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SMEs Survival in time of Crisis: Strategies, Tactics and Commercial Success Stories

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Abstract

Small and Medium Sized Enterprises (SMEs) in periods of prolonged economic crisis may suffer disproportionately from economic downturns, because of their limited financial resources and dependence on banks' lending, paying such high interest rates. Adding to the financial aspect, their relative shortcomings in terms of technological, managerial and human capabilities may reduce their capacity to overcome the economic crisis. On the other hand, their greater dependence on (fewer) customers and suppliers may lead to increased difficulties in maintaining their activity in the face of the crisis. On the contrary, lots of studies show that there are still some sectors that have been affected a lot from the financial crisis, there are companies, which show a remarkable yield and it seems that they get a benefit from the crisis and make use of chances. The difference of the companies' attribution still observed in the same geographical region even though to the same local market. Into this specific paper there is going to be examined how SMEs in the area of commerce develop alternative marketing strategies, innovative tactics and new concepts in order to survive.

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1. Introduction: Greek Commercial Enterprises toward crises

Generally Commerce is the basic sector of employment to the contemporary Greek economy. In the whole duration of the period 1993-2007, Commerce gains distinction of the most important sector of employment, as the other two important sectors of employment, the agriculture and the processing, present an important decrease of the

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number of the employees. During the duration of the economic crisis the sector kept 37.5% of the work places that had been created in the period 1993-2008, to the contrary with the whole economy where it was preserved just 9.0% of the work places that had been created the same period. The Commerce in 2012 gathered 17.9% of the whole employment towards 13.0% of the agriculture-fishery and 9.5% of the processing, by presenting a smaller rate towards to the average that was preserved the last four years 18.3%. (NCHC 2012).

The majority of the commercial enterprises are very small and small enterprises that occupy one up to 49 persons (over than 90% of the enterprises). According to the recent studies and clues, Small and Medium Sized Enterprises (SMEs) of the commercial sector in periods of prolonged economic crisis may suffer disproportionately from economic downturns, because of their limited financial resources and dependence on banks' lending, paying such high interest rates. Adding to the financial aspect, their relative shortcomings in terms of technological, managerial and human capabilities may reduce their capacity to overcome the economic crisis. On the other hand, their greater dependence on (fewer) customers and suppliers may lead to increased difficulties in maintaining their activity in the face of the crisis. (NCHC 2012, Papaioikonomou & all 2012, Penrose 2000, Shama 1993)

The above ascertain is getting enforced from the clues of the National Confederation of Hellenic Commerce Research Project. This research took place between March-June 2013 in sample of 2375 traders from all over the country, during the period of crisis, that is to say the period between 2009-2013. According to the clues of the search the commercial enterprises lost approximately the half of sales. More specifically, the average circle of works, from 425.000 euros in 2009, there is going to be a decrease into 232.000 euros at the end of the year (a loss of 45,2%) while in period 2012-2013 the decrease of sales are 27%. The loss to the net profits of the commercial enterprises is bigger, from 49.000 euros in 2009, there are going to be limited into 7.000 euros in 2013 (a decrease of 86%, the loss the last two years is about 45%).

On the contrary, lots of studies show that there are still some sectors that have been affected a lot from the financial crisis, there are companies, which show a remarkable yield and it seems that they get a benefit from the crisis and make use of chances. The difference of the companies' attribution still observed in the same geographical region even though to the same local market.

Penrose (2000) says that a crisis can be perceived both as a threat and as an opportunity, reciting an old Chinese proverb. Therefore, he continues, the way decision makers perceive the crisis directly affects the way they will respond to it and they will involve in any activity. As Shama (1993, p. 62) mentions, the response to recession depends on how decision makers "perceive its meaning and impact on their businesses." Assuming that entrepreneurs are the decision makers, an SMEs strategic development occurs as a result of the perceptions formed about the context, the existing difficulties, and possible opportunities for growth.

Entrepreneurs' perceptions of recession are dependent upon their context and the wider social structures that might facilitate or hinder their functioning. The wider institutional context and the interaction with stakeholders such as investors, government, and competitors all contribute to the formation of perceptions. On the basis of those perceptions, opportunities are identified and strategies are shaped (Kitching et al. 2009). In a broad yet similar vein, Hall and Silva (2005) focus on the effects of national culture on existing empirical evidence regarding entrepreneurship, claiming that even when the exact same variables are tested, cultural factors should be taken into account and empirical results should be contextualized.

The conclusion of those international searches are confirmed and from the data of the search of the National Confederation of Hellenic Commerce four to ten commercial enterprises (42%) are "very or possible enough" to be closed in the near future. On the contrary 58% of the commercial enterprises said that "the shutter" is not "so possible" or "non possible". So six to ten Greek Commercial Enterprises believe that they will survive at the end towards economic crisis. As it comes from the data of the search this conception is not based of the traders subjective views, but to original clues that have to do how enterprises have handled crisis up today. One impressive clue is about what is going to happen with the employees to those enterprises. The 74% of SMEs of the commercial sector expect that the number of the employees will remain the same.

According to this paper some strategies present, tactics and successful practical SMEs of the commercial sector that belong to the optimistic enterprises of the sample search ESEE. Some primary data gathered through entrepreneurs' interviews and questionnaires that fulfilled parallel to the interviews.

2. Literature review: SMEs in Crisis

In general, different authors (Robbins and Pearce 1993, Michael and Robbins 1998, Latham 2009) affirm that SMEs are the first and the most important victims of a prolonged economic crisis. SMEs may suffer disproportionately from economic downturns, because of their limited financial resources and dependence on banks' lending, paying such high interest rates (Mulhern 1996 for the crisis of 1989–1994 in Venezuela, Domac, and Ferri 1999 for the 1997 Asian financial crisis and Ozar et al. 2008 for the 2001 Turkish financial crisis). Adding to the financial aspect, their relative shortcomings in terms of technological, managerial and human capabilities may reduce their capacity to overcome the economic crisis (Gertler and Gilchrist 1994, Forbes 2002 Beck et al. 2005, Butler and Sullivan 2005, Regnier 2005, Marino et al. 2008 Das and Pradhan 2009). On the other hand, their greater dependence on (fewer) customers and suppliers (Nugent and Yhee 2002) and markets (Butler and Sullivan 2005, Narjoko and Hill 2007 OECD 2008) may lead to increased difficulties in maintaining their activity in the face of the crisis. Papaoikonomou & all, (2012) argue that in this context, most SMEs suffered from demand shock. As mentioned in the Organization for Economic Cooperation and Development (OECD 2009), there has been a drop in demand for goods and services and a tightening in credit terms for SMEs at a global level.

But there are some researching works that are putting the situation into doubt that all the SMEs take a bigger effect of the economic crisis in connection with the large-scale enterprises. Gregory et al. (2002) say that Korean SMEs during the Asian financial and economic crisis of 1997 decided that it would be better to strengthen themselves in marketing activities and technology innovation. This adaptation was the easiest for SMEs businesses in connection with the big unites. Shama (1993) mentions that SMEs react using market segmentation tactics much more effectively and quickly than the big businesses, whereas Pearce and Michael (1997) comment that investment in sales and marketing improved SMEs' performance during economic recessions.

In the literature, we find valid reasons why small firms may have different effects from larger firms. Smaller enterprises may be more flexible in adapting to an economic downturn because they are less resistant to inertia, rigidity, and sunk costs (Tan and See 1997), more able to exploit market niches (Gregory et al. 2002, Narjoko and Hill 2007, Hodorogel 2009, concentrated on activities characterized by economies of agglomeration, rather than economies of scale (Berry et al. 2001, Hall and Harvie 2003), and less reliant on formal credits compared with their larger counterparts, which are more burdened by debts (Sato 2000, ter Wengel and Rodriguez 2006). Even their disadvantages at technological and knowledge levels can be overcome by imitation of other firms' best practices (Nugent and Yhee 2002). As a result, SMEs may be more able to sustain their sustainability and thus counteract the negative effects of the crisis, helping to stabilize the economy. Indeed, there is robust empirical evidence showing that SMEs, and specifically export-oriented SMEs, are better able to adjust to crises (Sato 2000, Berry et al. 2001 and ter Wengel and Rodriguez 2006 for Indonesia, Gregory et al. 2002 for Korea; Tan and See 2004 for Singapore, and Regnier 2005 for Thailand, all in the context of the 1997 Asian financial crisis). Furthermore, as Harvie and Lee 2001 mention, SMEs are of strategic importance for the economic recovery because they help restructure industries because they can act as a source of competition for larger companies, can promote regional trade, contribute to technology transfer, and also regional development. Entrepreneurs' importance has been historically crucial for economic recovery and growth by contributing to job creation and social progression (Elmore 2009).

We don't have easy solutions and direct effective strategies to anticipate crisis effects. In the wake of the economic crisis, many firms were faced with severe threats that called for immediate action to ensure firm survival. When choosing the measures to cope with this crisis situation, responsible decision makers were confronted with the challenge to manage the trade-off between the benefits and costs of short-term crisis reactions (Rhodes and Stelter 2009). On the one hand, short term action like massive cost-cutting, cash generation, shorter reporting cycles, increased employee monitoring and tight budget control seemed necessary to cope with a decline in orders and revenues and to ensure an appropriate and well-coordinated response to changed environmental conditions. On the other hand, such short-term measures might damage the long-term growth potential and go at the expense of the long-term health of the firm as key stakeholder relations may be irreversibly harmed. (Asel & all 2010)

3. Methodology – Date - Evidences

According to the search 20 commercial enterprises were chose in Athens and Piraeus, 10 of them were very small enterprises (they employ 1-9 employees), 5 small enterprises (10-49 employees) and the other 5 medium (50-249). The sectors that they activate are clothing-shoeing, food-drinks, books-CDs-Technological sorts(kinds), jewels, furniture and equipment. To the place of prochoice about the interviews there was shared a questionnaire of diagnosis to a group of 50 entrepreneurs-traders. Through those questions came off how an enterprise believed that it can do it to handle economic crisis and if it believed that it could survive. From the questionnaires there were chosen approximately 30 enterprises for interview and 20 of them agreed to take place. Analyzing the data of the interviews the search concludes to 5 important factors that separate commercial enterprises which can manage to have exceptional records and they can survive in periods of economic crisis in contrast to the rest. These factors drive into an alternative strategy of marketing in period of crisis. These factors are:

Product Reengineering Process

To an economic period of crisis, to the same market there are businesses, which can see their sales to be decreasing because of the all the demanding decrease and others that take a benefit from the correspondence to the need of the local market for cheaper substitutes. A part of SMEs have a high level of immediate adaptation. They produce inferior goods to meet market demand, that saw shifting toward necessity and used goods, rather than luxuries and new goods, as the crisis lowered the level of people's real income.

The entrepreneurs that took place to the interviews said that they replan the product offering (bid) to the traditional customers putting characteristics that enhance the value they relish from the products they offer. Such an example of those tactics is the creation of a club especially for the clients of the commerce, where the clients relish special prices, presents and offers to enterprises that work with and invitations for special events.

Emphasis to new customers with environmental worries

The enterprises that survive don't try to get the customers of other enterprises, but they replant and enrich their products. So the extension of "no customers extend the limits of their market.

Because the customers in periods of economic crisis and recession change their consuming habits, they are in the position to experiment with other products-packets that suit to the new profile of their habits. The successful enterprises adjust their products and their services to the new profile of the consumer in order to increase their sales.

In addition, they adopt a green, ecological and friendly environmental icon for the product as a level of production and as a level of use. In that way the cost drops off from saving financial resources/ incomes and the sales get increased because the consumers face the enterprises positively which prove indeed their ecological sensitivity, avoid buying products from enterprises that do not respect the environment.

Price fixing in periods of crisis

The general impressions that prevail are that enterprises in periods of crisis decrease their prices all the time in order to pull new customers. This method doesn't attribute, according to the traders' views that took place to the interviews. The consumers believe that it is expected and as a matter of fact when new products get in the shop windows they don't come to shop. They wait three or four circles of prices to drop, which means 70-80% sale of the first prices in order to shop. Which are the methods of price fixing that enterprises put into practice and seems that they achieve better results? The cluer of this investigation shows the according things:

- The enterprises try to get rid of from the price things that enhance the cost, and they don't offer a real benefit to the consumer. Into this category there are the general expenses and the costs of packing, that share out the cost of products and don't have to do with their real value. For example, they negotiated and succeeded the decrease of rent, they cut out costs that weren't necessary of the packing, whereas to the advertisements they replaced high campaigns with very cheap one and much more effective (Social Media SMS, etc).
- In products and services of high cost and big value added tax give the opportunity to the customer either having instalments of having a big discount if he pays in cash.
- Another method is the direct demanding proceeds of customers having discount. One method is to give to an enterprise a generous discount with a chronically limit but after that the discount will not exist anymore. This method gives to the customer a motivation to pay as soon as possible.

- A decrease of price to delicate social groups or a reduced price of products and services for all the consumers as a matter of help towards crisis.

Suppliers – “Stock Procurement”

Many of the enterprises try to reduce the cost of suppliers by putting new features of collaboration, such as the process of Stock Procurement. According to this process the suppliers send goods to the businesses without paying for that. If the goods get sold they will take their money. If not the goods will be turned back to them. In this way the businesses have always stores and renew their shop windows without the demanding to pay the suppliers. They improve their fluidity and decrease the short term of borrowing towards the suppliers.

Information from Stakeholders

A very important role in connection with the diversification of the SMEs attribution seems to play a major role the different face of the information handling. Some companies have as an inseparable part of their activity the gathering and the processing of the information seems to appear better prospects.

The study of the interviews showed that the businesses mentioned a bigger dependence of Stakeholders and the information that they were delivered in relation with the second team. The basic reason that is giving the meaning with the intense connection with Stakeholders is the fact that all these businesses belong to a specific “local” market. To the place of this market whatever has to do with the choice of a business (change to prices, alteration to quality, being hired or fired as employees), it’s spreading rapidly to Stakeholders with a positive or negative impact for the business depending on its choice. For example the information about the fire of employees creates a negative impact to the local people and does a real bad to the icon of the business. Additionally businesses of the local market when they meet competitive businesses because of the crisis, which are next to them and they close, they get worried because it will may come their turn. They don’t think that they will have a bigger part to the market because of the closing up of a competitive business. As they said to the interviews the fact that they participated to the local market makes then act as a team. A local businessman told us: “we may be competitors but we give courage to each other.”... “We change information about new products and services that will help us all to decrease the cost or to win something...”

Conclusions

In spite of the difficulties from economic crisis, entrepreneurs are willing to fight and overcome barriers. Different strategies have been suggested such as innovation in product planning, new pricing perception, different approach to suppliers alliances, information management etc. The data that came out from the interviews show that the strategic management of crisis create a new culture and perception for the SMEs, providing a wide variety of tools and conceptual frameworks to aid crisis anticipation

Policymakers who want to encourage and support entrepreneurial activity should address factors that constrain the survival and growth of small entrepreneurial firms in Greece and take into account the strategies proposed by the entrepreneurs

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