships with custo-mers and suppliers to introduce new products more easily. *Potential for Higher Revenues:* Diversification can open up addi-tional revenue streams, important for maintaining cash flow during economic downturns. *Adaptability to Market Changes:* The ability to quickly introduce products that meet changing custo-mer needs or preferences can be a significant competitive advantage, especially in a dynamic wartime environment. *Improved Competitiveness:*Offering a broader range of products can enhance the company’s competitive position in the market.	*Resource Allocation:* Expanding the product line requires investment in inventory, marketing, staff training, and possibly new facilities, which could strain resources, especially in a wartime economy. *Supply Chain Complexity:* Managing a wider range of products can complicate supply chain logistics, inventory mana-gement, and increase operational costs. *Market Uncertainty*: Predicting demand for new products can be challenging, particularly in a wartime context where consumer behavior and economic conditions are volatile. *Risk of Dilution:* There's a risk of diluting the brand if new products do not align with the company's core values or customer expectations. *Increased Competition:* New products might enter markets with established competitors, requiring additional efforts to gain market share. *Quality and Focus:* Diversifying into new products can divert focus from the core products, potentially impacting their quality and the overall brand reputation. *Regulatory Compliance:* New products might be subject to different regulations or standards, which can be more challenging to navigate during wartime.

Table 1.

1	2	3
Financial Diversification	*Risk Reduction:* Diversifying financial assets can help mitigate risks associated with economic fluctuations, currency devaluation, or market volatility, which are heightened during wartime. *Income Stabilization:* By having multiple income sources, a business can buffer against downturns in any one area, ensuring more consistent cash flow. *Opportunities for Growth:* Investing in different financial instruments or markets can open up opportunities for growth, potentially yielding higher returns. *Hedging Against Inflation:* Diversification can include investments that hedge against inflation, which is a common concern during wartime due to potential economic instability. *Flexibility and Adaptability:* Having a diverse financial portfolio allows the business more flexibility to adapt to changing economic conditions.	*Complexity in Management:* Managing a diversified financial portfolio requires knowledge, time, and resources. It can be complex, especially for a small business that may not have specialized financial expertise. *Potential for Lower Returns:* Diversification can sometimes lead to lower returns, as riskier investments with potentially higher returns are balanced with safer, lower-yield ones. *Costs and Fees:* Diversifying financial investments might involve additional costs, such as transaction fees, manag-ement fees, or taxes, which can reduce overall returns. *Over-Diversification:* There's a risk of spreading resources too thinly, resulting in diminished focus on potentially more lucrative opportunities. *Market and Liquidity Risks:* Certain diversified investments might still be subject to market risks, and some assets may have liquidity issues, making it difficult to convert them to cash quickly in times of need. *Limited Expertise in New Markets:* Investing in unfamiliar financial products or markets can lead to misinformed decisions due to a lack of expertise. *Regulatory and Compliance Risks:* Different types of investments come with their own set of regulatory and compliance requirements, which can be particularly challenging to navigate during wartime.
Service Diversification	*Additional Revenue Streams:* Offering services can open new revenue channels, helping to stabilize income during fluctuating market conditions common in wartime. *Enhanced Customer Relationships*: Providing services can deepen relationships with customers, increasing loyalty and potentially leading to more consistent business. *Competitive Advantage:* Services can differentiate the business from competitors who only offer products, providing an edge in a challenging market. Utilization of Existing Resources**:** The business might be able to leverage its current infrastructure, knowledge, and customer base to offer these services, which can make this diversification more cost-effective. *Adaptability to Market Needs:* Services can be more easily adapted or customized to meet changing customer needs compared to physical products, which is valuable in the dynamic environment of wartime.	*Resource and Skill Requirements:* Deve-loping new services may require new skills, training for staff, or even hiring new personnel, which can be challenging during wartime. *Operational Challenges*: Integrating services into a product-focused business model can increase operational comple-xity, requiring adjustments in manage-ment practices and logistics. *Market Demand Uncertainty:* It can be challenging to accurately predict the demand for new services, especially in a wartime context where market dynamics are rapidly changing. *Financial Risk:* There could be upfront costs associated with developing and marketing new services, with no guaran-teed return on investment, particularly in an unstable economic environment. *Quality and Brand Reputation*: If the services are not executed well, it could negatively impact the company's brand and reputation. *Regulatory and Compliance Issues:* Offering certain types of services might require adherence to specific regulations, certifications, or insurance, which can be complex to navigate in wartime . *Diversion of Focus*: Focusing on service development and delivery might divert attention and resources from the core wholesale business.

Concentric Diversification, where a small wholesale business adds related products or services to its existing operations, can be a strategic approach, especially during wartime. This strategy involves leveraging existing capabilities or markets but expanding into new, yet related, areas. In summary, concentric diversification can offer a small wholesale business in Ukraine opportunities for growth and risk mitigation, particularly by leveraging existing strengths and relationships. However, it also comes with challenges related to resource allocation, market unpredictability, and increased operational complexity, which are heightened in a wartime context. Careful planning and analysis of market conditions and internal capabilities are essential before pursuing this strategy.

Conglomerate Diversification, where a small wholesale business diversifies into areas completely unrelated to its current business, can be a strategic move with its unique set of advantages and challenges, especially during wartime. This approach is about spreading risk by venturing into entirely different industries. In summary, while conglomerate diversification in a small wholesale business in Ukraine during wartime can offer benefits like risk spreading and new growth avenues, it also comes with significant challenges such as high complexity, large investment requirements, and potential dilution of the company's core focus.

Geographic Diversification, where a small wholesale business expands its operations into new geographic areas or countries, can be a significant strategy, especially during wartime. This approach aims to reach new markets and reduce dependence on a single geographic area. In summary, geographic diversification can offer a small wholesale business in Ukraine opportunities to mitigate risks and explore new growth avenues. However, it also introduces challenges such as increased operational complexity, cultural and regulatory differences, and higher costs. These factors need to be carefully evaluated against the business's resources, capabilities, and resilience, especially under the added pressures of wartime conditions.

Product Diversification, where a small wholesale business expands its range of products, can be a strategic choice, particularly during wartime. This approach involves adding new products to the existing line-up, aiming to cater to broader customer needs. In summary, product diversification for a small wholesale business in Ukraine during wartime can offer opportunities for growth and risk mitigation. However, it also brings challenges related to resource allocation, supply chain management, and market uncertainty.

Financial Diversification for a small wholesale business, particularly during wartime, involves spreading investments and financial resources across various assets or areas to reduce risks and stabilize income. This strategy can be crucial in navigating the economic uncertainties of wartime. In summary, financial diversification can offer a small wholesale business in wartime Ukraine a way to mitigate financial risks and stabilize income. However, it requires careful management and consideration of the potential trade-offs between risk and return, costs, and the complexity of managing a diversified portfolio. Professional financial advice is often beneficial when considering this strategy.

Service Diversification, where a small wholesale business starts offering new services in addition to its existing product lines, can be an effective strategy, especially during wartime. This approach might involve providing logistics, customization, maintenance, or other value-added services. In summary, service diversification can provide a small wholesale business in wartime Ukraine with new opportunities for revenue and customer engagement. However, it also brings challenges related to resource allocation, operational complexity, and market uncertainty. Thorough market research and a careful assessment of the company's capabilities and resources are essential before pursuing this strategy.

While there's no definitive evidence to suggest which diversification strategy is universally more effective for any given small wholesale business, the most appropriate approach should be meticulously selected based on comprehensive strategic analyses. Tools like SWOT analysis and GAP analysis are instrumental in this decision-making process. These methods enable businesses to thoroughly understand their internal capabilities and external market conditions. Additionally, it's vital to consider the economic potential of the enterprise, the surrounding environment's dynamics, potential risks, and the broader economic landscape.

Diversification as a Value-Creating Strategy

Moreover, diversification may also be a value-creating strategy. There is a relationship between a diversification strategy and a value produced. For instance, Antonio Galván, Julio Pindado and Chabela de la Torre in [18] presented a hypothesis that related diversification affects excess value more positively (or less negatively) than unrelated diversification. Related diversification is a strategy used by businesses to expand their operations into new areas that are closely connected to their existing business lines, markets, or technologies and unrelated one – to not connected ones.

In this paper we outlined main benefits and pitfalls of Diversification as a Value-Creating Strategy.

Diversification can offer several *benefits to a company as a value-creating strategy*:

- Risk Reduction. Diversification spreads risk across different businesses, reducing the company's dependence on a single industry or market. This risk mitigation strategy can provide stability during economic downturns or disruptions in specific sectors;

- Synergies. In the case of related diversification, companies can realize synergies through shared resources, technologies, and expertise. These synergies can lead to cost savings, improved efficiency, and increased profitability;

- Portfolio Optimization. Unrelated diversification enables companies to build a portfolio of assets that balance out the performance of individual businesses. Poor performance in one sector may be offset by strong performance in another, leading to a more stable financial profile.

While diversification has its merits, it is not without *challenges and potential pitfalls*:

- Integration Difficulties. Merging or integrating diverse businesses can be complex and fraught with challenges, including cultural clashes, operational differences, and coordination issues;

- Overextension. Diversifying too quickly or without a clear strategic vision can lead to overextension and resource constraints, ultimately harming the value-creating potential of the strategy;

- Unrealized Synergies. Related diversification's success hinges on the realization of anticipated synergies. Failing to achieve these synergies can result in value destruction rather than creation.

To maximize the value-creating potential of diversification, several *Principles of Successful Diversification* should be considered:

- Clear Strategic Rationale. Diversification should be driven by a well-defined strategic rationale, whether it is to exploit synergies or spread risk. A clear understanding of why the diversification is taking place is essential;

- Effective Execution. Successful execution of diversification requires careful planning, resource allocation, and a focus on integration. Meticulous post-merger integration is crucial to capturing anticipated synergies;

- Continuous Monitoring. Diversification strategies must be regularly monitored and adjusted as needed. Companies should be willing to exit or divest from underperforming businesses to maintain value creation.

To illustrate the value-creating potential of diversification, we present two brief case studies. Firstly, General Electric's diversification into various industries, such as energy, healthcare, and aviation, has enabled the company to leverage its technological expertise across different sectors. This approach has contributed to the company's overall growth and resilience. Secondly, Berkshire Hathaway, American holding company under the leadership of Warren Buffett, has successfully diversified its portfolio of businesses, including insurance, utilities, and consumer goods. The company's long-term value creation strategy relies on prudent acquisition and portfolio management.

Taking into account the aforementioned, we need a tool to choose the best strategy of diversification for a small business which contributes the most into creating its value. We suggest using Value Chain Analysis for this purpose.

Value Chain Analysis

The concept of "value chain" was introduced by Michael E. Porter, a professor at Harvard Business School, in his publication "Competitive Advantage: Creating and Sustaining Superior Performance." (1985 [19]. Since its introduction, examining the value chain has become a crucial method for businesses seeking to enhance their operational efficiency. Porter delineated business operations into two categories: primary and support activities. By scrutinizing and refining each activity, businesses can ensure they are effectively adding value while minimizing waste. Value chain analysis allows businesses to evaluate each step of their process by asking two fundamental questions: How does this stage contribute value to the end product, and can this value be generated more efficiently?

We suggest choosing the most effective strategy of diversification using Value Chain Analysis of the each one. Here is the value chain for small wholesale business (fig.1).

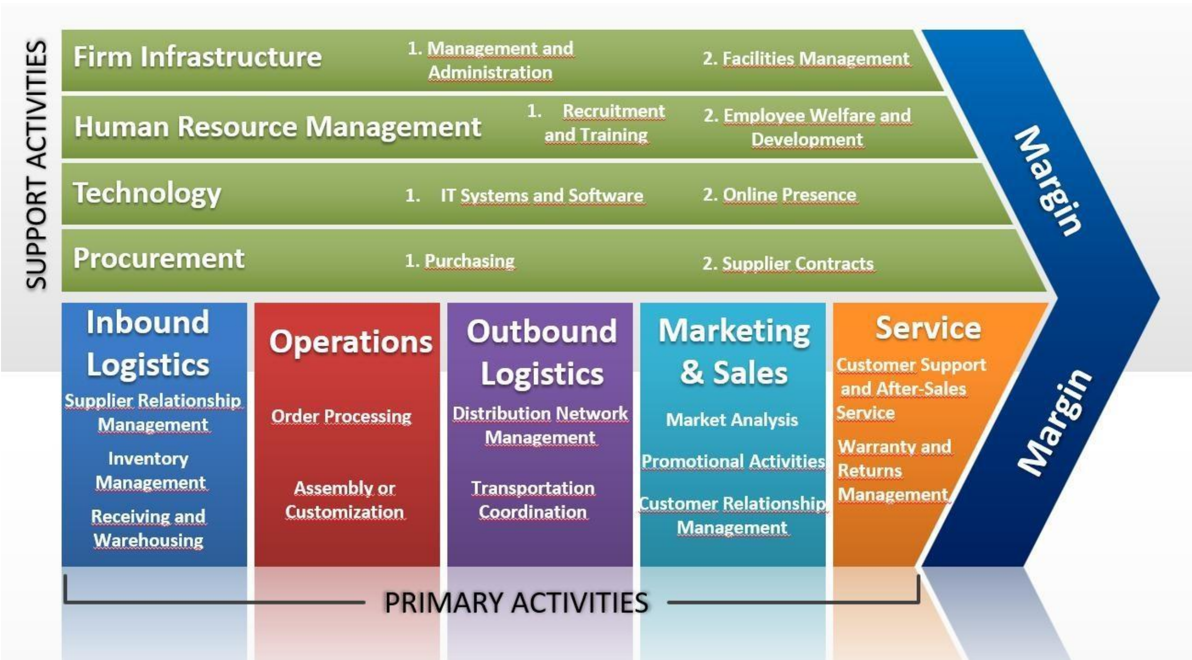

Fig.1. Value Chain of a Small Wholesale Business (particularly, with heating equipment wholesale as a main type of activity)
(developed by the authors)

Creating a value chain for a small wholesale business (for instance, the one specializing in the distribution of heating equipment) involves several key activities. These activities can be classified into primary and support categories, as per Michael E. Porter's value chain model.

Primary Activities

1. Inbound Logistics include:

- Supplier Relationship Management, in particular building and maintaining strong relationships with manufacturers of heating equipment;

- Inventory Management that means efficiently managing stock levels of heating units, parts, and accessories to ensure availability and minimize storage costs;

- Receiving and Warehousing, in particular handling the receipt of heating equipment, quality inspection, and organized storage.

1. Operations encompass:

- Order Processing which means efficiently managing customer orders, including documentation and preparation for distribution.

- Assembly or Customization which means assembling heating systems, if applicable, or customizing products based on specific customer requirements.

3 Outbound Logistics includes:

- Distribution Network Management. Establishing an effective distribution system to ensure timely delivery of heating equipment to customers;

- Transportation Coordination. Arranging for the transportation of goods, possibly including temperature-controlled logistics if necessary.

4 Marketing and Sales include:

- Market Analysis. Understanding market trends, customer needs, and seasonal demand fluctuations in the heating equipment market.

- Promotional Activities. Advertising and promotion of the range of heating products, including trade shows, digital marketing, and sales promotions.

- Customer Relationship Management. Building and maintaining relationships with retailers, contractors, and other clients.

5 Service encompasses:

- Customer Support and After-Sales Service. Providing support for installation, maintenance, and troubleshooting of heating equipment.

- Warranty and Returns Management. Handling warranty services and processing returns or exchanges efficiently.

Support Activities

1 Infrastructure includes:

- Management and Administration that means overseeing business operations, strategic planning, and compliance;

- Facilities Management. Maintaining warehouses, offices, and other facilities.

2 Human Resource Management includes:

- Recruitment and Training that provides for hiring skilled employees and providing training, particularly on product knowledge and customer service;

- Employee Welfare and Development, in particular tnsuring staff wellbeing and fostering a positive work environment.

3 Technology Development encompasses:

- IT Systems and Software, in particular utilizing technology for inventory management, order processing, and customer relationship management;

- Online Presence: Maintaining a robust online platform for product catalogues, customer inquiries, and e-commerce if applicable.

4 Procurement insludes:

- Purchasing. Acquiring high-quality heating equipment, parts, and accessories;

- Supplier Contracts. Negotiating terms and prices with suppliers to ensure cost-effectiveness and quality assurance.

Each of these activities plays a crucial role in adding value to the business and ensuring the efficient and effective distribution of heating equipment. By continuously analyzing and optimizing these activities, the small wholesale business can enhance its competitive advantage and operational efficiency.

Conclusions and prospects for the further research. In the paper, we found out types of diversification suitable for small wholesale business in Ukraine in wartime. The most suitable types of diversification are: service, product, financial and geographic diversification. Also, horizontal, vertical, conglomerate and concentric types of diversification can be applied, taking into account their benefits and potential pitfalls defined in this paper.

We also considered diversification as a value-creating strategy**,** outlined its main benefits and pitfalls. It offers several benefits, such as risk reduction by spreading investments across industries, thus reducing dependence on one market. It allows for synergies in related diversification through shared resources and expertise, enhancing efficiency and profitability. Additionally, diversification enables portfolio optimization, balancing performance across various sectors. However, it entails challenges like integration difficulties, potential overextension, and the risk of not realizing expected synergies. Effective diversification requires a clear strategic rationale, meticulous execution, and continuous monitoring, with willingness to divest from underperforming areas to sustain value creation.

We suggested using Value Chain Analysis for choosing the most effective strategy of diversification for small wholesale business and developed Value Chain of a Small Wholesale Business (particularly, with heating equipment wholesale as a main type of activity).

By understanding how each activity affects customer value, businesses can tailor their strategies to enhance customer satisfaction and loyalty. This might involve improving product quality, customer service, or any other activity directly impacting the customer experience. Value Chain Analysis is a strategic lens through which a business can view its activities and make informed decisions about where to focus its resources to maximize value creation.

The next step of choosing the most effective value-creating strategy is building a Value Drivers Tree for each strategy considered and choosing the one creating the highest value of business. The Value Drivers Tree of Small Family Retail Business created by us in the paper [15] can be used.

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