

Marketing Strategies of Companies in Bulgaria in Times of Economic Crisis

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Summary:

The aim of the current article is to find out how the marketing strategies of companies in Bulgaria have been affected by the economic crisis and to study the basic approaches to their adaptation to the changed environment. To achieve this goal the study addresses the following questions:

What kind of changes occurs in general marketing strategy in periods of economic crisis?

What kind of changes occurs in marketing communications in periods of economic crisis?

What kind of changes occurs in product strategy in periods of economic crisis?

What kind of changes occurs in pricing strategy in periods of economic crisis?

The conclusions are based on a nationwide survey, conducted in August-September 2011, as well as on analysis of secondary data for the period 2008-2011.

The research, on which the present paper is based, attempts to answer the question: to what extent the economic crisis can be treated as a deterrent to the marketing activities of the companies operating in

Bulgaria, or it can be seen as an incentive to marketing innovation.

The findings provide valuable insights for marketing researchers and managers of Bulgarian companies in times of economic crisis.

This paper proceeds with a statement of research importance and research questions, followed by methodology, findings and conclusions.

Keywords: marketing strategy, marketing planning, marketing budget, economic crisis, Bulgaria.

JEL: M00; M310

1. Introduction

WThe global economic crisis has become a kind of a catalyst for the marketing problems, which have deepened recently, and has yet further complicated the work of marketing managers. The abrupt transition from a period of rapid sales growth and relatively high profits to a period of reducing demand and consumption on the relative markets is undoubtedly a trial both for the small and large companies worldwide, and in Bulgaria in particular.

Previous studies show that the economic crisis affects the companies differently

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- some of them manage to maintain the level and nature of their marketing activities. Others (especially those with serious liquidity problems) limit their marketing activities or radically change their marketing strategies, submitting their decisions to the struggle to survive. Often this is accompanied by the closing down or dropping the production capacity because of the limited consumer demand, combined with intensive competition on the marketplace. What is observed in most sectors is a rise in the prices of materials, commodities, components, etc. which entails increased selling prices of the finished product. Investment projects fail or are delayed, companies are forced to lay off some of their employees or to cut wages. All this has a negative effect on the company's financial results and on their competitiveness and overall market position.

It is known that economic crisis affects consumers and their consumption not only economically but psychologically as well - in a crisis employment and income security fall, i.e. consumer confidence falls, efforts to maintain lifestyles increase, the pleasure of consumption decreases. Individuals and households often change their buying habits and behaviour, adapting them to the radically changed economic conditions of the environment.

Companies respond to these market challenges by taking various measures, concerning the major aspects and areas of their business: they cut their costs and volumes of production, reduce investments, make greater use of equity capital,

restructure their liabilities, search for new markets for their products, including foreign ones, etc.

An economic crisis requires some changes to be made in the general marketing strategy and re-consideration the marketing mix elements as well. The lessons of recent years show that a very small number of companies manage to intensify and update their marketing in a crisis, driven by the desire to achieve advantages in a situation of weakened competitors.

The purpose of this article is to present the most important conclusions about the ways in which the companies in Bulgaria adjust their marketing strategies to the conditions that have changed as a result of the current economic crisis. To meet the goal the current study addresses the following research questions:

RQ1. What kind of changes occur in general marketing strategy in periods of economic crisis?

RQ2. What kind of changes occur in marketing communications in periods of economic crisis?

RQ3. What kind of changes occur in product strategy in periods of economic crisis?

RQ4. What kind of changes occur in pricing strategy in periods of economic crisis?

2. Research methodology: research method, sample size and sample profile

The conclusions are based on an on-line nationwide survey, conducted in August-September 2011. The target population of the study are marketing directors or staff

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performing this function in companies, operating in Bulgaria. The sample size is 300 units.

The profile of the surveyed companies can be represented as follows (Table 1):

- In 60.5% of the population the number of employees is between 51 and 250, in 22.6% - between 11 and 50, in 16.9% - more than 250.
- 22% of the companies in the sample manufacture products only for consumer markets, 26.3% - only for the markets of business users, 51.7% - both for consumer and business markets.
- According to its legal status the population falls into: 65.2% - limited liability companies, 27.7% - public companies, 1.4% - sole traders, 5.7 - others.
- 56.7% operate entirely or mainly on the domestic market, 26.5% - both on the domestic and foreign markets; 16.8% - mainly or entirely on foreign markets.

Table 1. The profiles of responding companies

	Per cent	T (per cent)
Size (number of employees)		
11 – 50	22.6	22.6
51 – 250	60.5	83.1
More than 250	16.9	100.0
Type of company's market		
B2C only	22.0	22.0
B2B only	26.3	48.3
B2C and B2B	51.7	100.0
Structure of equity		
Sole traders	1.4	1.4
Limited liability	65.2	66.6
Public	27.7	94.3
Others	5.7	100.0
Activity area		
National only	36.6	36.6
International only	1.7	38.3
National and international	61.7	100.0

The data collection method is the structured personal interview. The aims of the study determine the content and structure of the questionnaire. It consists of four parts:

- I. Organization of the marketing activities;
- II. Impact of the economic crisis on marketing activities;
- III. Marketing policy and strategy of companies during an economic crisis;
4. Profile of the studied population.

The study attempts to answer questions, related to the change both in the general marketing strategies of companies and in their functional strategies for the marketing mix elements.

3. Adapting the general marketing strategy in times of economic crisis

As a result of the economic crisis, companies change some major aspects of their marketing management and reconsider their marketing budgets.

It is not surprising that the impact of the economic crisis on business is assessed as unfavourable by respondents. 71% of them state that the crisis has had a negative or quite negative effect on their business, 23% report no particular effect, while 6% believe it has had a positive effect on their development.

Marketing organization and planning

The research results show that 60% of the companies have their marketing departments. The average number of employees in them is 4.5 people: in most of the companies, in the marketing departments work up to 4 people; in 33.3% - between 5 and 9 people; in 4.4% - 10 or more.

¹ Research project 1-18- 2011 "Marketing Strategies of the companies, operating in Bulgaria in an economic crisis"

Since the beginning of the economic crisis to September 2011, 34.5% of the companies started laying off staff from the marketing departments; this being very typical of the ones with a total number of staff of up to 250 people. In 59% of the companies the number of marketing staff has remained at the same level. Only 8.8% have increased their marketing staff. Internal restructuring of marketing departments is also observed in the practice of companies, resulting in the shift of part of the marketing staff to staff, performing trading and distribution functions.

It is worth pointing out that 22.3% of the companies have started drawing up marketing plans due to recent sales problems (12.5% of these companies have a total staff of 11 to 50, 51.5% - of 15 to 250, 16.7% - of over 250 employees). Systematic marketing planning is practiced only in 35.1% of the population and in 14.2% of the companies no marketing plans are drawn up.

Marketing budgets

It is quite striking that for the question "Approximately what percentage of the

revenues of the company is set aside for marketing activities?" the share of respondents who are unwilling to answer (18.9%) and those who cannot decide (40.7%) is too high. Of the respondents who answered this question, in 63.9% of the companies, up to 5% of revenues are planned, in the marketing budget in 31.1% - between 5 and 10%, in 4.9% - over 10% of revenues. Those who set aside the highest percentage of sales for marketing operate wholly or mainly in the domestic market, catering both for the markets of end users and of business users.

The current economic crisis significantly affects sales revenues (Fig. 1.). In 68% of the companies they have fallen, in 17% they have remained at their pre-crisis level, in 7.7% sales have risen. This once again shows that the absolute value of marketing budgets in most companies falls even when observing the principle of drawing up the marketing budget as a percentage of sales. In almost half of the companies (47.7%) the marketing budget has fallen, while only 7.7% state that they have increased their marketing budget (Fig. 2.)

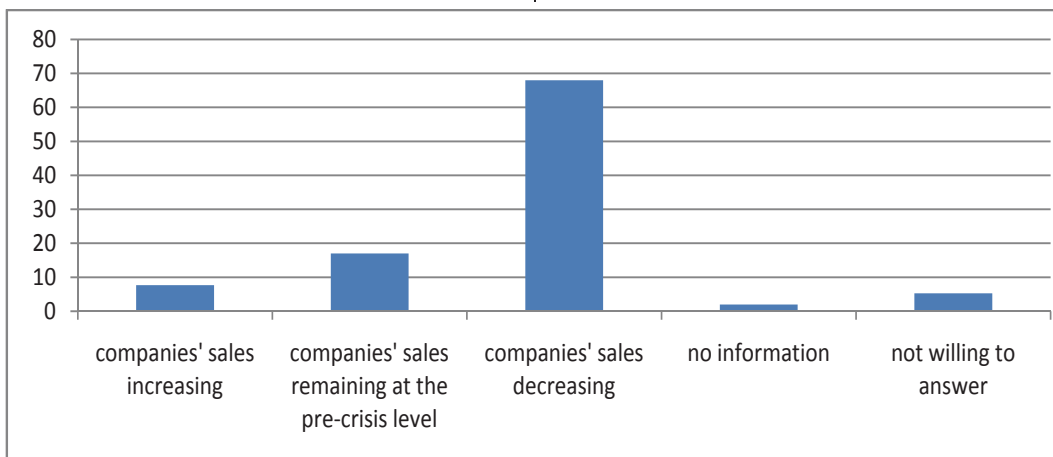


Fig 1. The impact of economic crisis on sales revenues (% of respondents)

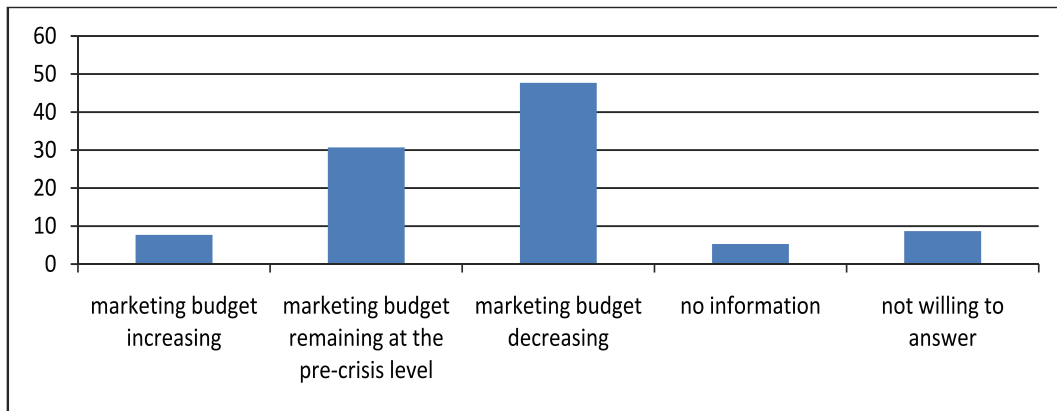


Fig 2: The impact of economic crisis on marketing budgets (% of respondents)

The cut in marketing activity costs within the companies that state a similar change is as follows: 21.7% of the respondents point out that the marketing budget has been cut by over 20%; 11.9% of them - between 10 and 20%; 18.2% - between 5 and 10%.

Among the companies that have increased their marketing activity costs dominate the ones in which the increase is up to 5%.

The decisions to reduce the marketing budget during a crisis are predictable, but they fail to take into consideration several factors:

- Firstly, the effect of inertia is not taken into consideration. Previous research has shown that, without marketing support, sales may remain at the same level (not for a long period of time) as a result of the habit of current customers. However the opposite is also true – when coming out of the crisis it is hard and it also takes long for the reduced sales to recover and it requires significantly more resources to do so. This conclusion is confirmed by research (Roberts, 2003, p. 33) based on PIMS data: the profits

of companies which in a crisis maintain the levels of their marketing budgets or increase them, go up much faster after coming out of the crisis than those of the companies that have reduced their marketing budgets. The profitability of those with the cut budgets continues to fall even after the crisis. Furthermore, the companies that increase their marketing budgets earn market share three times faster than those that have cut their budgets. Therefore, in times of crisis consensus should be reached between the short-term task to survive in tough times, on the one hand, and ensuring the profits and profitability of the business in the future, on the other. This could be achieved through long-term planning of the marketing budget and efforts to maintain its level in the short term.

- Secondly, it is not taken into consideration that in a crisis the market shrinks not only as a result of the worsened economic environment and the decline in consumer confidence, but also due to the weaker marketing pressure exerted on it. In

other words, the adverse effect of the economic factor on incomes, purchases and consumption not only is not offset by increased marketing activity of companies but, on the contrary, by reducing the intensity of their marketing activities companies enhance this adverse effect.

- Thirdly, the fact that the crisis creates opportunities as well is not recognized: the media time and space, which are offered, are much cheaper; the "shrinking" of the budgets of competitors and their rarer media presence makes it possible for a brand to stand out from the rest and become more familiar to consumers.

Market focusing

The economic crisis highlights the need to focus marketing strategies on the current customers of the companies and to create incentives for crossing sales and growing sales. This does not mean putting an end to the efforts to attract new customers, but even in more favorable times such actions are accompanied by significant

costs. The unfavorable market environment urges some of the companies to leave the markets on which they are not major players, focusing on the ones on which they have a strong position. It is not uncommon for the companies to explore the opportunities to enter lucrative foreign markets, especially if they are hit hard by the "domestic" crisis. It should be noted, however, that such a strategy for market expansion cannot be implemented immediately and rapidly, i.e. it requires serious preparation and marketing skills and experience.

The answers to the question "What is the primary concern of your company in an economic crisis?" can be grouped as follows (Fig. 3.):

- 13.1% - retaining the existing customers of the company;
- 11.7% - attracting new customers;
- 75.2% - both attracting new customers and retaining existing ones.

In other words, we could assume that marketing strategies and programmes in the majority of companies are mapped



Fig 3. Clients focusing (% of respondents)

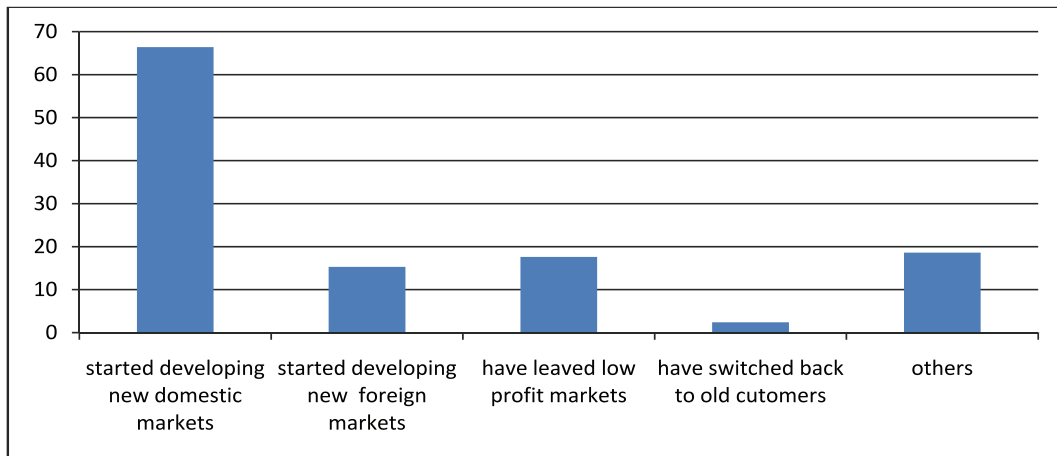


Fig 4. Market focusing

out in both directions: strategies for attracting new customers and strategies for maintaining the loyalty of current customers and generating higher revenues and profits from them. Analysis of case studies gives us reasons to conclude that companies do not differentiate their efforts, i.e. they use the same programmes and tools in both directions, which weakens the results and effectiveness of marketing strategies as a whole.

The specific actions taken by the studied companies in this direction in the crisis are: 66.4% have started tapping new domestic markets, 15.3% have sought foreign markets for their products, 17.6% have given up certain not very profitable markets and customers; 2.4% have switched back to old customers/markets or ones, neglected during the period of growth (Fig. 4).

4. Adapting marketing ommunications in times of economic crisis

During a crisis, the marketing communications and media behaviour of Bulgarian companies are restructured. In line with the general reduction in marketing

budgets, Bulgarian companies reduce their media costs, but, in contrast, they maintain and increase their investment in specific marketing tools, relying on direct contact with customers - promotions, free samples, direct marketing, Internet campaigns. The preference for these forms of communication can be explained by the fact that with them the customer earns value instantly - it seems that in a crisis this is more acceptable than measures such as extension of warranty periods or improvement of the terms and conditions of consumer financing, for instance. For individual companies the direct forms of communication are also beneficial - the control over spending is stronger, and the result and return – easier to measure.

Studying the effect of reducing advertising budgets in a crisis Kim (1992, p.15), Werner (1991, p.29), DeDee and Vorhie (1998, p.5) conclude that those who raise or maintain the level of their advertising activity achieve higher sales volumes, revenues, return on capital and market share during the economic crisis and after it, as compared with those who respond to the crisis by

reducing sales staff and advertising costs. In terms of content, advertising messages should also take into account the changed consumer behaviour - rational reasons (security, durability, reliability) come to the fore rather than highlighting image and status.

According to Piero-97² advertising agency in 2011 the TV advertising market in Bulgaria increased in gross terms by 8.4%, but in net terms a drop of 4.7% is reported. The radio advertising net budgets have dropped by 7.2%, with outdoor advertising the drop is even sharper - 21%. The only media that has registered growth is the Internet – the increase in gross volumes is of 16% and of net volumes – of 11%.

The analysis of the findings of the survey shows that in comparison with the pre-crisis period costs have risen for marketing activities in social networks (in 47.1% of the

companies), projects for corporate social responsibility (30.0%), promotions (28.8%), Internet advertising (16.1%). At the same time companies have reduced or stopped their marketing investments in the print media advertising (in 49.2% and 5.6% of the companies respectively), in organizing events (38.9% and 5.6%), in making advertising materials (35.5% and 2.2%), in TV commercials (34.5% and 25.3%), radio commercials (33.7% and 14.4%).

The assumption of the growing role of promotions as a major communication tool during a crisis is confirmed by the findings of the survey. The share of the companies that have turned to a more active use of promotions (22.8%) and those which rely on this tool to the same extent as before the crisis (41.6%) significantly exceeds the share of the ones that have reduced their

Table 2. Marketing activities in comparison with the pre-crisis period

Marketing activities	Companies that have carried out such activities regardless of the time (%)	Marketing activities that have changed in comparison with the pre-crisis period				
		Have increased	Have remained at the same level	Have reduced	Have been stopped	No answer
TV advertising	29,0	11,5	28,7	34,5	25,3	0,0
Radio advertising	34,7	7,7	44,2	33,7	14,4	0,0
Print media advertising	63,0	6,3	38,6	49,2	5,9	0,0
Internet advertising	60,0	16,2	62,2	18,3	3,3	0,0
Out-of-Door advertising	56,0	7,1	56,5	30,4	6,0	0,0
Corporative site	65,0	11,3	72,8	13,3	2,6	0,0
Social networks	17,0	47,1	37,3	7,8	3,9	3,9
PR	29,7	15,7	53,9	28,1	0,0	2,3
Corporative social responsibility	10,0	30,0	36,7	13,3	13,3	6,7
Direct marketing	33,7	7,9	61,4	24,8	2,0	3,9
POS materials and advertising	76,0	6,1	55,3	35,5	2,2	0,9
Event management	48,0	11,8	43,7	38,9	5,6	0,0
Promotions	41,7	28,8	41,6	28,0	0,0	1,6
Marketing research	40,7	14,8	43,4	31,1	9,1	1,6
Marketing consulting	24,7	10,8	43,2	27,0	13,6	5,4

² www.investitor.bg

³ Based on the companies, having carried out the respective marketing activities, regardless of the time.

promotional activities in comparison with the pre-crisis period (28.0%). Promotions and PR are the only marketing activities for which no company has stated that they have been cancelled as a result of the crisis.

In a crisis many companies turn to the greater use of personal selling as a communication and distribution element of the marketing strategy (26.6% of the population and 39% of those who use personal selling in their practice). This focuses the attention on improving the training and the sales skills of sales staff. On the other hand, the greater use of personal selling is the key factor for winning consumer confidence and for building and maintaining relationships with them.

5. Adapting product strategies in times of economic crisis

In an economic crisis Bulgarian companies take steps to optimize their product portfolio. As a rule only profitable items are retained. The most common (and predictable)

strategy in terms of the product portfolio is the strategy of getting rid of "weak" products which have a small contribution to company revenues and the supply of which requires large marketing budgets (Kotler and Caslione, 2009).

Research in this area (Shama, 1981) has shown that during a crisis consumers turn their attention to product characteristics such as: efficiency, reliability and functionality. Other studies have shown that in a crisis companies that make proportionately more investment in research and development, achieve better results than others (Morbey and Dugal, 1992). DeDee and Vorhies (1998) pay special attention to the fact that increasing the capacity for developing new products, combined with strong control over the research and development costs positively correlates with the change in the return on core capital. If sales increase is a long-term corporate goal, then during a crisis the costs of developing new products should not be cut.

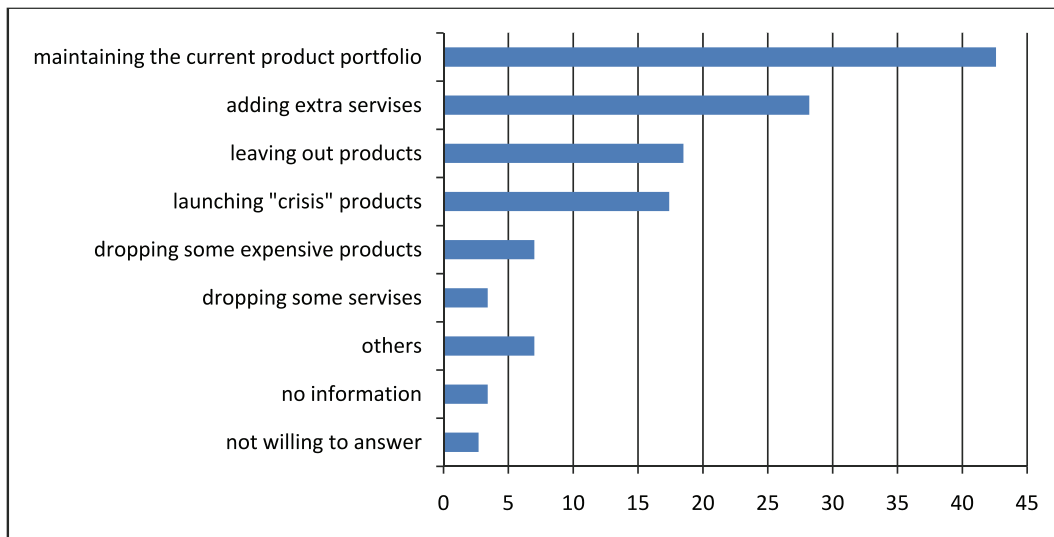


Fig 5. Product decisions in times of economic crisis

Our study shows that in 42.6% of the companies the product range remains unchanged in a crisis. In the remaining 57.4% of the population to achieve successful management of the product range in a crisis the following decisions have been taken (Fig. 5.):

- Leaving out products with proved unprofitability - 18.5% of the population have taken this step as a way of "dealing with the crisis." In addition, 7% of the companies have excluded from their portfolio some of the more expensive products, the demand for which shrinks in a crisis.
- Extending product lines by means of new products which satisfy the already changed needs of target consumers (since for many consumers price becomes a major purchase determining factor in a crisis, the range is extended by offering products from the economy class). A purposeful developing and launching of "crisis" products to respond to the changed needs has been undertaken by 17.4% of the companies.

- Adding extra services that enhance the attractiveness of products and make them more competitive - 28.2% of the population have taken this action.
- Offering products, part of the costs of delivery and installation of which is transferred to the customer. Only in 3.4% of the cases it has been decided to drop some extra services that accompany the main product, thus enabling the company to reduce the selling price.

6. Adapting pricing strategies in times of economic crisis

During a crisis, the pricing strategies of companies adapt to the reduced solvency of customers and pricing becomes more flexible, while price comes to the forefront and is used as an active incentive of market demand. The economic crisis pushes on to reduce prices, which allows a short-term sales increase. It should be borne in mind, however, that such a decision could lead to serious problems related to the reduction of



Fig 6. Price decisions in times of economic crisis

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long-term profitability. Also, we cannot ignore the fact that the reduction of pricelist prices can harm the image of specific brands and cause negative attitudes among buyers when switching back to previous price levels after the crisis. In this case Ang (2001, p. 113) recommends two strategies: maintaining the price levels of the products of the best quality (1) and offering products of similar quality to that of competitors at lower prices.

The findings of the research of pricing strategies and behavior show that (Fig. 6.):

- 40.3% of the companies have kept the prices and attributes of their products unchanged;
- 25.0% have decided to reduce the prices while keeping the attributes of the products;
- 13.7% have included additional services while keeping the prices unchanged;
- 8.7% have reduced the prices, which was accompanied by a change in the product attributes (substituting certain elements with cheaper ones, etc.)
- 6.7% have kept the prices but have reduced the amount (weight) or have simplified the products;
- 3.0% have raised the prices while keeping the attributes of the products;
- 2.6% have raised the prices while including additional services, expanding the product.

7. Conclusions

In conclusion it should be noted that the companies, operating in Bulgaria, are forced to adapt their marketing strategies considering the changed external and internal environment as a result of the economic crisis. Despite some exceptions, as a whole, marketing strategies are adjusted, driven by the short-term objective to survive, i.e. the passive approach of market behavior is chosen rather than the proactive

approach, which seeks and provokes market opportunities in "hostile" markets.

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