

KARELIA UNIVERSITY OF APPLIED SCIENCES
Degree Programme in International Business

Yulia Stupkina

**ADAPTATION OF SMES IN RUSSIAN KARELIA TO ECONOMIC
RECESSION (CASE SORTAVALA)**

Thesis
May 2016

CONTENTS

1	INTRODUCTION.....	3
1.1	Background	3
1.2	Aim of the study	3
1.3	Sortavala.....	4
1.4	Outline.....	5
2	ECONOMIC DEVELOPMENT OF RUSSIA AND FINLAND.....	5
2.1	Recent Russian economic development	5
2.2	Recent Finnish economic development.....	10
2.2	Impact on Finnish-Russian business	11
2.2.1	Trade between Russia and Finland.....	12
2.2.2	Border crossing traffic at Niirala Border crossing point	15
3	MARKETING STRATEGIES DURING RECESSION.....	16
3.1	Definition of marketing strategies	16
3.2	Influence of recession on business	18
3.3	Effective strategies during the recession	19
3.3.1	Ansoff Matrix	19
3.3.2	Quelch's strategies.....	22
3.3.3	Weimann's strategies.....	24
3.3.4	Wredens's strategies.....	24
4	SURVEY AMONG ENTERPRISES IN SORTAVALA	28
4.1	Methods.....	28
4.2	Limitations	30
4.2	Results	30
5	CONCLUSION	34
	REFERENCES.....	36

APPENDICES

Appendix 1 Map of Republic of Karelia and Finland

Appendix 2 Interview questions

1 INTRODUCTION

1.1 Background

Active border crossing by Finnish and Russian citizens has existed for a long time. The main purposes for travelling are tourism and shopping. Today both countries are in a recession. The changing economic environment creates a big stress for every financial institution, the structure of competition changes, retailers go bankrupt, sales of industrial goods go down, consumer behavior changes and demand is reduced. During these adverse times, companies try to cope with the changes by using different resources. (Hunt 2009; Moore 2001.)

Recession can positively affect some industries and at the same time negatively affect others. As a result, the responses of managers also can be different and depend on how they see its meaning and the impact on their businesses. The recession period requires managers to find and utilize an appropriate strategy to stimulate consumer demand. These possible strategies often call for a reconsideration of the marketing mix and target customers. (Shama 1993).

1.2 Aim of the study

First, the goal is to explore whether the global recession and Russian economic problems have influence on the business performance of small and medium enterprises in Sortavala (Russian Karelia). The second goal is to look at how companies have reacted to these changes and what kind of strategies they use to cope with the recession. Table 1 provides the research questions, needed information and utilized sources.

Table 1. Summaries the research questions and information sources

Questions	Information and indicators	Source of information
1. How have the Russian and Finnish economies been developing during last 5 years?	National economic performance: <ul style="list-style-type: none"> - GDP changes - Unemployment rate changes - Exchange rate changes - Current account balance changes - Inflation 	Statistical data
2. How has Russian/Finnish trade been developing and changing during last years (focus on Republic of Karelia, Russia)?	<ul style="list-style-type: none"> - Trends in trade - Tourist traffic (border crossing through Niirala customs) - Changes in customer behavior 	Statistical data and survey
3. How have these changes affected the business (focus on companies in Republic of Karelia, Russia)?	<ul style="list-style-type: none"> - Changes in customer behavior - Demand side - Competition 	Primary data (Interviews of companies in Sortavala)
4. How have companies reacted to these changes?	<ul style="list-style-type: none"> - Attitude towards these changes - Strategies for coping with changes 	Primary data (Interviews of companies in Sortavala)

1.3 Sortavala

Sortavala is a city in Russia, Republic of Karelia located on the northern shore of Lake Ladoga. The population is around 19,000 people. Sortavala is the second tourism destination after Petrozavodsk in the Republic of Karelia. The city is located in relative proximity to the Russian-Finnish border, 270 km from St. Petersburg and 240 km from Petrozavodsk. The cross-border point Niirala-Värtsilä is in 60 km from the city. It gives locals the opportunity to travel and shop.

Valaam Island plays an important role in tourism. The city is a starting point of water tourist routes to the island. The large flow of foreign tourists gives the so-called nostalgic tourism

by the residents of former Priladozhje (fin. Laatokan Karjala) which are living now in Finland. (Wikipedia 2015.)

1.4 Outline

First, the economic development in Russia and Finland are presented, as is between the countries. Secondly, different marketing strategies that can be used during the recession are discussed. The empirical part presents the results of a survey among companies in Sortavala. The result of interviews is divided into current company performance, the nature of competition, demand and immediate forecast. Finally, the conclusions are made.

2 ECONOMIC DEVELOPMENT OF RUSSIA AND FINLAND

2.1 Recent Russian economic developments

Nowadays, the Russian economy continues to adjust to the existing geopolitical situation due to the imposed international sanctions. Despite the dynamics of some of the indicators during the second quarter of 2015, Russian financial conditions remained moderately tough (Bank of Russia 2016).

Economic growth

The Russian economy has seriously suffered since the global economic crisis in 2008 (Figure 1). There was a big fall in the economy. Then the economy started to grow for one year. However, according to the Federal State Statistics Service of the Russian Federation (FSSS

of Russia 2016), the economic growth in 2014 fell to a five-year minimum. Russia's GDP growth in 2014 slowed to 0.6% from 1.3% in 2013. In the first quarter of 2015, the GDP fell by 2.2%. (World Bank 2015.) In the second quarter of 2015, the economic activity continued to weaken. These trends in the Russian economic growth imitate the adaptation to an environment that changes. (Bank of Russia 2016.)

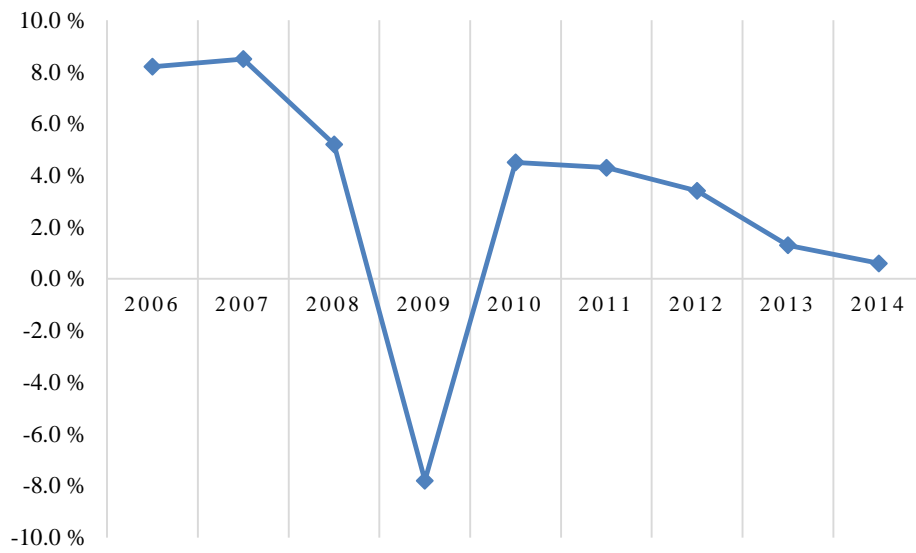


Figure 1. GDP growth of Russian Federation 2006-2014 (annual change, %) (Source: Federal State Statistics Service of Russian Federation (2015)).

According to the report of Russian Central Bank (2015), under the conditions of high import prices, deterioration in the financial performance of the companies, the limited availability of long-term financial resources and tightening credit conditions, the decline of investments in capital stock possibilities will continue. The decline in real wages and a slowdown in retail lending will cause a decrease in consumer activity. The negative effect of the deterioration of the external environment is only partly to be compensated by exchange rate dynamics.

Exchange rate

The Russian ruble has started be weak from November 2014, largely supported by changes in external economic conditions and following a decrease in oil prices. According to the European Central Bank the highest rate was 7 November 2013 (43.2540 Ruble/euro) and the weakest was 16 December 2014 (91.5200 Ruble/Euro) (Figure 2).



Figure 2. Euro vs. Russian Ruble exchange rate November 2013-August 2015 (Source: European Central Bank (2016)).

The economic conditions started to grow in the middle of 2015. Nevertheless, in July – September 2015 the ruble exchange rate had additional pressure due to negative trends in the international financial markets, specifically the Chinese and the US stock indices fell and the depreciation of the Chinese *renminbi* in August 2015. (Bank of Russia 2016.)

Foreign trade

The export of goods in 2014 and the first quarter of 2015 has decreased due to a drop in the market prices for main Russian export goods, oil and gas (Figure 3). The export of services has decreased mainly in the construction industry.

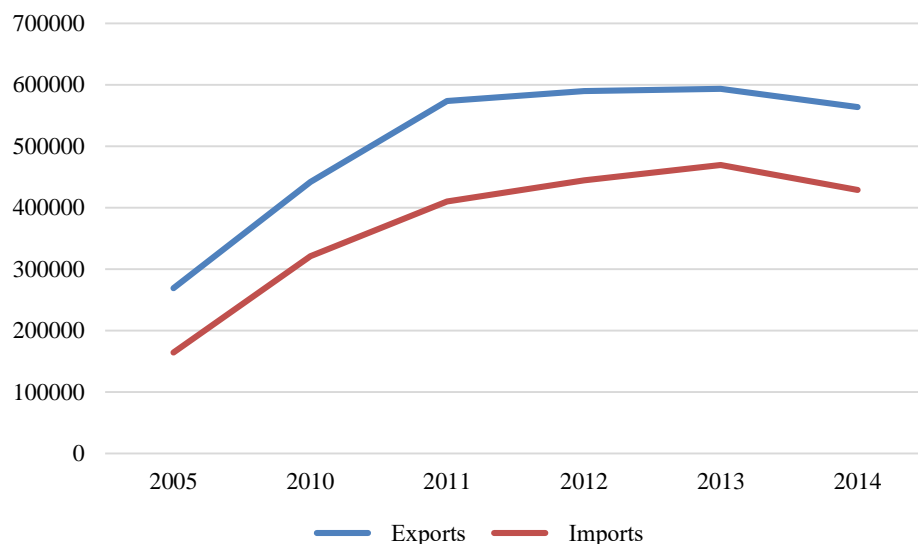


Figure 3. Export/Import of goods and services (mln. USD)
(Source: FSSS of Russia (2015)).

In the first quarter of 2015, imports have decreased by 37% compared to the same period in 2014 due to the decrease in supply quantity. Additionally, the reasons for this decrease were reductions in domestic investment and consumer demand as well as the Russian Federation's restrictive measures against imports of certain categories of goods. The most significant reduction in the import of services was due to a decrease in the number of the residents' trips abroad. (Bank of Russia 2015.)

Inflation

Figure 4 shows that the inflation rate has been growing rapidly since October 2013. Inflation in 2015 reached almost the same amount as it was during economic crises in 2008.

According to the Russian Central Bank report (2015), food prices are not influenced anymore by the embargo imposed in 2014. It says that suppliers and producers adapted to the new business environment conditions. Nevertheless, over the last year the most significant price growth was noted exactly in the food industries.

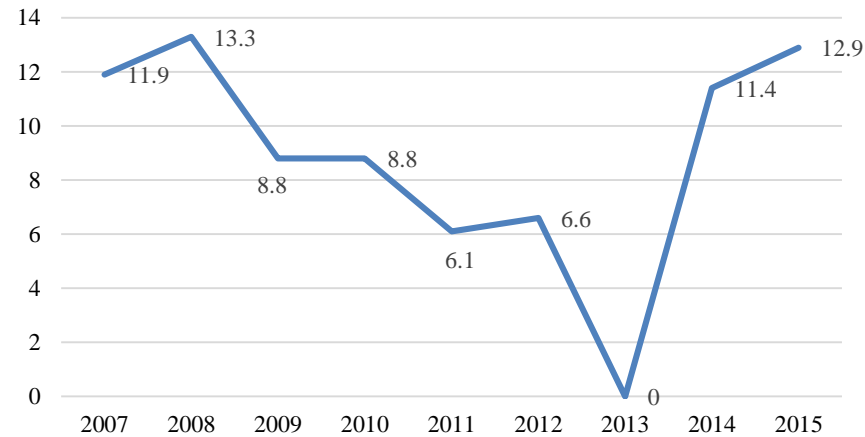


Figure 4. Inflation (2007-2015) (Source: BOFIT (2016)).

The Russian economy has serious problems in many aspects. These include high inflation and slow economic growth caused by the rising costs of production, in particular increasing oil prices. It means that companies' costs increased; as a result customers tend to buy less. This leads to a decrease in companies' disposal income. Since there is less money circulating, the economy starts to slow down.

2.2 Recent Finnish economic developments

Economic growth

The biggest fall of economic growth was in 2008-2009 because of the global economic crisis. Before the global economic crisis Finland had had a boom in economy. Since 2008 it experienced rapid decrease and then a small period of recovery. However, since 2010 Finland has been in a recession. (Figure 5).

According to Statistics Finland, the GDP of Finland in 2013 and 2014 fell by 0.8% and 0.7% accordingly. The one of the reasons is the reduced production resulting as a consequence of the decrease in exports (fell by 0.9%) and investments (fell by 2.6%). However, the volume of imports remained on the same level as in 2014.

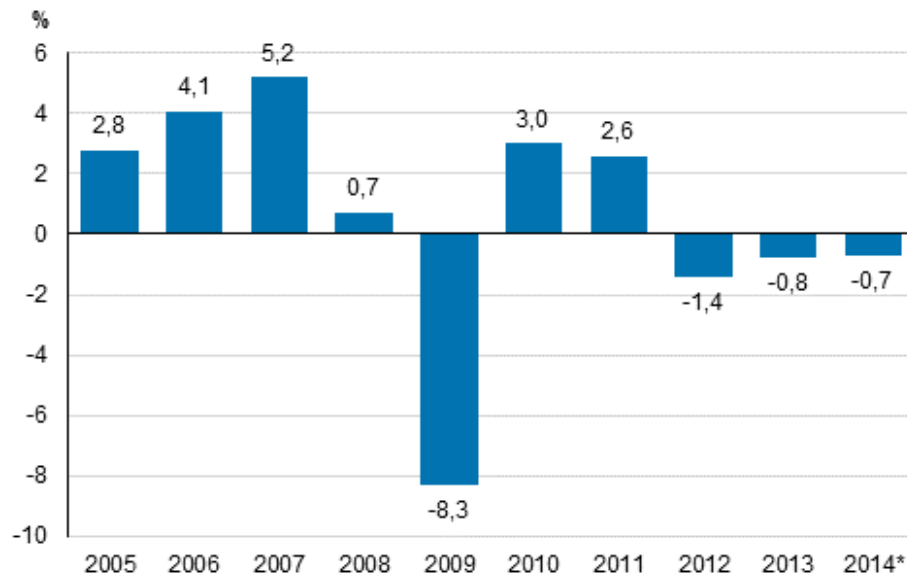


Figure 5. Annual change in the volume of gross domestic product 2005-2014, % (Source: Statistics Finland (2016)).

According to Statistics Finland (2016), other reasons for revisions in the national economy in 2014 were that households' disposable real income reduced by 1.2%, as well as households' consumption expenditure grew by 2.1% in nominal terms while increasing by only 0.4% in volume. Additionally, households' saving rates failed by 0.4%, and the current account was in a deficit of EUR 2.5 billion.

Inflation

According to Statistics Finland, in 2015 inflation was around 1%, and in January 2016 it decreased and stood at 0 % (Figure 6). However, annual changes remain negative because of reductions in the consumer prices of housing loan interest rates, vehicle tax, rents, maintenance charges and liquid fuels from one year ago. (Statistics Finland 2015)

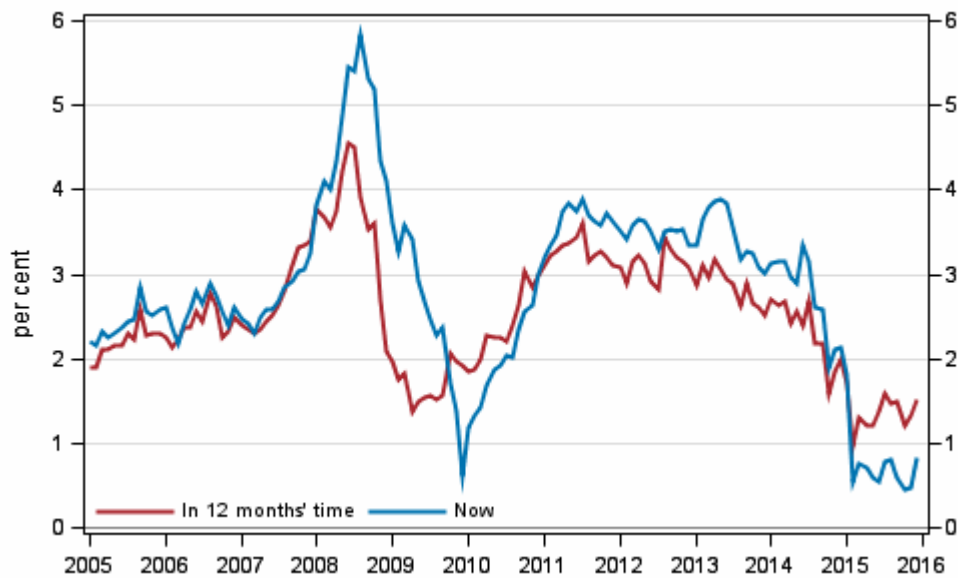


Figure 6. Inflation 2005-2016 (Source: Statistics Finland (2016))

2.2 Impact on Finnish-Russian business

2.2.1 Trade between Russia and Finland

Although there are significant differences in the structure of the countries' economies, Finland is one of the most important EU trade partners for Russia. The economies of both countries are now on a downward stage of development according to a number of external and internal factors. Negative macroeconomic trends, as well as imposed sanctions exerted a dominant influence on the dynamics of foreign trade relations between these countries and in most cases had a negative effect. Almost from the 90's there was growth in trade between two countries. However, since the global economic crisis in 2008-2009, despite the small period of recovery in 2010, there has been a decline in export and import activities between countries. (Figure 7).

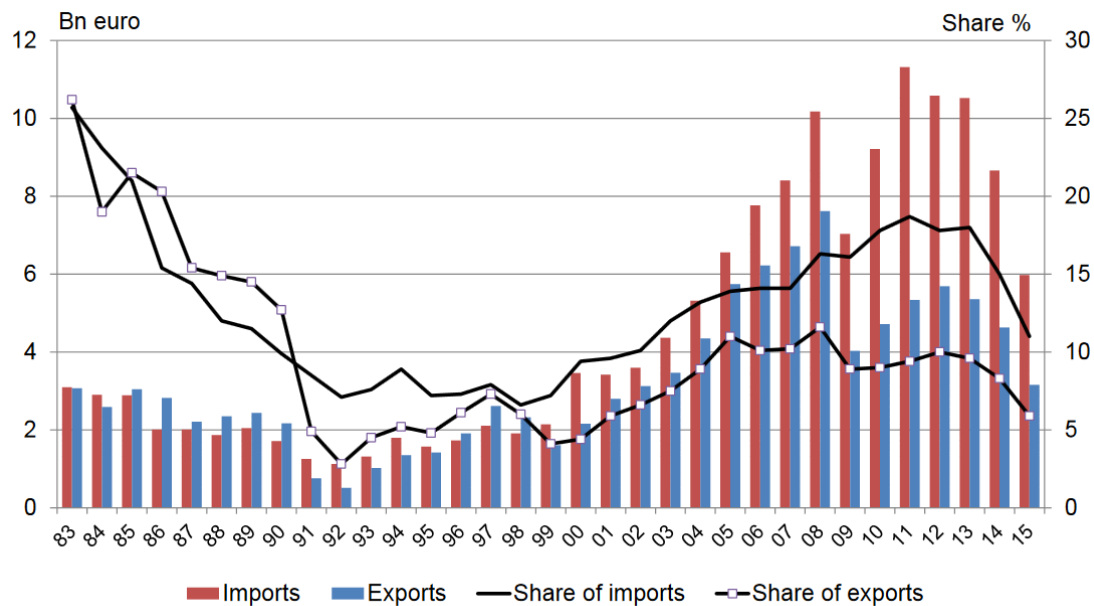


Figure 7. Trade between Finland and Soviet Union 1983-1990 and between Finland and Russia 1991-2015 (Source: Finnish Customs (2015)).

According to the Finnish Customs (2015), the total value of imports from Russia to Finland in 2015 was 6.0 billion EUR (-31 % compared to the previous year), and total value of exports from Finland to Russia in 2015 was 3.2 billion EUR (-32 % compared to the previous year).

In 2014, according to Finnish Customs (2015), Russia has lost the position as the largest trading partner of Finland, losing the leadership to Germany. Russia's share of Finland's turnover in 2014 amounted to 11.7%; in contrast, Germany had 12.7% and Sweden 11.2%. Moreover, Russia's share of Finnish exports amounted to 8.3%, less by 1.3% compared to 2013. However, Russia retained the leadership in Finnish imports and amounted to 15%, while Germany has 13.3% and Sweden 11.4%.

The share of Finland's trade of the total foreign trade of Russia for the first 9 months of 2015 decreased slightly - from 2% to 1.9%, but Finland still ranks among the 15 largest trading partners of Russia. Additionally it ranks 7th among EU-member countries in the trade of Russian goods. In relation to trade in services, Finland is in 8th place.

Goods trade structure between Finland and Russia is quite conservative, and did not have a significant change in 2015. As before, Russia mainly exports gas and petroleum products. However, a decline in the share of these products compared to the previous years has been seen (Table 2).

Table 2. Exports to Russia by products (2015).

Products	Trade share	Change from previous year
Food	3.3 %	-66 %
Petroleum and products	4.6 %	-33 %
Chemicals and chemical products	24.4 %	-19 %
Wood and paper manufactures	13.2 %	-22 %
Metals and metal products	5.7 %	-31 %
Industrial machinery	18.7 %	-36 %
Electric machinery and equipment	11.1 %	-31 %
Transport equipment	4.8 %	-38 %
Instruments	2.1 %	-21 %
Other products	12.1 %	-37 %

Source: Finnish Customs (2015)

Russian imports from Finland in 2015 included chemical products and goods (24.4%), industrial machinery (18.7%) and wood and paper (13.2%). The share of food products was 3.3% and had the most significant changes compared to the previous year (Table 3).

Table 3. Imports from Russia by products (2015)

Products	Trade share	Change from previous year
Wood	5.7 %	-10 %
Metals and metal products	3.1 %	7 %
Coal	2.8 %	-37 %
Petroleum and products	58.5 %	-37 %
Gas	10.4 %	-36 %
Electric current	1.6 %	-3 %
Chemicals and chemical products	11.0 %	-15 %
Other products	6.9 %	-1 %

Source: Finnish Customs (2015)

For the Finnish economy, these changes mean serious difficulties in a number of industries, for example in the dairy industry. Additionally Finnish companies are losing a growing market segment. In 2014, the supply of dairy products showed an upward trend until the introduction of the response measures of Russia.

Table 4. Trade in services between Finland and Russia in 2010-2014 (m USD)

	2010	2011	2012	2013	2014
Import	2,065	2,792	3,636.1	4,333.9	4206.8
Export	631.759	871.419	1,133.4	1,235.9	1,298.7

Source: Bank of Russia (2015)

The largest share in the exports of services was in private and business trips (20.7% and 32.9% respectively); transportation services (mainly road transport) accounted for 29.2%, and the sector of other business services (legal, design, consulting, engineering) - 10.9%.

The largest share in the imports of services was in the travel (business - 2.3%, private - 72.9%). According to Statistics Finland, in 2015 Finnish residents' overnight trips to Russia with remained on the same level as the year before. However, the number of same-day trips decreased by 25% in 2015 greatly comparing with one year ago. The main reason for leisure trips (23%) to Russia were to meet relatives and friends.

Transit transport from Finland to Russia contracted about 40% in 2014. It was the fourth consecutive year of contraction and the value of transit freight was just 8 billion euro (down from 30 billion euro in peak years).

2.2.2 Border crossing traffic at Niirala Border crossing point

The impact of the economic recession on companies will be studied in Sortavala. The city is located in 60 kilometers from the Niirala-Värtsilä border crossing point (Appendix 1). Niirala-Värtsilä is a border crossing point on the eastern border between Russia and Finland. Therefore, for the study, this border has the greatest interest because of location.

According to the Finnish Transport Agency (2015), even despite the recession the car traffic increased year by year (Figure 8).

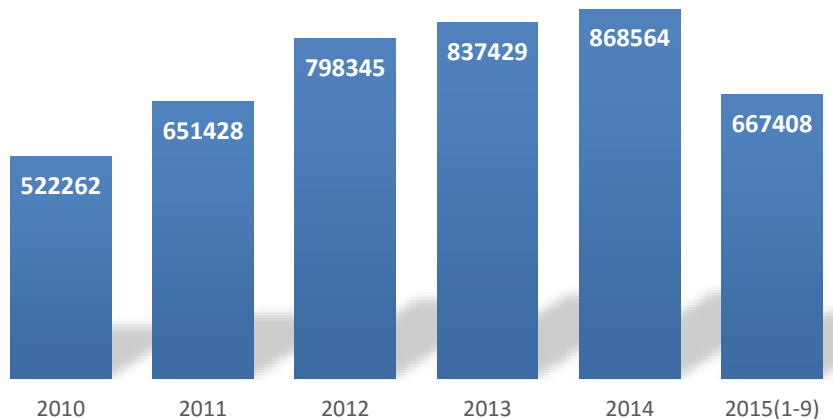


Figure 8. Car traffic 2010 – 2015 through Niirala Border Crossing point (Source: Finnish Customs (2015)).

The flow of traffic through Niirala is distributed rather evenly throughout the years; however, there is some increase starting in 2010 and continuing to grow during the recession (Figure 8). According to Statistics Finland, leisure trips to Russia increased by

3% after the dip in the summer of 2014. Overnight trips almost stayed the same, but the number of same-day trips decreased by 25% (Statistics Finland 2015).

To summarize, Finland is one of the most important trade partners of Russia among EU countries. Economies of both countries are now in the recession. Negative macroeconomic trends and imposed sanctions exerted a dominant influence on the development of the trade relations between these two countries and in most cases had a negative effect. However, the trend shows that economies' growths imitate the adaptation to changed environments.

Despite the recession, the car traffic in the Niiralla-Värsilä border crossing point increased year by year. It means that the weak Russian ruble gives an opportunity for Finish citizens to travel at lower cost.

3 MARKETING STRATEGIES DURING A RECESSION

3.1 Definition of marketing strategies

There is a large volume of published studies describing the role of management in the recession period, but there is a lack of information that pays attention to marketing and marketing strategies during the same period.

Strategy is an integral part of any organizations' decisions concerning their long-term vision and goals. As a recession is a period of changes, different strategies are required. The defying and implementation of the strategy is one of the main managerial commitments, where a specific set of activities in growing the business are engaged, such as attracting new customers, competing with other firms, improving the organizations' market and financial

performance. (Thompson, Strickland and Gamble 2010, 6.) For the realisation of these activities, the organization has to have a good structured marketing strategy.

Different theories exist in the literature regarding which would be the best strategy for the organization.

A marketing strategy according to Kotler, Armstrong, Saunders and Cunningham (2005) is a marketing logic whereby the organization expects to achieve its marketing goals. The most concrete definition, marketing strategy is a tool by which organizations expect to create value for customers and succeed in profitable relationships (Solomon, Marshall and Stuart 2008). Therefore, according to the mentioned authors, the organization should design a specific strategy based on a target market and related marketing mix.

On the other hand, there is a slightly different theory made by Peterson (1992). The author argues that a marketing strategy should not be confused with organizations' goals. However, he also mentions that the goal for an organization is to satisfy its customers and make a profit, and the strategy is an overall plan to achieve this goal. Nevertheless, different organizations could have the same goals but use different strategies in reaching those goals. A strategy is a relatively permanent action and it is hard and costly to change.

The main problem for a successful business in the contemporary world is the quickly changing environment. Therefore, during the recession organizations apply strategic marketing management. According to Lambin (1997), a strategic marketing goal is to guide organizations to more attractive economic prospects where it can use available resources for potential growth. According to Cant, Strydom, Jooste and Du Plessis (2006), strategic marketing entails the decisions concerning how to survive in the competitive environment.

According to Porter (1980, 1985), the organization should focus its strategy on the characteristics of the industry where it operates. On the other hand, Wernerfelt (1984) and Prahalad and Hamel (1990) suggested that an organization needs to focus mainly on the main competences and available resources of the organization. Between these two theories, there is a middle one, which was introduced by Hooley, Piercy & Nicoulaud (2008). They discussed resource-based marketing in which an organization should focus both on the market itself

and the existing resources and its ability to serve this market. The organizational goal is to be able to fit between these two variables.

Moreover, the same marketing strategies could be used during the boom period and during the recession. For example, pricing strategies such as special offers and discounts for attracting customers could be useful in times of economic growth as well as during a weak economy.

3.2 Influence of recession on business

It is not a surprise that the recession period has a negative impact on the companies' operations and business activities. The impact is based on the following effects (Anon 2009):

- 1) Consumers spend less. In most cases, consumers start to spend less than they did before and spend mostly on essential goods. That leads to decreasing sales or/and profit margin. Therefore, the organization that faces this impact should find different ways of attracting or retaining customers.
- 2) Competition becomes tougher. Because of a changing environment many firms start to find different ways to survive in tough competition. However, weaker competitors go out of the business that leads to more chances for others.
- 3) Companies' expenses increase. This happens because of increased production costs. It results in tightening the financial belt. A company needs to emphasize the expenses with higher priorities and take care of them or use available savings to close the gap.
- 4) Business becomes unpredictable. The recession can influence customers' preferences and the number of customers itself. It means that in some days the number of customers grows rapidly, while during other days, the company can notice that customers are gone. The company needs to cope with these fluctuations to stay on the market.

- 5) Interest rates might come down. It is a good chance for the company that is willing to take a loan. However, due to a liquidity crunch in the financial markets during the recession, banks apply lenders' standards that are higher than before.
- 6) New investments possibilities for the business. Due to a fall in stock and property markets, the possibility to invest has occurred. The company can use this chance and invest in stocks or property on lower prices.
- 7) Employees' reduction. In order to be secure in tough times, employees could ask for higher salaries since the inflation goes up. As a result, the company needs to decide what employees are interested in. Moreover, loss in revenue leads to employees' reduction, because sometimes it is an obvious and more efficient choice to lay off some employees rather than escape from rental contracts.

3.3 Effective strategies during the recession

3.3.1 Ansoff Matrix

During times of recession, managers tend to concentrate all companies' resources to manage possible threats by using companies' opportunities. The following chapter covers different marketing strategies in the context of Ansoff Matrix.

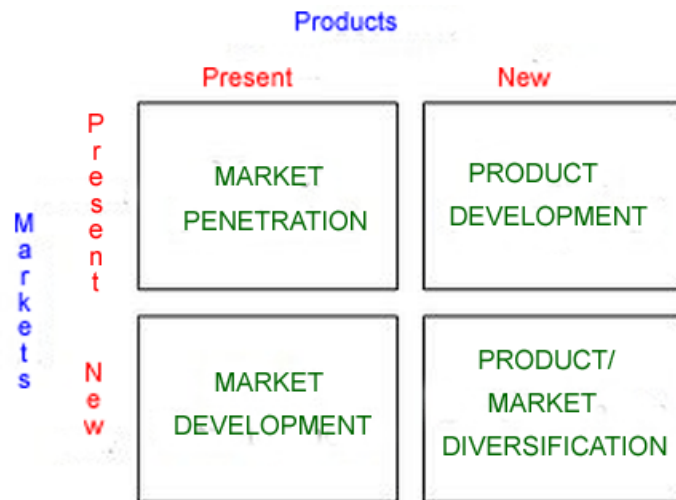


Figure 9. Ansoff Matrix

Igor Ansoff (1957) argued that companies could adopt one of four strategies – market penetration, market development, product development and diversification (Figure 9).

1) Market penetration strategy

This strategy focuses on selling existing products or services to the existing market. Any changes to the product are neglected. The risks that are involved in this strategy are the least since the product or service is already familiar to the market.

In order to survive during the recession period it is essential to retain existing customers that matter. As a result, companies should be ready to allow for some customers to defect. It means that one way to survive is to rationalize companies' customer base.

Companies need to focus on existing product line and try to focus on their core offerings (Cupman J. 2015). They can utilize different kinds of promotions and pricing to attract new customers. To retain existing customers will be possible through creating a loyalty programme for them.

During downturn, there are sometimes fewer possibilities to advertise a company's products/service, but it is still important. For example, for service companies, they could change such activities as face-to-face meetings with customers to a more cost effective form such phone calls or on-line services.

2) Product development

This strategy focuses on selling a new product or service to the existing market. Every company needs to innovate to survive and maintain a competitive advantage. An innovative company tends to be more successful than those who are neglecting this strategy. (Cupman J. 2015) It means that product development should be taken into account at any time, even during the recession.

Companies need to find new products' or services' opportunities through market research. According to one study, over 1/3 of companies used customer segmentation and surveys in order to develop new products offering during a recession (Hart 2008, 97). One of the ways of segmenting the customers is to differentiate them by needs. It could help to serve them better and find opportunities for a new product and survive by knowing their wants and needs.

During the recession companies try to cut costs; therefore, for some companies, product development is too costly. However, there is a chance for product development through substitution that in turn is more cost effective. Substitutes allow companies to avoid barriers of entry established by market leaders. (Cupman 2015.)

Along with product development, companies may pay attention to new service offerings that can be cheaper and faster to enter the market than new products. The new service offering can even have a bigger impact on customers' loyalty and value proposition than for example, new packaging. (Cupman 2015.)

3) Market development

This strategy focuses on selling existing products or services to the new market. Obviously, finding a new market and therefore new customers is not an easy way in most cases. Companies do not utilize this strategy even during good times because they do not want to take risks.

During a recession, companies tried to find new opportunities to maintain their position in the markets. However, the existing market could no longer be the opportunity, and entering a new market is one chance to create profit and survive. Companies may target different geographical markets abroad or at home that are not as saturated and stagnant as the domestic market. Companies may try to change their sales channels and use more cost effective means.

After all, good planning should be considered as an important tool for entering a new market. Moreover, a company needs to have enough resources and intelligence to find a market that will bring payback and help the company to survive during a downturn.

4) Diversification

This strategy focuses on selling new products or services to the new market. It is a more risky strategy than others, particularly during a recession. The main risk is that significant investment is required. Moreover, a new product is not familiar and companies do not know what problems can occur during the implementing process. The same applies to unfamiliar markets. As a result, this strategy is better to avoid especially if companies are seeking a quick - win solution with minimum risk (Cupman 2015).

3.3.2 Quelch's strategies

According to Harvard professor John Quelch (2008) companies should not forget to invest in marketing even during a recession. He advises revision to take into account the following factors.

- 1) Research the customer. Companies need to understand what has been changed in customers' value propositions and how they respond to a recession. In most cases during a recession customers tend to buy less, spend more time on searching for particular goods, become more brand loyal and in addition interest in new products' categories are decreased.

- 2) Focus on family values. During hard times customers tend to look for cosy advertising that emphasizes family values. Businesses in home entertainment probably will hold up well.
- 3) Maintain marketing spending. A recession is not a time for cutting advertising costs. Quelch stated that companies could even improve their market share while competitors decrease advertising expenses. As consumers are more brand loyal during hard times, advertising could help companies to attract uncertain customers. Companies can negotiate favourable advertising rates and lock them in for several years, as well as change the advertising channels, for example by shifting from costly TV or radio ads to using direct sales.
- 4) Adjust product portfolios. As consumers tend to buy items that bring good value for them, marketers have to reconsider the demand for each product in companies' product lines. It means that more specialised and weaker items should be reduced, and conversely multi-purpose ones should be emphasized.
- 5) Support distributors. During hard economic times, no one desires to tie up working capital in the excess inventories. However, companies should be careful to change distributors based on lower prices that they could offer. This company's choices may damage its image and endanger existing relationships. Still, the company has the chance to reconsider existing relationships, upgrade them and/or get rid of weaker distributors.
- 6) Adjust pricing tactics. As consumers tend to spend less and look for better prices, companies need to reconsider their price strategies. However, it does not mean that the price list should be changed. Companies may offer different promotions, discounts, extend credits to long-standing customers and so on.
- 7) Emphasize core values. CEOs and managers should find the core values within the company which best suits them and what can help to survive. For example, CEOs could pay attention to the employees so they would stay loyal to the company. Additionally, as an example, the core values can be shifted from managing customers' relationships to managing working capital. As a result is the essential role of the CEOs and managers to pay attentions to these shifts, because successful companies do not leave their marketing strategies in the downturn but they adjust them.

3.3.3 Weimann's strategies

According to Greg Weimann (2009) a recession is also part of business cycles which is detrimental for almost every organization. In order to minimize the effects managers need to take into account following advice.

- 1) Retain high value clients. The loyalty of customers is very important during a recession, and losing them can cost a company a lot. As a result, companies need to emphasize the high-value clients and offer them special value in order to remunerate them for their loyalty.
- 2) Change company's mindset. Investing in marketing and public relations does not mean losing profit, but gaining strategic assets for the company.
- 3) Be visible. The author suggests a company to be everywhere to show its opportunities, visit different events and panel discussions, exhibitions and so on.
- 4) Use public relations. During the recession customers rely on personal recommendations; moreover the advertising could cost a lot. As a result, companies tend to find different channels to face with customers. PR is a good chance to reach customers through the speech of the service. Favourable publicity can create credibility to the company's products or services.
- 5) Advertise wisely. Advertising can be seen as expensive. However, companies should find alternatives for expensive ones and shift their views on fast, effective and less costly advertisements. A good means to reach customers with low cost is using the internet and social media.

3.3.4 Wredens's strategies

According to Wreden (2002) when bad economic times start the instinctive reaction of many companies is to cut prices. However, it is not the best strategy, as author and many experts say. Pricing decisions should be viewed as "a part of a long-term strategy for fiscal fitness".

To maintain sales and at the same time avoid price cut's dampening the outcomes of long-term profitability, the following pieces of advice are suggested.

1) Adjust sales goals.

The author suggests not cutting the prices of high-value products, because this choice can bring opportunities only in the short-term. Regarding the long-term, the strong demand of low pricing can bring fail in recovering the costs of capital when conditions will change.

Moreover, the author advises concentrating on the basis for pricing in other ways. Many experts recommend focusing on value-based pricing rather than on competitor-, cost- or customer-driven pricing strategies. It means changing the focus on the benefits that a company's products or services deliver to the customer. However, it should be remembered that customers' values also can be changed during a recession.

2) Understand competitive advantage

During a downturn, pricing should be formed according to the industry position where the company operates and its long-term strategy. For example, for those companies that gain a competitive advantage from a low-cost structure, a decrease in costs can lead to an increase in market share.

3) Leverage segmentation strategy.

The author suggests dividing the customer base into different segments and price them differently. For example, use the way of airlines, as in "first-class," "business-class," and "economy" pricing. First-class customers get more value with less discounts; economy customers receive less value. This segmentation based on price sensitivity allows companies to increase sales that in turn can balance losses in other areas. Furthermore, offerings can be segmented by purchase quantity, location, and time.

4) Pamper loyal customers.

To avoid losing clients and having to find new ones, companies need to keep the best customers happy. It can be reached by offering loyalty schemes or providing extra services.

5) Plug revenue leaks

Companies need to pay attention to the costs involved in service, delivery, or other processes. Setting the minimum quantities of order is a good way to decrease the processing costs. Reduce the time between orders and receipt of payment. Launching a price for "free" services such as delivery or favourable payment terms, leads to a good chance of increasing revenue.

Customer pressure increases during a recession; sales forces become less resistant, and this can lead to revenue leaks. Customers try to decrease prices by negotiating. However, the price should be based on other factors such as volume, delivery, costs and value. To motivate the preferred behaviour, rewarding a company's sales force should be based not just on sales volume, but on its input to profitability.

6) Shift the battleground

The author advises including in the negotiation process with customers such factors as volume requirements, payment terms, conditions for discounts and others. All these factors can increase revenue opportunities and lower unit costs.

7) Protect the brand

During the recession, brand is an important tool for the company and it can freely use it. As a result, there is no need to cut the prices for premium brands since they could be sold even without the discount by word-of-mouth or channel promotions. For example, cosmetic products are bought even more during downturns because they symbolise affordable premium goods and/or offer psychological improvement.

As the main goal of this study is to analyse small companies which are located in a small town, it should be taken into account while finding the suitable strategy. Every presented strategy can be utilized also for a small business; however, it should be adapted according to the company's aims, resources and capabilities, as well as owners' perceptions of the faced threats and available opportunities.

On one hand, small companies can be more flexible and quickly cut costs or change strategy. On the other hand, not every company has the experienced employees to do so. Moreover, small companies in many cases have limited resources especially during a recession time. Therefore, these resources should be allocated wisely, and no one wants to take huge risks. Following strategies are suggested.

- 1) Do not forget about customers since they are more sensitive and cautious during a recession. Try to research what values have been changed and how they can be seen in the company's products or services. A possible shift from one group of customers to another can be made.
- 2) Pay the costs involved in product, service, delivery, or other processes.
- 3) Focus on a core product or even reconsider the product line if necessary.
- 4) Concentrate on the efforts that can bring the most revenue.
- 5) Use different kinds of promotions and pricing strategies to keep the existing customers and/or attract new ones.
- 6) Do not neglect advertising. Using less costly methods of advertising is a good way to stay in the game. Use the internet and social media to contact existing customers and to attract new ones.
- 7) Look at core values inside the company. Look at the vision and determine if it is still capable of success in the current economy.

4 SURVEY AMONG ENTERPRISES IN SORTAVALA

4.1 Methods

Sample

For the research, twelve companies were selected through purposive sampling (Table 5). Each company is a small or medium size enterprise located near the Russian/Finnish border in the Republic of Karelia, specifically in Sortavala. Most of the companies are involved in cross-border tourism. Two companies are involved in forest production and exports, and two are in trade. In each company one respondent was selected as an interviewee. The respondents were mainly managers who are engaged in day-to-day activities.

Table 5. Summary of the companies by industry and basic activities

Company name	Field of business	Size (amount of the personnel)	Basic activity	Position of the Respondent
Company A	Tourism/travel agency	<10 employees	Domestic tourism	CEO and sales manager
Company B	Tourism/travel agency	10-50 employees	Outbound and domestic tourism	Sales manager
Company C	Tourism/travel agency	10-50 employees	Outbound and domestic tourism	Sales manager
Company D	Tourism/hospitality	10-50 employees	Restaurant	Owner
Company E	Tourism/hospitality	10-50 employees	Restaurant	Production manager
Company F	Tourism/hospitality	10-50 employees	Café	Owner

Company G	Tourism/hospitality	10-50 employees	Hotel	Owner
Company H	Tourism/hospitality	10-50 employees	Hotel	Front-office manager
Company I	Trade	10-50 employees	Souvenir and jewelry shop	Office manager
Company M	Trade	10-50 employees	Grocery shop	Office manager
Company N	Forest	10-50 employees	Local wood production and export to Finland	Owner
Company P	Forest	10-50 employees	Local wood production and export to Finland	Owner

Data collection

Data collection was based on companies' interviews. First, the respondents were contacted by email on 10th-14th September 2015 to determine their readiness to participate in this study. However, only two companies responded to emails. The next step was to visit the case region and organise interviews by phone calls. Moreover, networking was used as one of the methods to contact other possible respondents.

Most respondents were interviewed at face-to-face meetings, others by phone and email. The interviews were held using the structured questionnaire (Appendix 2). The topics of the interviews included the impact of the recession on company performance, clients, completion, as well as possible undertaken actions and forecasts.

The face-to-face interviews lasted 20-30 minutes. Detailed notes of the respondents' answers were taken during each meeting. Moreover, when clarifications were required, follow-up questions were asked by email or phone.

4.2 Limitations

The current research has some limitations that offer instructions for future study. One of the limitations is a small research sample. Almost 25 companies were contacted, but only 12 of them were ready to participate in the research. Some of the contacted companies do not have any operations connected to foreign or/and Finnish clients. Some just did not give any answer at all.

Another limitation is the narrow region and particular city that was used. Sortavala is small city and does not have a lot of companies and industries connected to Finland. Therefore, some different customers' behaviors and managers' actions might be found in other regions and industries.

4.2 Results

The changing economic environment does not influence every business in the same way. Not only ways can be different but also the consequences for companies' performance, as well as their reaction to these changes. Some of the firms experience increase in sales, some decrease in sales, while others may not experience any impact and therefore do not react somehow.

Changes in company performance

According to the study results, most companies feel the influence of the economic changes in their businesses to different extents. However, almost no company has made a specific research concerning the recession and its consequences in their businesses. They see only the big picture of the situation and do not think essentially about the actions. Every interviewed company has a positive or neutral impact on their financial performance because of the recession.

Companies with business connected to exports to Finland and earnings in foreign currency are in a winning situation and experienced a positive impact on their operations. In the case companies, these winners are related to wood production. Nevertheless, both owners noticed that even though the companies have foreign currency earnings, it does not change financial performance greatly. All other expenses increased, such as spare parts for the machines as well as fuel. As a result, from the financial point of view, the net profit stays almost the same. Moreover, one of the wood production owners stated that customers from Finland try to influence price, because of the weak ruble and insist on decreasing the price. However, even with reduced prices the owner said that they still are on the plus side.

All companies mentioned increase in expenses. One wood production company has been highly dependent on foreign suppliers from Finland. Many spare parts, as well as forest logging machines, have been bought in Finland. Therefore, the company tries to find new suppliers in Russia that can help to decrease variable expenses. Grocery and jewelry stores also stated that expenses increased dramatically; therefore, they tend to increase the final prices.

Some companies, where the business is connected to the hospitality and restaurant industries, noticed the increase in foreign tourists in Sortavala. One of the reason is the attractiveness of the city and the Karelia Region itself. However, other companies noticed that demand is stable and they do not see any big influx from Finns.

Some companies do not even see any changes in the economic environment or, if noticed, these changes do not dramatically influence their business. Therefore, these companies continue to work in the same mode.

Customers

While many industries suffer from the downturn period, some benefit from it. During the recession demand for certain products or services can be decreased. However, in the case

study every company noticed increasing or stable demand from foreign customers due to the weak ruble.

Most companies have Finns as the main and/or key customer groups; others have a small percentage of them. However, every interviewed company has its business related to Finnish customers to a greater or lesser extent. For those companies that have a small percentage of customers from Finland, there is an aim to attract them more, especially in the time of the weak ruble while travelling to Karelia has become more attractive financially.

The owners of wood production companies said that the amount of Finnish customers increased. Due to this raised demand, sales in these companies increased because of product exports. Moreover, there is no need to look for or attract new customers for them, as Finns are looking for their services and contact the company by themselves.

Companies with business related to tourism noticed a decrease in group tourism among Finnish customers, but an increase in individual tourism. If before a lot of Finnish groups visited the city and the region, nowadays individual tourists dominate. Nevertheless, the total number of foreign tourists has risen fundamentally. Previously, Sortavala was mainly the place for a one-day visit, but now, according to one of the interviewed hotel databases, the amount of nights spent by foreign tourists has increased.

The grocery stores also have noticed a rise in demand from Finnish customers. The biggest demand was before the Christmas holidays in 2014. In the middle of 2015, the demand stabilized and has not massively fluctuated since.

During the recession, customers can change their buying behavior. They tend to save money and do not spend on non-essential goods and services, as well as with the same amount of money they can buy less. However, according to the interview, it does not concern Finnish customers. Finnish customers tend to spend more in Russia due to the exchange rate and the weak ruble.

Almost every company mentioned that all customers became more careful and scrupulous in their findings. They are able to spend hours to find a more suitable product. One restaurant owner noticed changes in customers' types that are coming from Finland. Previously,

customers were mainly from near-the-border cities, but now they are coming from different and more remote places.

According to the interview results, companies have not dramatically changed their marketing campaigns, and they have not cut this type of expense. They still use the same ways of advertising such as brochures, media, newspaper, website, and others. Almost every company has adapted its campaign to foreign customers by translating material to Finnish language; wood production companies, however, have not done this.

Competition

Depending on the industry, the level of competition has stayed the same or increased. The hospitality sector has seen entrance of big players with headquarters in Saint Petersburg and Moscow. These companies have made large investments in infrastructure in the territories of their resorts. However, managers from several companies mentioned that those new firms do not have a direct impact on their business, because they serve different customer segments.

Travel agencies have noticed the appearance of new small firms and individual entrepreneurs which also offer packages or separate tours for local sightseeing. Moreover, even hotels engage in selling different tours and excursions for their customers directly avoiding travel agencies. It also creates additional competition for agencies. There is a large number of individual tourists who purchase services from providers.

In trade, significant changes in competition have not been noticed; in wood production the competition is also stable.

Forecast

Not all companies are looking into their future and have a development plan. Almost 90% of interviewed firms have short-term goals, but avoid thinking in the long-term. Other firms utilize only their past experience and have only two year plans. None of the companies has a backup plan if the situation changes cardinally.

Every tourism firm evaluates future performance as stable or even more profitable. They do not consider a fall in the number of tourists; they expect an influx of tourists from different Russian and Finnish cities. Moreover, Sortavala will have several big events in the next two years and it can help to attract more tourists.

The companies mentioned the poor infrastructure development of Sortavala. There is a need to keep and maintain the historical heritage of the city and region; otherwise, the tourism sector will undergo changes. Every manager relies on possible future government investments in the Karelia Region, as well as investments from the private sector.

5 CONCLUSION

The thesis analyzed the consequences of the recession in Russian Karelia for small and medium enterprises located in Sortavala. Additionally, SMEs' adaptations to changed business environment were discovered.

It was determined that negative macroeconomic trends and imposed sanctions influenced the development of the trade relations between Russia and Finland and in most cases they have had a negative effect. However, the survey results have shown the increased demand in most respondents' business. The reason for this tendency is the weak rouble which attracts more tourists from Finland to Russian Karelia.

According to the study results, most companies feel the influence of the economic changes in their business to some extent. However, it is worth remarking that despite the fact that almost every company has revealed the changing in their financial performance, demand and competition, no one has made any specific actions. Companies continue to use the same resources to attract new customers; some of them even do not make any efforts to do this. Almost every interviewed company does not have any specific actions for fighting with raised competition. Companies do not have clear strategies and do not react differently. Every company continues to use the same competitive advantages as before. Most managers believe in the loyalty of their customers and think that it is enough to not to be worried about these changes.

The reasons for such inactivity are the lack of resources and competent management. Therefore, according to the results the recommendations have been made. First, it is worth starting with creating short-term and long-term goals for the company. The next step is to make research about customers' needs and wants. Find a suitable marketing strategy that could help to promote the business as well as differentiate among competitors. Then, consider focusing on quality of the product or service. To understand the existing products' or services' qualities, a customer survey can be made.

Furthermore, as the demand of foreign customers increased, it is reasonable to focus on attracting foreign customers by providing the promotion materials in English and Finnish and distributing these materials near the border locations (for example, shops, gasoline, cafes, etc.). To keep existing customers and emphasize the high-value of them it makes sense to create a customer loyalty system. It might be bonuses, discounts, and so on. Additionally, it is wise to promote the historical heritage and sightseeing of Sortavala itself to attract more customers.

The reputation and image of a company is very important, especially in small cities like Sortavala. Therefore, thinking about business not only from the side of profit but also from the perspective of giving value to the public, can bring additional competitive advantages. It creates the sense of belonging for customers and for other stakeholders. Customers become more loyal and create good word-of-mouth advertising.

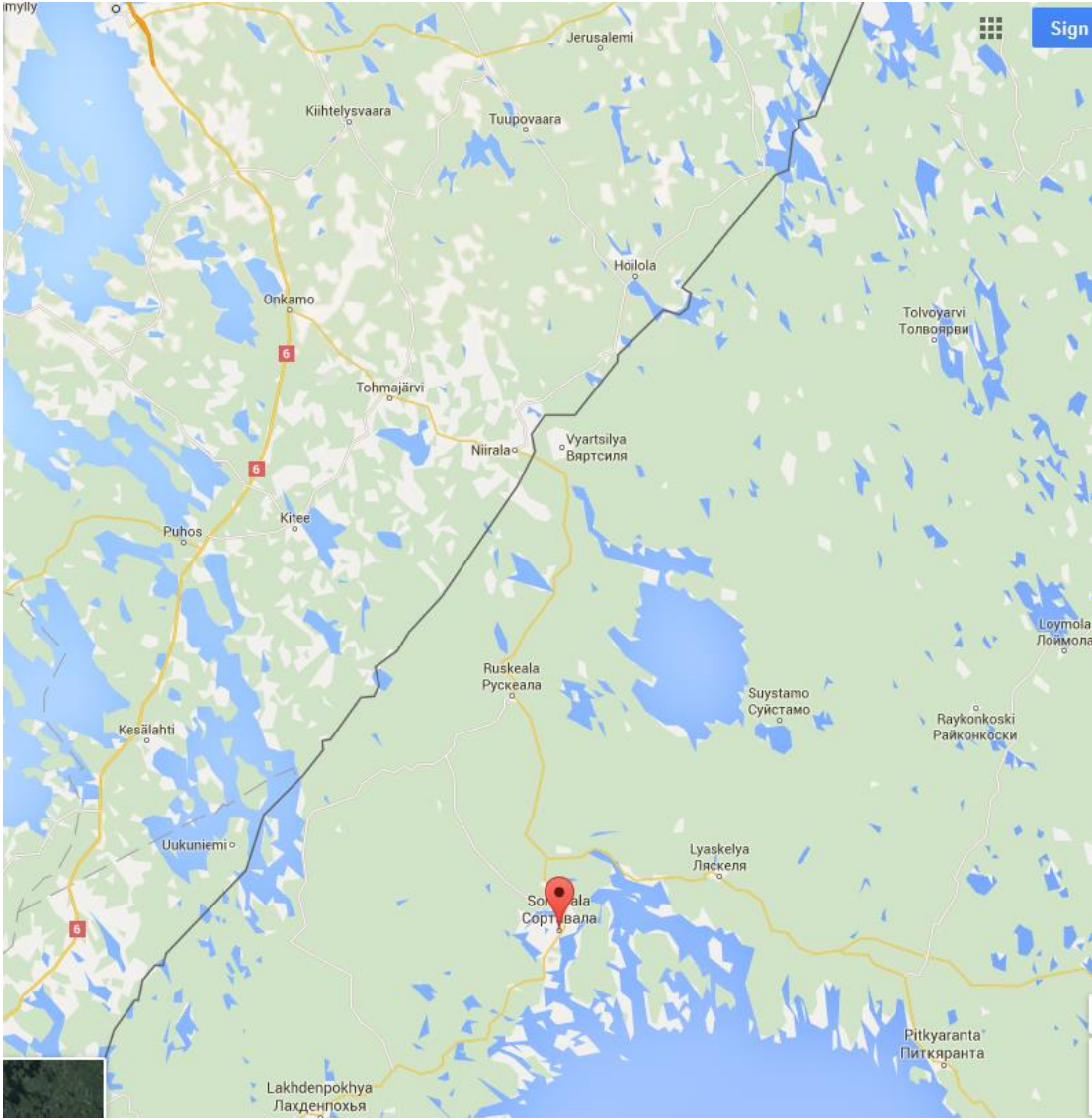
REFERENCES

- Ansoff, I. 1957. Strategies for Diversification. Harvard Business Review Vol. 35, Issue 5, Sep-Oct, pp 113-124
- Anon. 2009. 7 Recession Effects of the Recession Cycle. Morebusiness.com Available at: <http://www.morebusiness.com/7-effects-economic-cycle> (accessed 7.10.2015)
- Apaydın, F. 2011. Changes in Marketing Strategies and Performance Outcomes of Turkish Firms in 2008 Global Economic Recession. International Business Research Vol. 4, No. 4, October 2011. Available at: <http://www.ccsenet.org/journal/index.php/ibr/article/viewFile/12369/10990> (accessed 3.10.2015)
- Bank of Russia. 2015. Monetary Policy Report. Moscow. Available at: http://www.cbr.ru/eng/publ/ddcp/2015_03_ddcp_e.pdf(accessed 3.10.2015)
- Bank of Finland. 2015. BOFIT Russia Statistics. Available at: http://www.suomenpankki.fi/bofit_en/seuranta/venajatilastot/Pages/default.aspx(accessed 17.04.2016)
- Bam, E. D. 2010. Marketing Strategies during the Recent Recession in Selected Companies.
- Barro, R.J. & Grilli, V. 1994. European Macroeconomics, Palgrave Macmillan Business Dictionary. GDP Definition. Available at: <http://www.businessdictionary.com/definition/gross-domestic-product-GDP.html> (accessed 30.9.2015)
- Business Dictionary. Inflation. Available at: <http://www.businessdictionary.com/definition/inflation.html>(accessed 3.2.2016)
- Cant, M.C., Strydom, J.W., Jooste, C.J. & Du Plessis, P.J. 2006. Marketing Management, 5th Edition, Cape Town: Juta.
- Carbaugh, R.J. 2007. Contemporary Economics: an Applications Approach, 4th Edition, Ohio, UT: Thomson South-Western. Available at: <http://www.imf.org/external/pubs/ft/fandd/basics/current.htm> (accessed 2.10.2015)
- Cupman, J. Effective Marketing Strategies for a Recession, for Large Organizations That Operate Predominantly In B2b Markets, B2B International. Available at: https://www.b2binternational.com/assets/ebooks/marketing_recession/effective_marketing_recession_ebook.pdf (accessed 14.10.2015)
- European Central Bank. 2015. Russian rouble (RUB). Available at: <https://www.ecb.europa.eu/stats/exchange/eurofxref/html/eurofxref-graph-rub.en.html> (accessed 3.10.2015)
- Exchangerates.org.uk. 2015. US Dollar (USD) to Russian Ruble (RUB) Exchange Rate History. Available at: <http://www.exchangerates.org.uk/USD-RUB-exchange-rate-history.html>(accessed 3.10.2015)
- Federal State Statistics Service of Russian Federation. 2015. Key Figures. Available at: http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/en/main/ (accessed 3.10.2015)
- Finnish Customs. 2015. Available at: <http://www.tulli.fi/>(accessed 20.10.2015)
- Finnish Customs. 2015. Statistics on Finland's Land Border Traffic. Available at: http://www.tulli.fi/fi/suomen_tulli/julkaisut_ja_esitteet/Ulkomaankaupan_tilastoj

- [ulkaisut/seurantaraportit/tiedostot/maarajojen_liikennetilasto.pdf](#) (accessed 20.10.2015)
- Finnish Customs. 2015. Finnish Foreign Trade 2015, Figures and diagrams. Available at: http://www.tulli.fi/en/finnish_customs/statistics/graphics/liitteet/Kuviot_2015EN.pdf (accessed 17.04.2016)
- Finnish Transport Agency. 2015. Border Traffic. Available at: http://portal.liikennevirasto.fi/sivu/www/e/fta/statistics/traffic_statistics/border_traffic (accessed 20.10.2015)
- Ghosh, A. & Ramakrishnan, U. 2012. Current Account Deficits: Is There a Problem? Finance & Development IMF
- Hart, R. 2008. Recession Storming, CreateSpace
- Holden, I. 2010. The Strategy and Tactics of Pricing. Available at: hbswk.hbs.edu/archive/2884.htm (accessed 4.2.2016)
- Hooley, G., Piercy, N.F. & Nicoulaud, B. 2008. Marketing Strategy and Competitive Positioning. 4th Edition. Pearson Prentice Hall, United Kingdom. Available at: http://sys.vos.cz/pdf_view/AJ/Marketing_strategy_and_competitive_positioning.pdf (accessed 14.10.2015)
- Hunt, S.D. 2009. Competitive Advantage Strategies in Times of Adversity, Journal of Customer Behavior, 8(2), 137-151
- Investopedia. 2015. Unemployment Definition. Available at: <http://www.investopedia.com/terms/u/unemployment.asp#ixzz3nPhFGhv5> (accessed 2.10.2015)
- Investopedia. 2015. Current Account Balance Definition. Available at: <http://www.investopedia.com/terms/c/currentaccount.asp> (accessed 2.10.2015)
- Knoop, Todd A. 2010. Recessions and Depressions: Understanding Business Cycles. 2nded. ABC-CLIO, LLC. P. 280
- Kotler, P., Armstrong, G. & Cunningham, P.H. 2005. Principles of Marketing. Toronto: Pearson Education Canada. pp. 67-70.
- Kotler, P. & Caslione, J.A. 2009. How Marketers Can Respond To Recession And Turbulence? Journal Of Customer Behavior, 8(2), 187-191
- Merriam-Webster Dictionary. Unemployment Definition. Available at: <http://www.merriam-webster.com/dictionary/unemployment> (accessed 30.9.2015)
- Measuring GDP and Economic Growth. 2015. Chapter 5, pp. 76-78. Available at: <http://www.mayfieldschools.org/Downloads/onomicgrowthpracticeproblems.pdf>
- Moore, M. 2001. Turkey's Working Class Hit Hardest by Crisis. International Business, 367, 16-22
- Oxford Dictionary. Exchange Rate Definition. Available at: <http://www.oxforddictionaries.com/definition/english/exchange-rate?q=exchange+rate> (accessed 2.10.2015)
- Peterson R., 1982, Marketing, A contemporary Introduction Robed E. Krieger Publishing Company Malabar, Florida
- Porter, M. 1985, Competitive Advantage. New York: The Free Press.
- Russian Embassy in Finland. 2015. Russian-Finnish trade and economic cooperation. Available at: <http://www.rusembassy.fi/page-109.html> (accessed 17.04.2016)
- Statistics Finland. 2015. Gross Domestic Product Fell By 0.7 % In 2014. Available at: http://www.stat.fi/til/vtp/2014/vtp_2014_2016-01-29_tie_001_en.html (accessed 17.04.2016)

- Statistics Finland. 2015. Finns' travel to Central Europe increased in 2015. Available at: http://tilastokeskus.fi/til/smat/2015/smat_2015_2016-03-30_tie_001_en.html(accessed 17.04.2016)
- Quelch, J. 2008. Marketing Your Way through A Recession. Boston, MA: Harvard. Available at: <http://hbswk.hbs.edu/item/5878.html> (accessed 12.10.2015)
- Shama, A. 1993. Marketing Strategies during Recession: A Comparison Of Small And Large Firms.
- Solomon, M.R., Marshall, G.W. & Stuart, E.W. 2008. Marketing: Real People, Real Choices. 5th Edition. Upper Saddle River, NJ: Pearson Prentice Hall
- Statistics Finland, 2015. Finns Travelled In Finland As Well As To Central Europe In The Cool Summer Of 2015. Available at: http://www.stat.fi/til/smat/2015/14/smat_2015_14_2015-10-07_tie_001_en.html (accessed 17.04.2016)
- Tellis, G.J. & Tellis, K. 2009. Research on Advertising in a Recession: A Critical Review and Synthesis. Journal Of Advertisement Review, 49(3), 304-327
- Weimann, G. 2009. Marketing during an Economic Downturn. The Asha Leader. Available at: <http://www.asha.org/Publications/leader/2009/090811/f090811a4.htm> (accessed 14.10.2015)
- Wikipedia. 2015. Sortavala. Available at: <https://en.wikipedia.org/wiki/Sortavala> (accessed 2.10.2015)
- World Bank. 2015. Russian Federation, Overview. Available at: <http://www.worldbank.org/en/country/russia/overview> (accessed 2.10.2015)
- World Bank. 2015. GDP Russian Federation. Available at: <http://data.worldbank.org/indicator/NY.GDP.MKTP.CD/countries/RU?display=graph>(accessed 2.10.2015)
- Wreden, N. 2002. Your Best Downturn Strategy? Think Twice About Price Cuts. Available at: <http://hbsworkingknowledge.hbs.edu/item.jhtml?id=2884&t=marketing&noseek=one> (accessed 12.10.2015)

Map of Republic of Karelia and Finland



Source: Google maps

Interview questions

1. Company performance

- a) Have your company noticed any changes in economic situation for the last years?
- b) Has the changing business environment affected the company's daily activities?
How?
- c) Does your company react on these changes and how? Do you use any marketing strategies to cope with these changes?
- d) What is the main focus of the company during the recession period?

2. Customers

- a) What is the share of Finnish customers in the company?
- b) Is your company planning to attract Finnish citizens?
- c) Have you noticed increased or decreased demand for your product/service?
- d) Have customers behavior changed? How?
- e) What kind of tools (ways) does company use to attract and keep customers?

3. Competition

- a) Have you noticed any changes in the competition environment in your industry?
- b) What methods does company use to stand out among competitors?

4. Forecast

- a) What do you expect to happen next 5 years in your industry? Do you expect any changes?