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Development of a methodology of forming anti-crisis management strategy for a wholesale trade organization

This study includes development of a methodology of forming anti-crisis management strategy directly for a wholesale trade organization. The solution of this problem is urgent today as Russian and world literature reflects experience of anti-crisis management only in the industry. The study formulates and systemizes factors that give impetus to development of an organization in the crisis and which are the basis of the proposed methodology. Risks associated with realization of the anti-crisis management methodology are also taken into consideration. The study conclusions are made.

Anti-crisis management, crisis, strategy, anti-crisis strategies, strategies of wholesale trade organization management, methodology of forming anti-crisis strategy.



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Any social and economic system in the normal course of business is faced to a crisis situation, but, in practice, it does not always find a way out of it. Organizations must take proactive actions aimed at forming measures to resolve the crisis. At present, majority of companies are trying to smooth out the consequences of the recent international financial and economic crisis that has caused irreparable damage to the state economy in many European countries, including Russia and each organization separately.

Here are some statistics from Rosstat characterizing the financial and economic situation in European countries, the Russian business sector and trade organizations in Russia.

As a result of the strong impact of financial crisis on the global economy there was a decrease of turnover volume index of retail trade in 2009 compared with 2008 by 12.6%, in Hungary by 8%. In Germany and Canada, the index fell by 2.02% and 1.46% respectively.

Also during the crisis there was an increase in consumer prices. A maximal growth in 2009 compared with 2008 was observed in Belarus at the level of 66%, Ukraine – 36%, Russia – 32%. A number of countries with the help of state financial injections into big business were able to stabilize inflation and restrain negative trend of increase in consumer prices. As a result, the index remained unchanged in 2009 compared with 2008 in Sweden, France,

Finland, China, Moldova and Canada and was 115%, 117%, 115%, 120%, 231% and 120% respectively. And only in Japan, thanks to effective government anti-crisis measures, solid gold and currency reserves, a stable economic environment, governments have reduced the CPI by 1.5% in 2009 in comparison with 2008.

The company Nielsen, the global leader in consumer behavior research, conducted a survey which found that 40% of Russian women during the crisis reduced the purchase of clothing and 7% put off the purchase to better times. According to the President of European Council of the Fashion cloths and Textile Export Reinhard Depfera Russian retailers have reduced the amount of the order at the European clothing manufacturers by 35% in 2009 compared with 2008.

Labor Agency data revealed a significant increase in unemployment in 2009 compared with 2008. The number of unemployed in Russia amounted to 25.0 million and 16.8 million respectively.

In the crisis conditions of the functioning of organizations, experts in the anti-crisis management are beginning to talk about mergers and acquisitions strategy as an effective measure to overcome the crisis. In the financial and economic crisis of 2008 to 2009 according to Rosstat turnover of small businesses decreased by 9.9% and amounted to 16873.1 billion rubles in 2009.

Foreign capital began to walk away from Russia. Investors who were planning to invest funds into Russian organizations have suspended projects. As a result, the number of companies with foreign capital, engaged in trade, fell in 2009 by 6.79% and amounted to 6164 companies. Turnover fell by 11.59% and amounted to 7730.5 billion rubles. Despite the fact that many organizations do not have weathered the crisis and were forced to close, the remaining players in the market increased the staff, with an emphasis on sales and marketing.

Thus, the Russian trading companies have increased medium-payroll number of employees at 8.57%. Thus, at the end of 2009 in the trade 444.7 thousand people were employed. While in Russia in general the level of unemployment in 2009 increased by 4.48% compared with 2008.

The main instrument of cost creation in the crisis is mergers and absorption, as well as alliances. On the one hand, these actions reduce assets cost, and on the other – stimulate joint efforts to overcome the crisis. Thus, the effective use of this tool during the current crisis, allowed the American health care provider LHC Group to achieve doubling of the cost for seven months of the crisis. The company provides medical services at home, also work in hospitals. By focusing on the outsourcing of services, LHC Group for six months (June to November 2008) was able to open seven joint ventures involving hospitals as partners. In such a way, it provided a stream of orders (i.e. avoided the risk of demand reduction). In addition, steady cash flow allowed to expand the scale of operations – two agencies for home care and a Healthcare company with a presence in 15 states were acquired. Even in the midst of crisis, the company owing to a successful strategy could find funds to finance rapid growth [4].

The company Alaska Milk, despite the market downturn during the Asian crisis, by 2000 was able to increase its cost half as much compared to the pre-crisis period (1997). This was done by acquiring other manufacturers with strong brand and distribution companies (to improve the representation of their products). Having expanded the distribution network, the company partnered with the firm Nabisco and Kellogg's, taking on the distribution of its goods. Thus, Alaska Milk has protected itself against the risks associated with the unique product in the portfolio.

Hana Electronics Company conducted a series of acquisitions that strengthened its competitive position: up to the crisis – the

absorption to upgrade its products and expand its customer base, during the crisis - the absorption of the manufacturer of metal components for the semiconductors and after the crisis - the adjacent high technology business, which uses semiconductors in the manufacturing process. These acts committed from 1997 to 1999, led to an increase in profits (from 19% to 22.5%) and business cost (double) [4].

In domestic and foreign practice of crisis management of organizations of wholesale trade and services must use methods of overcoming crisis, developed for industrial enterprises.

The goal of development of a methodology of forming a crisis management strategy is to develop measures for the early diagnosis of the crisis or its overcoming with losses as small as possible.

The method of forming anti-crisis management strategy by Wholesale Trade Organization is based on the relationship of four models, reflecting all the business processes and integrating long-range planning activities. Each model consists of the following structural elements:

1. A detailed description of the research object.
2. The list of issues that each specific model reflects.
3. Setting of goals, objectives and issues for which the model is constructed.
4. Description of the mathematical system used in the study in development of the model.
5. Ways to interpret the study results, regulatory system of indicators, the possibility of deviations of parameters from the normative values.

In our study we give an explanation for each of above-listed structural elements.

The object of study can be:

1. A specific organization of any legal form. The main declared activity is wholesale. Small, medium and large organizations can be considered. All investigated companies have one

characteristic feature - the presence of certain information constraints associated with availability of information about the organization (especially in the financial statements).

2. A set of trade organizations operating in the territory of a definite region.

3. A set of trade organizations of a single business sector. For example, the food and non-food sectors, engineering services sector, the sector of goods for office, etc.

4. A set of trade organizations, consisting of a parent company and its controlled subsidiaries (holding).

The developed methodology of forming anti-crisis management strategy should take into consideration the following parts of object operation:

- the process of functioning of an organization as a trading system;
- the process of organization development at the time of a new project.

Organization as a trading system consists of many components and business processes. Their relationship and influence on each other is reasonable to consider in the course of describing the process of formation and realization of the potential development of specific business areas.

The process of organization development occurs as a result of interaction with elements of the company and realization of new projects.

The process of trade organizations in the crisis can be divided into three successive stages:

1. Accumulation of resources.
2. Rational allocation of resources for the initial momentum of development.
3. Support of the development of an organization.

Accumulation of resources takes place at all levels of the trade organization. The anti-crisis strategy requires material, financial, information, human and other resources. The company can use own resources or bring them by, for example, using services of consulting or credit institutions.

Rational distribution of resources creates momentum for the start of development. Another starting point for business development can serve mergers and acquisitions.

To support the development of wholesale organizations in crisis it is necessary to constantly monitor the internal and external environment, to evaluate financial performance and competitive advantages of organizations.

The main objective of developing methods of forming a crisis management strategy is to identify promising areas of trade organization development, which are formed at two levels:

1. Development of alternative projects of business development and definition of their priority. The main task at this level is reduced to the analysis of new projects, using quantitative indicators.

2. This level is the starting point for the first one. At this point the direction of business development is chosen in which future new projects will appear.

Moreover, for each level its own set of quantitative and qualitative indicators is determined to be agreed with each other.

In the framework of the study it is necessary to consider systemic description of the control object. The actual management object is selected and presented as a relational system.

There is a difference between actual and nominal control object, which lies in the fact that in describing the first it is necessary to consider nominal object itself, as well as factors of micro- and macro-environment, which have a definite impact on the organization.

Given the microenvironment, we represent the nominal object consisting of several subsystems that are independent of each other on functional lines. In this case, the subsystems may differ not only on the structure of performed tasks, but also the structure of the legal framework within which they operate. In such a way, the development of wholesale trade organization is in the process of interaction between the various projects and sub-systems.

In addition, each project can be developed for the scope of subsystems, as well as some projects can be implemented in one area.

The nature of influence of environmental factors on the organization during the process of realization of projects may be qualitatively different. Projects may be developed both through their own and the attracted funds (loans, investments, etc.).

We select a number of factors that give impetus to the development of an organization: including new products and/or services in the range, changes in sales techniques, the use of methods of merchandising, finding new markets, getting the ex-rights to representation of any European brand, development of own brands. Another reason of business development can be a steady demand for any goods (services).

Anti-crisis management in the company, aimed at improving sales, is decisive in the withdrawal of the company from the financial crisis, if the company has problems with the competitiveness of products or the presence of solvent demand [8, p. 12].

We assume that the factors that promote the development of the organization, leads to a relative rise in prices for goods (services) in comparison with the costs. But also may be another situation where the costs are reduced compared to the prices of traded goods (services).

Also factors in the development of wholesale trade organizations in the crisis can be elements of the macroeconomic environment. Results of such influence can be very different, that requires further analysis.

In the developed methodology the influence of macroeconomic factors on the development of the organization is not considered. This future methodology will make the assessment of the development of macroeconomic environment under the impact of changing economic regimes.

In the process of organization development there is inter-connection between the subsystems which is carried out through the reallocation of resources between them.

Terms of reallocation of resources between the subsystems are determined by the prospects of development (selected projects) and the uncertainty of the legal and economic situation in the country.

When developing simulation models of the organization there is a significant disadvantage associated with low regard for the interaction of companies with environmental factors. To remedy this disadvantage, we offer to take into account the interaction of the organization and macro-factors:

- purchasing power of the target audience;
- the level of competition in the selected segment;
- volume and structure of advertising budget;
- working conditions with suppliers.

The most complete and better than its competitors, to meet the needs of consumers it is possible if the chosen areas of activity the company has or may have strong and sustainable competitive advantages based on core competences of the enterprise [7, p. 131].

In the methodology of forming anti-crisis management strategy of wholesale trade organization we also consider aspects of mutual influence of macro-factors and the company on each other. We will explain features of this interaction:

- 1) when describing the influence of the environment you should not be limited by consideration of competition;
- 2) to develop assessment of the influence of environmental factors;
- 3) to analyze the interaction between the organization and external environment in the development process at the time of realization of new projects;
- 4) to strengthen the ability to influence the macro-environment through advertising busi-

ness events;

5) to focus on generating new effective managerial decision-making, using a creative approach;

6) to rationalize the ratio of purchased (produced), and selling goods (services).

In the framework of the study we distinguish the external factors that turn out to be resistance to development of wholesale trade organization. The main factor is competition. For example, if a company launch a new product on the market or own brand, many competitors will duplicate these actions. At the beginning of the season or holidays, many companies run advertising actions. As a result, the effectiveness of each action will be considerably less since consumer flow is distributed among all those who ran the ads. If the organization succeeds in reducing costs or developing effective methods of sales, its achievements will be copied by unscrupulous competitors.

As a result of the above examples, advertising expenditures are increasing, the increase of the number of staff in marketing and sales departments, prices increase, profits reduce (all customers are offered more favorable terms of cooperation), etc.

Changing of market conditions may occur regardless of the trade organization. To a certain point in time high quality changes may appear. If the organization has time to make these changes before competitors, it will receive a competitive advantage, and if not, the possibilities of the company are considerably reduced.

Also can be reduced the market as a result of the development of other markets and products. The prices for the products will be shaped by many factors.

The most important will be:

- ✓ the level of production costs;
- ✓ the level of value of production (services) to the consumer;
- ✓ the volume of trade in volume and value terms;
- ✓ the level of competition in the industry;

- ✓ the structure of distribution network;
- ✓ the degree of impact of the crisis on the analyzed company and its competitors.

The structure of the competitive environment and the extent of its impact on total revenue of wholesale trade organization in the development process can be described in the methodology in two ways. In the first case, the company can grow by increasing sales volume with limited market capacity. Thus, in one market the number of products increases (this is due to the increase in delay of payment, passage to the full realization of goods and the various promo-actions). As a consequence, competitors will react to the current situation and take some measures. As a result, the price of products must be reduced in order to ensure the planned sales volume.

In the second case, the price of products may vary insignificantly and then every market participant will seek to increase turnover by competitors. That is, some companies will increase their market share, respectively, other companies will miss it. At the same time the offer of this product will exceed demand and the market will be saturated. Both examined variants of the formation of the proceeds will be reflected in the model.

The situation is also possible where growth in sales volume does not entail fluctuations in the price of products (services), but reflects in the increase of costs associated with the implementation and promotion on the market. This version of events is also reflected in the model of the formation of anti-crisis management strategy.

Development of the company may also slow down when sales reach a certain level. In this case, it is necessary to revise the strategic plan of the company, namely, product portfolio, markets, conditions of interaction with suppliers and competitors, etc.

The following objects create obstacles to business development:

- large companies-monopolies that dictate their terms of market development;

- decisions of the first persons of the state and signed by them legal documents;
- change of consumer preferences;
- poor management decisions of top managers;
- an offensive strategy of competitors;
- limited financial resources;
- unpredictability of the environment;
- complexity of international logistics.

During the process of modeling line of the organization development in the crisis the specific obstacle to development can not be determined. In this case you can install only the degree of counteraction of macro-factors of the company depending on time and decisions made under the program of way out of the crisis.

In the formation of crisis management strategies of wholesale trade organization it is necessary to consider the effects of environment on its development. We divide two types of macro-factors influence on the organization:

1. Passive influence. Occurs when the external environment belatedly responds to management actions of managers.

2. Active effect. Environmental factors have a direct impact on the organization, quickly reacting to any administrative action.

In developing the crisis management strategy it is necessary to analyze in detail features of the mathematical apparatus, its variables, their relationships and other elements.

In whole quality of economic and mathematical model is formed by its various characteristics, needs and effectiveness of the model. These parameters must be consistent and reflect the functional possibilities of the model. The effectiveness of methodology of forming the anti-crisis management strategy as the final result is determined by the correct setting of goals and subgoals.

In developing of the theory and practice of anti-crisis management there are three ways to increase the quality of economic and mathematical models and the efficiency of their implementation:

1. Development and improvement of the theoretical framework.

2. Introduction and explanation of new functional parameters and criteria for evaluating models.

3. Development of methods for use in models of diverse information having varied degrees of reliability. Currently developed economic and mathematical models aimed at accounting of quantitative statistical information and do not reflect the quality (indirect) information from various sources.

The study has noted the need to include in the model tools for quantitative comparison of alternative programs, as well as methods for making management decisions on the verbal level. Therefore, in forming anti-crisis management methodology of wholesale trade organization both approaches will be considered.

In the models of the first type to each alternative solution quantitative assessment of its effectiveness is assigned. Typically, in this model, two models are regarded:

- 1) the method of estimating the budget of the organization;
- 2) the method of determining the priority in project selection.

In the second type of models focus is on the utility factor. The basis is the information on the base of which one can compare the alternatives of the organization development and to choose the most interesting and promising. This method ensures management decisions at the verbal level, when there is no potential to make quantitative estimates for various directions of business development in the crisis. This methodology is standardized and can be used at any level of management.

The mathematic apparatus used in the formation of methodology of anti-crises management strategy of wholesale trade organization, is designed for choosing of decisions aimed at the development of business and includes:

- ✓ criteria for the quantitative analysis of alternatives of projects and choice of one of them (the priority);

- ✓ a set of indicators needed to select the priority option of the organization development;

- ✓ the methodology designed to take into account the relationship between adopted managerial decisions and the dynamics of trade organization development in the process of placing priorities between new projects;

- ✓ the methodology for assessing organizational and economic activity;

- ✓ the methodology for assessing risks;

- ✓ the mathematical model of interaction of environmental factors and organization;

- ✓ taking into account of uncertainties that impede in the choice of perspective ways of development.

In summary, we note that the methodology of formation of anti-crisis strategy of wholesale trade organization management is composed of four separate units:

1. Methodology of determining the type and priority of the project.
2. Model of accounting changes in the development process.
3. Methodology of assessing potential directions of development in terms of efficiency.
4. Methodology of rapid assessment and prediction of the organization activity.

In implementing the proposed methodology of forming the anti-crisis strategy of trade organization management it is necessary to consider three groups of risks:

- 1) the risk of changing the impact on the organization of environmental factors (economic, political, social, international, climatic, market risks).

- 2) the risk of changing the impact on the organization of factors of internal environment (finance, investment, marketing, logistic risks).

- 3) the risk of failure of new project realization (innovation start-up).

Any trade organization should resolve the problem of forecasting and risk assessment.

The simplest solution may be the introduction of the post of risk manager in the admin-

istrative apparatus and the creation of the body coordinating actions in management of the main types of risk of all departments and organizations. [1, p. 253].

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