

Product Policy of Bulgarian Companies in Times of Economic Crisis

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Summary:

The aim of this article is to study the effects of the post-2008 economic crisis on the decisions of Bulgarian companies in the field of their product policies. A product is the most significant marketing tool and so the activities and measures related to it strongly affect the development and application of a company's marketing strategy. The greatest importance is put on the decisions regarding the product portfolio optimization, product mix management and the development of new products. The analysis is made on grounds of data from a national survey carried out in August and September 2011. The conclusions and summaries presented in the article are interesting for both researchers in the field of companies' marketing strategy and product policy and practice managers and specialists in charge of decision making with regard to product portfolio and product mix management.

Key words: economic crisis, marketing strategy, product policy, product portfolio, product innovations.

JEL Classification: M00; M310

1. Introduction

A key aspect of the post-2008 financial and economic crisis is its influence on consumers and the related impact on companies' marketing strategies. Studies show that companies' marketing activities usually undergo changes in periods of recession (Kotler and Caslione, 2009; Quelch and Jocz, 2009). For example, advertising budgets are often cut while direct marketing and online marketing budgets are increased. Moreover, companies direct greater attention to the points of purchase and price reductions. Therefore it is vital to identify how the economy and business cycle conditions affect a company's performance and which marketing activities are successful in times of economic crisis.

The Bulgarian and foreign books in economics do not contain many instructions as to how companies should react and adjust their marketing strategies in times of crisis. Empirical studies are also scant. Some authors believe that companies investing in marketing in times of recession enjoy significant advantages, although what one can observe is that companies either restrict or redirect their marketing expenses in periods of crisis (Gulati, Nohria and Wohlgezogen, 2010). Other researchers believe that business models applied

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during the industrial era are now outdated and cannot be applied in times of crisis. Strategies used in previous recessions are not applicable to and after the current crisis (Piercy, Cravens and Lane, 2010).

What decisions do Bulgarian companies use to respond to the crisis in the field of the product as the major component of the marketing mix? We assume that in times of economic crisis Bulgarian companies undertake measures to optimize their product portfolios by keeping in the product mix the most profitable items only, whereas the most common strategy is to get rid of any "weak" products having minor contribution to the company's revenue and involve high marketing costs related to their supply.

Studies in the area of products (Shama, 1981) reveal that in times of crisis consumers redirect their attention to product features like: cost-efficiency, reliability and functionality. Other surveys reveal that in times of crisis companies making proportionally more investments in research and development achieve better results than the rest (Morbey and Dugal, 1992). DeDee and Vorhies turn special attention to the fact that the increase in the new product development capacity as accompanied by a strict control of R&D expenses positively correlates with the change in the return on capital employed (DeDee and Vorhies, 1998). If sales increase is a long-term company objective, new product development costs should not be cut down in times of crisis (Mladenova, 2013).

2. Methodological framework of the study

The aim of the study of Bulgarian companies' market behavior in times of economic crisis is to clarify how decisions

making up the companies' product policy are affected by the economic crisis and to research the major approaches of their adjustment to the changed environment.

In general the study performed tries to answer the question whether and to what extent the economic crisis may be considered as an "obstacle" to the marketing activities performed by companies operating in Bulgaria or it could be regarded as an "incentive" for marketing innovations.

The research task is to identify what decisions are made regarding product management in times of crisis.

The operational hypothesis of this study is that in times of economic crisis companies undertake measures to optimize their product portfolios by:

- Excluding confirmed non-profitable products from product portfolios;
- Extending the range with products meeting the target consumers' changed requirements;
- Adding extra services;
- Supplying products whose delivery and installation costs are partly covered by customers.

To achieve the aim of the research using the **data collection method** standardized Internet and telephone questionnaires were applied to 300 marketing directors of Bulgarian companies. Statistical analysis (one-dimensional and two-dimensional distributions) is used to analyze primary data.

The main conclusions are based on analysis of results from a nationwide qualitative study carried out in August and September 2011. The time the study was made was, on the one hand, immediately after the peak period of the crisis, which ensures precision and justification of results, and, on the other hand, the time

Articles

that passed after the beginning of the crisis helps companies understand the conditions they operate in and make decisions for adjusting their marketing policies.

The target audience of research are marketing directors and/or employees acting as such in companies operating in Bulgaria. The sample consists of 300 units. The questionnaire used the sample approach due to the very advantages of this approach like promptness, considerably lower costs (as compared to the exhaustive approach) and great precision. The profile of the companies included in the sample may be presented as follows:

- In 60.5% of the total number of studied entities the number of people working under permanent employment contracts is between 51 and 250, in 22.6% - between 11 and 50 and in 16.9% - more than 250 employees.
- 22% of the companies covered by the sample manufacture products for consumer markets only, 26.3% - for business consumer markets only and 51.7% - for both end and organizational consumers.
- In terms of legal status the businesses studied are divided as follows: 65.2% - limited liability companies; 27.7% - joint stock companies; 1.4% - sole traders; and 5.7% – others.
- 56.7% operate only or mainly on the domestic market; 26.5% - both on the domestic and foreign markets; 16.8% - only or mainly on foreign markets.

3. Companies' product decisions contents

Marketing books, and in particular those dedicated to the product as a marketing mix element, feature sustainable understanding of a company's product policy nature

and contents. Product policy is defined as a combination of principles observed when making decisions regarding one of the marketing mix components, i.e. the product. The combination of principles guides the decision making process into a direction ensuring the marketing strategy implementation. Product policy helps narrow the range of alternative decisions regarding the company's marketing tool considered as the most important one. The main decisions related to the organization's product policy can be summarized as follows:

- What products should be manufactured and what should their characteristics be so that the selected target market requirements can be met;
- When and how the products should be launched on the market;
- How each product should be positioned on the market and, if necessary, repositioned;
- How should products be managed at the different stages of their life cycles;
- What should the width, length and consistency of the product mix be;
- What should the product packing, packaging and labeling be;
- Should products be sold as brand name products, and if positive, what should the brand type be;
- What range of product related extra services (elements of their third level) can be offered to customers;
- How the service facilities should be organized for any products subject to servicing.
- The exposition below shows and analyzes companies' product decisions in two major directions¹

¹ Changes in the brand and service policy as elements of the company's product policy are not subject to review in this article.

- Product range policy – a combination of decisions within the company's product policy framework related to the management of its product portfolio;
- Innovation policy – a combination of decisions within the company's product policy framework related to the development and launch of new products on the market.

4. Changes in companies' product mix in times of economic crisis

The study among marketing directors allows drawing certain conclusions regarding the changes in the product range policy of

companies operating in Bulgaria in times of world economic crisis. The main question answered is connected to the changes in the company's product assortment in times of economic crisis. The answers to this question are included in figure 1 (the total percentage exceeds 100 since respondents have given more than one answer).

The results shown in figure 1 are grounds for claiming that the companies covered by the study tend to have a passive approach to the use of product portfolio as a marketing tool. Evidence in support of this conclusion may be summarized in four separate groups.

Which price policy to the greatest extent reflects your company's behavior during the crisis? (in %)

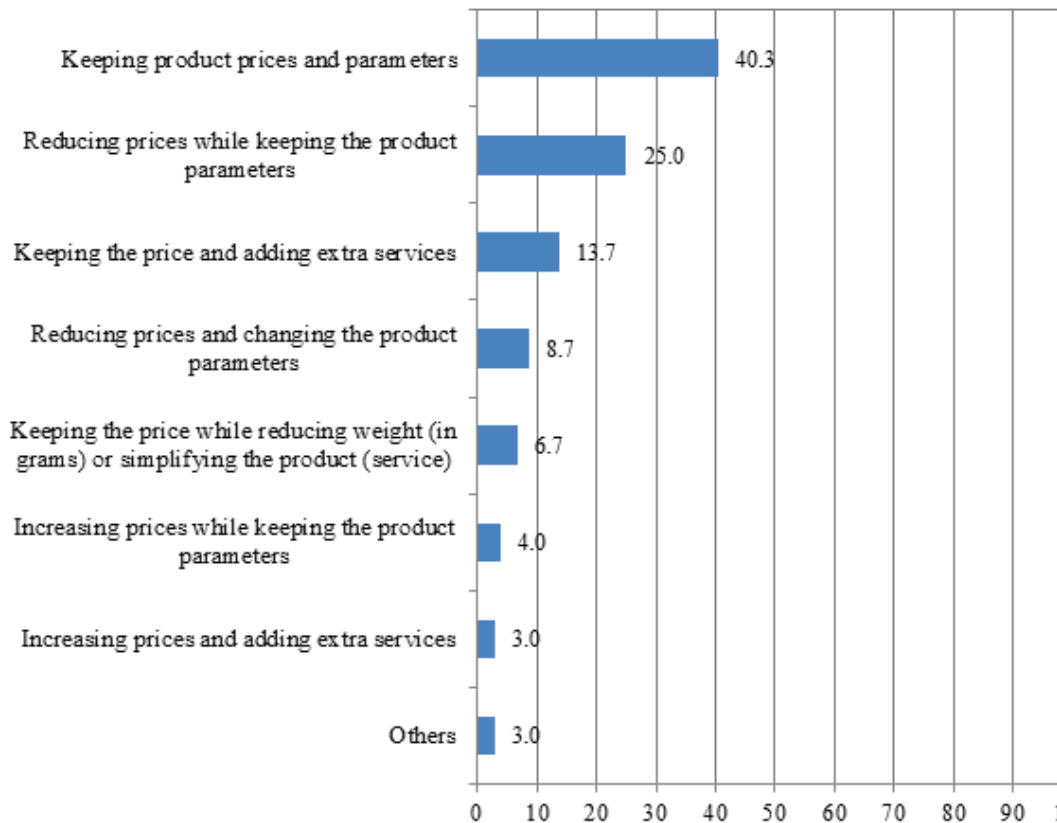


Fig. 1. Changes in product policy of companies in times of economic crisis

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The first group of arguments relate to the fact that in the most common case – in most companies (42.6%) - product assortment remained unchanged. This means that such companies neither added nor took out any products to and from their portfolios. One has to bear in mind that a company's product assortment and its time specific depth, width and consistency is the company's market proposal. It is the tool used by the company to meet its customers'

to the requirements of the environment since it has already been modified and matches the conditions of economic crisis. In our opinion this first option is not a reasonable one and does not correspond to what is happening in our country. Evidence of that is the data from the companies included in the study as represented in figure 2 and figure 3.

A well-adjusted and meeting the market requirements product portfolio would enable

In your personal opinion, how will the economic crisis generally affect Bulgarian business? (in %)

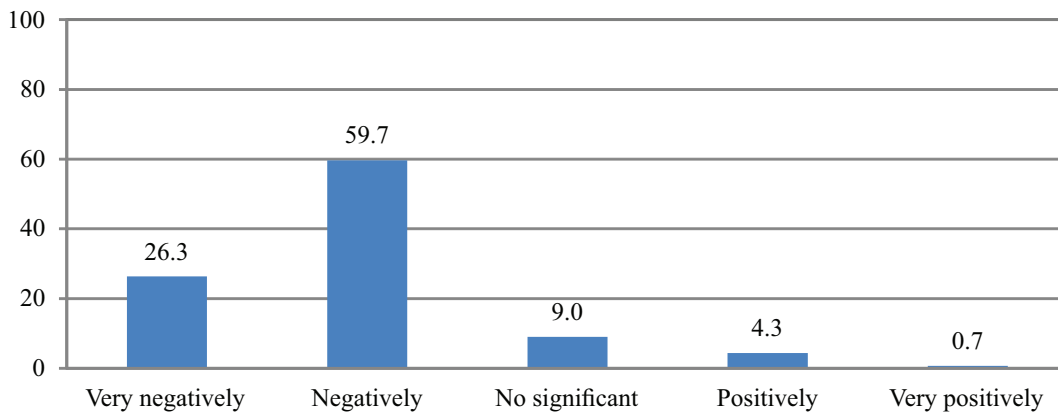


Fig. 2. The effect of economic crisis on Bulgarian business

requirements and preferences. Taken alone, the absence of changes to the product range in a significant number of the companies is not a sign of worry. The development (and also the absence of development) of the product portfolio, however, should be put into the context of the conditions and changes in the marketing environment during the same period. In terms of the product assortment compliance with the requirements of the environment, one can differentiate two situations:

- First, it can be assumed that the product portfolio does not have to be adjusted

companies to take advantage of the changes resulting from the economic crises. However, the data in figure 2 shows something else: the respondents estimate that in 86% of the cases the crisis had a negative or very negative effect on Bulgarian business, while in only 14% of the companies the crisis had no significant effect or its effect was positive or very positive.

Similarly to the aforesaid, when evaluating the impact of the crisis on their own businesses, in more than 70% of the cases the respondents state a negative or very negative effect, while in less than 30% the crisis had no significant effect or its effect was positive or very positive.

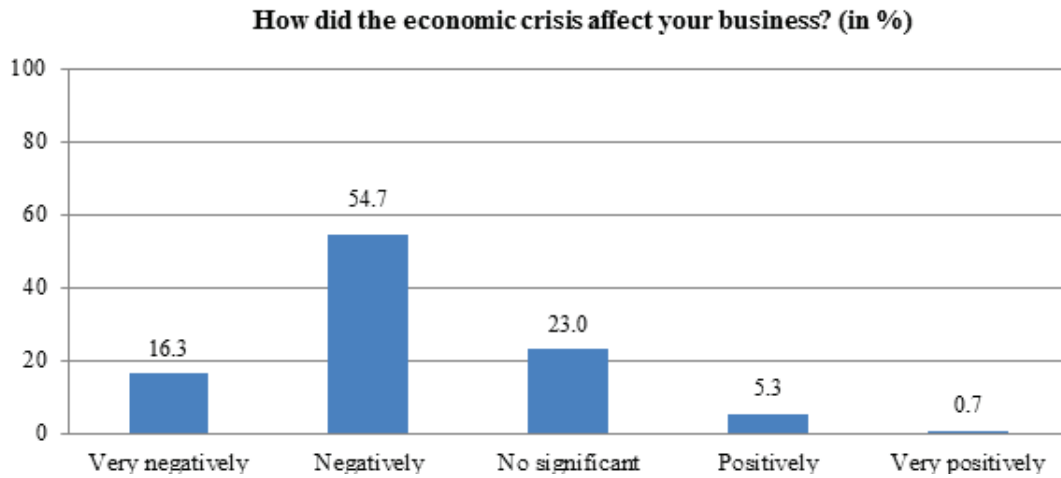


Fig. 3. The effect of economic crisis on Bulgarian business

- In the second situation a company's product mix needs to be adjusted to the changed requirements of the environment. However, this did not happen for one reason or another. In our opinion, this is the prevailing case with companies operating in Bulgaria in times of economic crisis. We ground this opinion of ours on the results from the study as shown in figure 4. In two out of three companies (68%) the revenue from sales has decreased. Some of the reasons for the reduction

of the companies' revenue can be found in the fact that in a significant number of companies the product portfolios have not been adjusted to the changes in the consumers' requirements and to the other elements of the environment in times of economic crisis.

The absence of changes in the product assortment, typical for more than 42% of the companies included in the study, can be further studied from the point of view of two of the company features: size, measured

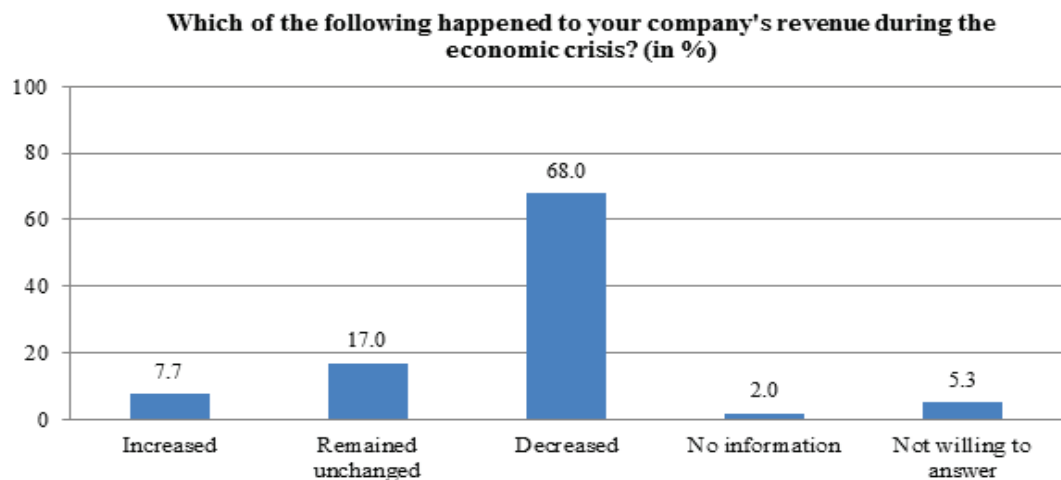


Fig. 4. The effect of economic crisis on the companies included in the study

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Table 1. Categorization of companies according to the effect of the economic crisis on their revenue and the number of employees working for them

Economic crisis effect on revenue	Number of employees working for the company			
	11 - 50	51 - 250	More than 250	Sample total
Revenue increased	8%	7%	10%	8%
Revenue remained unchanged	6%	19%	26%	17%
Revenue decreased	81%	68%	50%	68%

with the number of employees working for that company and the type of consumers the company targets.

The product mix remains unchanged to a different extent in both small and big companies. In companies having between 11 and 50 employees the percentage of companies whose product assortment remains unchanged is 33; in companies with 51 to 250 employees this percentage is 42, while in companies having more than 250 employees it is 56. So keeping their product mix unchanged is more typical of big rather than small companies. In other words, smaller companies are more flexible in their attempts to respond to the challenges set by the economic crises and the changes in the product mix are seen as one of the possibilities for such response. Another argument for that is the fact that generally smaller companies are more severely affected by the crises. As seen from table 1, in 81% of the small companies sales have dropped while in 6% they remained at the same level. With bigger companies (ones having more than 250 employees) the effect of the crisis is significantly smaller – sales have dropped in 50% of the cases and remained unchanged in 26% of them.

Keeping the product mix unchanged is typical to a different extent for companies

targeting end users, organizational consumers (companies and organizations) and both end and organizational consumers at the same time. 45% of the companies working with end users only, 56% of the ones working with organizational consumers only and 35% of those working with both types of users have kept their assortment unchanged. Such results cannot be treated as unexpected. Usually the closer a company is in a production chain to the end user, the more variable its assortment is as a response to the more frequently changing end user's preferences. And vice versa: servicing business and organizational consumers is subject to less frequent changes in the manufactured products types.

The second group of arguments related to the passive behavior regarding portfolios is to do with removing certain items from the portfolio. Figure 1 shows that 18.5% of the companies reveal that they have taken out from their product portfolios some less profitable items, while 7% of the respondents say they have excluded from their portfolios some of their more expensive products.

The analysis of the results from the study shows that there are differences between the companies of certain size and certain type of consumers regarding

the removal of items from their product assortments.

As far as the number of employees is concerned, less profitable items have been taken out of product portfolios in 6% of the companies having 11 - 50 employees, in 24% of the ones having 51 - 250 employees and in 18% of those that have more than 250 employees. If we consider the percentage of 18.5% for the entire sample, we can see that small companies much more rarely take out unprofitable products from their portfolios as compared to the medium sized ones. At first sight this finding contradicts the conclusion we have made above, i.e. that small

companies are more vulnerable in times of economic crisis, though more flexible in terms of their willingness to change some parameters of their product assortments. In our opinion any delayed removal of less profitable items from assortments does not actually contradict the conclusion of the greater flexibility of those companies, on the contrary – it is more likely in support of such conclusion. What we are saying is that in a number of cases small and economically unstable companies tend to operate at lower profit margins, which has allowed them to remain in the respective industry in short and medium terms.

Experts in which of the following areas are currently working for your company? (in %)

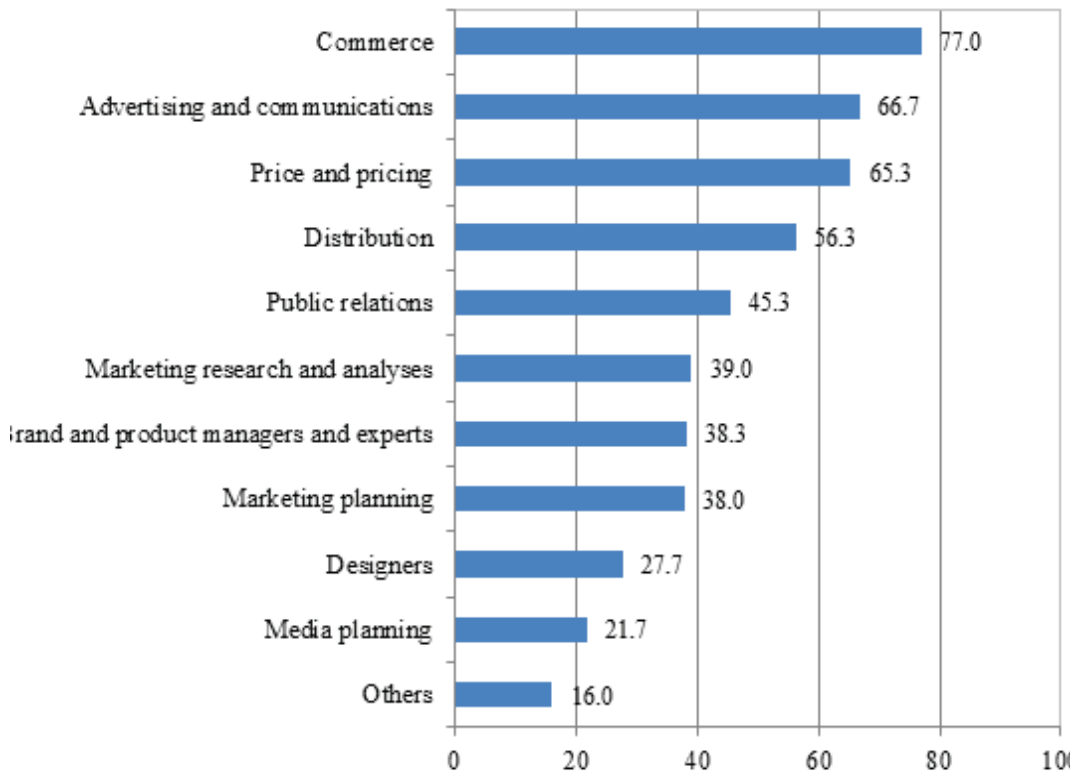


Fig. 5. Changes in the product management made in the companies by brand or product managers in times of economic crisis

We believe that these conclusions are also supported by the percentage categorization of companies according to the type of consumers they target: for those operating entirely with end users the percentage of respondents saying they have removed less profitable items from their product portfolios is 11, while for those operating with organizational consumers only this percentage is 14 and for those operating with both types of users the percentage amounts to 24. With 18.5% for the entire sample, one can draw the conclusions that companies targeting end users only are less willing to remove less profitable items from production and sales.

A total of 7% of the respondents state that they have also removed more expensive products from their portfolios. In particular this is the case with 6% of the entities having between 11 and 50 employees; 9% of the companies having 51 - 250 employees and 4% of those having more than 250 employees. Once again the most active in terms of removing items are the medium sized companies followed by the smallest and the biggest companies.

As far as the removal of more expensive products from portfolios is concerned, particularly active are companies selling exclusively to end users. 19% of them have done such removal while only 3% of the companies operating with organizational consumers and 5% of the ones operating with both types of consumers have resorted to such measure.

The third group of arguments regarding to the passive management of company product portfolios can be grounded on the results of the study related to the brand/product managers and experts. Those results are shown in figure 5 and table 2.

5. Changes in the product management made in the companies by brand or product managers in times of economic crisis

FieldBasis: Companies having experts in the relevant field (in %) In times of economic crisis the number of employees working in those fields decreased, remained the same or increased (in %)?

The analysis of the list ranking of experts from various areas working for the company shows that in marketing the prevailing types of experts are ones specialized in sales in communication (commerce; advertising and communications; distribution; PR; designers; media planning). Experts in managing individual brands, assortment groups and product categories are to be found in less than two out of five companies. According to figure 5, in 38.3% of the studied companies there are brand or product managers and experts employed. We believe this result is a sign of at least two phenomena in Bulgarian marketing environment.

The first one relates to the underdeveloped systems, procedures and practices regarding product management as a primary company marketing mix tool. The organizational forms of product mix management are the milestone for making all decisions forming the company's product policy: both the ones related to the company's assortment policy and those related to the policy in the area of trademarks, packages and markings; both the ones directed to the development of new products in the company and those related to the management of the product life cycle. The absence and the inadequate implementation of appropriate product mix management organizational forms may significantly impair the quality of decisions regarding a company's product policy.

Table 2. Changes in the number of experts working in marketing in times of crisis

Field	Basis: Companies having experts in the relevant field (in %)	In times of economic crisis the number of employees working in those fields decreased, remained the same or increased (in %)?			
		Decreased	Remained the same	Increased	Did not answer
PR	45,3	23,5	66,9	5,9	3,7
Advertising and communications	66,7	25,0	67,0	6,0	2,0
Distribution	56,3	21,9	60,9	13,0	4,1
Commerce	77,0	33,3	49,8	13,9	3,0
Brand/ product managers/ experts	38,3	15,7	68,7	8,7	7,0
Price and pricing	65,3	18,9	73,5	3,6	4,1
Marketing research and analyses	39,0	26,5	62,4	7,7	3,4
Media planning	21,7	9,2	81,5	6,2	3,1
Marketing planning	38,0	23,7	62,3	8,8	5,3
Designers	27,7	26,5	59,0	7,2	7,2
Others	16,0	37,5	37,5	16,7	8,3

The second phenomenon is related to the conceptual orientation of a significant number of Bulgarian companies, i.e. which marketing concepts are put into practice. The great numbers of sales and communication experts available as compared to the insufficient numbers of brand and product category management, marketing research and marketing planning experts give enough grounds for us to believe that generally speaking, i.e. for the majority of entities covered by the study, the marketing function contents are limited to using means of communication and sales ensuring the desired volume of sales. This means that almost two-thirds of the companies actually apply the sales philosophy, which is the opposite of the marketing concept used by modern companies in well developed economies to organize their marketing activities.

Table 2 follows the changes in the number of people working in marketing at times of economic crisis. Taking into account the findings showing a small share of companies employing brand and product managers and experts, the impression is that this category is one of the two areas reporting the smallest reduction in the number of specialists as a result of the economic crises. This means that in three out of four companies the number of product portfolio management experts either remains the same or increases. Only in 15% of all cases this number is reduced.

The fourth group of arguments related to the passive behavior regarding portfolios is connected with the product features remaining unchanged. As seen from the answers in figure 6, in 69.3% of all cases companies kept product features unchanged, though under different conditions of preserving, reducing or increasing its price.

Which price policy to the greatest extent reflects your company's behavior during the crisis? (in %)

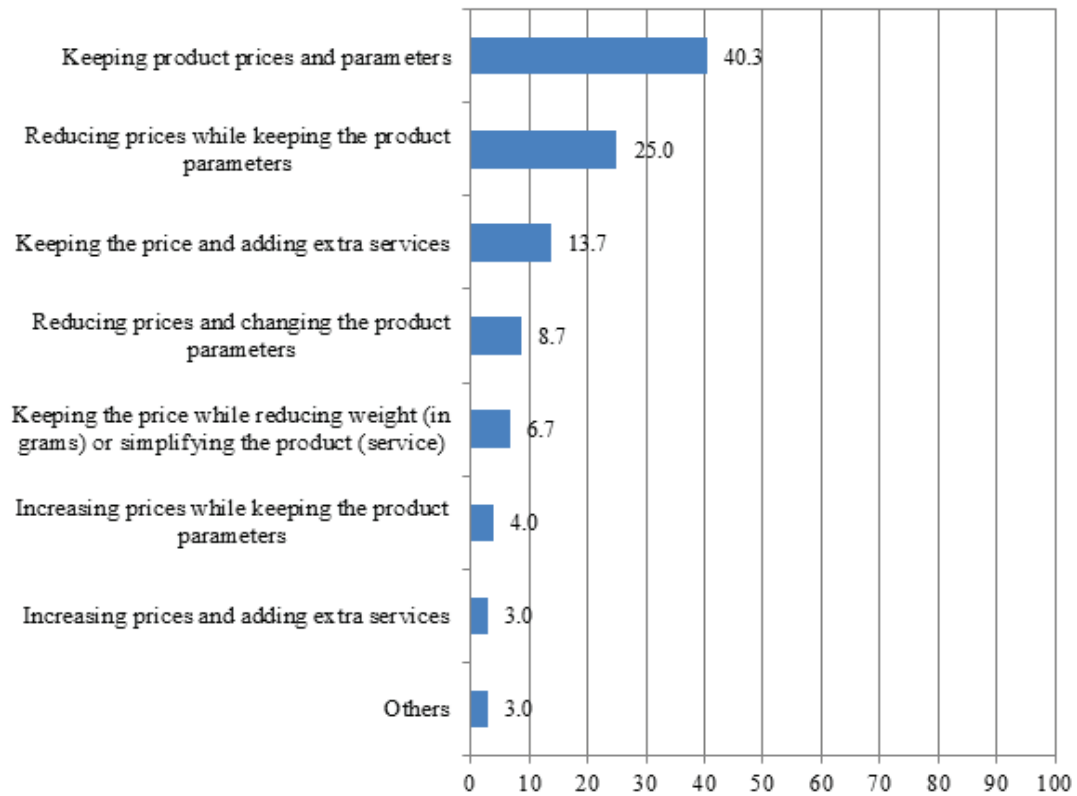


Fig. 6. Bulgarian companies' price policies in times of economic crisis

6. Changes in the company's product innovations in times of economic crisis

The need of product innovations relates to the company's attempts to respond to any changes in the marketing environment and so protect its current competitive position or set up a new one. Adverse changes in a company's environment usually strongly stimulate innovations, incl. ones related to the development of new products. The decrease in sales; the outdating of existing products and their discredit among consumers; overcoming cyclical demand;

making use of technological and market opportunities – all of these are driving forces in the product innovation processes.

At the same time product innovations not only can, but should be considered as a way of adjusting the company's proposals in response to the customers' changing requirements. The development of new products and the removal of any outdated items from the assortments enable the company's portfolio to meet market demands and the company to achieve its market goals.

The results from the study carried out give grounds for the assumption that the

Table 3. Categorization of companies that have developed "crisis products" according to the number of their employees

Number of company's employees	11 - 50	51 - 250	More than 250
Companies that have purposefully developed "crisis products" to respond to the changes in target group's requirements (in %)	17.9%	17.3%	18.0%

companies studied do not make full use of the opportunities offered by product innovations to adjust their supply to the market demand volume and structure. As seen from figure 1, only in 17.4% of the companies the changes in their product policies during crisis are connected to planned development of "crisis products" in response to the target group's changed needs.

What generally makes and impression is the small share of companies that have turned to planned development of new products in compliance with the requirements of the economic situation in the country. We consider this as a sign of underdeveloped marketing orientation of companies in the country. We assume that it is a matter of both misunderstanding of the importance and role of product innovations for the company's goals achievement and lack of skills to manage innovation processes so that they could result in launching successful new products on the market. We are aware of the risks related to the development of new products and of the complexity of managing a significant number of factors aimed at increasing the chances for success of any new products (Cooper, 2001).

The comparison between the average percentage for the entire sample (17.4%) and the average values for the variously sized companies regarding the development of crisis products shown in table 3, reveals that the biggest

companies (having more than 250 employees) are the most active, followed by the smallest entities (those having 11 - 50 employees). The values in table 3 for the different types of companies are too close to each other and yet medium sized companies are the least flexible as far as the development and market launch of crisis products are concerned. Regarding the biggest companies, the explanation can be found in the significant innovation resources (financial, human, technological, organizational, etc.), usually available in such entities. As far as the smallest companies are concerned, their involvement in the development of crisis products may be explained with their good knowledge of consumers' needs and preferences changed during the crisis and their abilities to offer appropriate products resulting from their extremely close relations with customers. Medium-sized companies' lower activity can be explained with their ability to attract and keep customers by using mainly a modification of marketing tools accompanying the product: price reduction, changes in the type, contents and regularity of communication, optimization of the operation of channels used to reach markets, improving sales management, etc.

Table 4 shows the percentages of respondents confirming they have developed new crisis products as differentiated

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Table 4. Categorization of companies that have developed "crisis products" according to the types of their consumers

Type of company's consumers	End consumers only	Organizational consumers only	End and organizational consumers
Companies that have purposefully developed "crisis products" to respond to the changes in target group's requirements (in %)	20.3%	17.7%	16.1%

according to the types of company customers. One can see that the companies targeting end consumers only (20.3%) have been the most actively involved in product innovation in order to meet their target group's changed requirements. This result comes to support the conclusion that the closer a company is in a production chain to the end consumer, the more active it is in adjusting its offers, including by means of developing appropriate crisis products, to the more frequently and rapidly changing end user's preferences. And vice versa: servicing both end consumers and organizational consumers involves lower activity (16.1%) in the field of planned development of crisis products.

Conclusions

The analysis of the changes in the product strategies of companies operating in Bulgaria in times of economic crisis reveals that the companies studied tend to be rather passive in using the product portfolio as a marketing tool. The arguments supporting this conclusion are mostly related to the prevailing absence of changes in the product assortment – no new products are added to and no unnecessary items are removed from the portfolios of the companies covered by the study. Besides, it was found that the removal of certain items from the

product portfolio is not exhaustive enough and it is focused on products that bring smaller profits and have higher prices. Also, our analysis shows the studied companies do not make full use of the opportunities offered by product innovations to adjust their assortments to the market demand volume and structure. In terms of the organizational aspects of the product portfolio management, our research found not only insufficient use of appropriate organizational forms of product management deteriorating the quality of decision making in the company's product policy, but also broad presence of sales and communication experts at the expense of deficiency of brand and product category management, marketing research and marketing planning specialists. The finding that the marketing function contents are limited to using means of communication and sales ensuring the desired volume of sales, we believe is an indication that a significant number of companies tend to apply the sales philosophy rather than the marketing concept.

In terms of its implications this study is a basis for a number of recommendations to the practice managers and specialists who are in charge of product management decisions. First, a regular analysis of the product assortment can provide for its

Articles

appropriateness to the company's goals and marketing strategy. Second, it is necessary to assess whether and to what extent company's product innovations reflect requirements and circumstances of the macro- and microenvironment and contribute to the achievement of the company's goals. Third, an analysis of the product mix can facilitate decisions for deletion of certain items that don't help the firm implement its strategy. Fourth, a regular check of the systems, procedures and practices regarding product management is required to ensure they function effectively. Fifth, top and middle management of the company should evaluate whether product management is adequately staffed with appropriate specialists.

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