

SME strategies to meet COVID-19 crisis and to stay competitive in post-pandemic time: the evidence from Russia

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SME strategies to meet COVID-19 crisis and to stay competitive in post-pandemic time: the evidence from Russia

Abstract:

The purpose of the study is to highlight strategies used by Russian small and medium-sized enterprises (SMEs) to cope with challenges caused by the COVID-19 crisis. It is important to analyze survival strategies and changes in business models and to make a prognosis for their future development. We use the content analysis method to analyze empirical data obtained by means of semi-structured interviews with at least 50 CEOs or company owners (the research is still in progress). The research results show that partnerships with large companies, changes in the range of provided services, and switch to online business models identified as the most appropriate strategies can serve as a base not only for the survival of SMEs but also for gaining additional competitive advantages in the post-pandemic markets. The research is of primary interest to SME managers and to academics in the field of anti-crisis research.

Keywords: COVID-19 pandemic, SME strategies, Russia

Track: International Marketing & Marketing in Emerging Countries

1. Introduction

The coronavirus pandemic has badly affected small and medium-sized enterprises (SMEs). More than half of Russian SMEs describe their situation as a "crisis" or "disaster" (Titov, 2020). The Russian government has developed support measures, but they were insufficient for most SMEs. Thus, the biggest chance to survive have those companies that only rely on their own. Market actors that struggle for survival try their best to find new business models and strategic decisions, to create services and products adjusted to the new requirements. There are well-known advantages of small businesses: faster response time to consumer needs, personalization of offerings to consumers, lower overhead costs, flexibility. However, there are disadvantages like financial risks, stress, vulnerability. At first glance, situations like pandemics create new opportunities for companies, and since small companies are flexible, they could adapt to the current situation faster, however, the reality turned out to be exactly the opposite. A drastic reduction in demand, restrictions of working offline, additional sanitary requirements, the need to build online communications with consumers who are isolated in homes, had sharply required additional financial resources, as well as personnel with new abilities. That leads to a situation when 62% of small businesses estimate the survival chances lower than 50% (Titov, 2020).

The biggest blow to small businesses was caused by a drop in the solvency of the population and a change in purchasing behavior. Consumer behavior changes fundamentally, which makes it more important to change business models. According to published interviews with small company owners, we revealed some strategies that help to survive for small business companies:

- One of the most common survival strategies, was related to the reorientation of production to personal protective equipment. Unfortunately, it turned out to be very short-term, as major players quickly established large-scale production and there was no place left on the market (RIA News, 2020).
- Most food service companies have switched to food delivery and collaboration with delivery services (Timofeev, 2020).
- Some hotels have agreed with local authorities to accommodate Russians who are forced to comply with quarantine (Timofeev, 2020).
- Transfer of production to the regions, and the majority of employees to remote work (Podtseb and Fedotova, 2020).

- Partnership of small business companies with big retail chains (Podtseb and Fedotova, 2020).

Thus, we can classify the mentioned strategies and distinguish the following types: partnership, search for new activities, business process restructuring. To find more appropriate strategies of survival, we have to do the research and to find out different approaches applied of Russian SME. Those findings can help many Russian companies to discover the most appropriate ways out of the crisis. Thus, this research focuses on the changes in Russian SMEs behavior due to the new reality caused by the COVID-19 pandemic.

2. Background of the study

2.1 Challenges for SMEs in the COVID-19 pandemic

The economic impact of the COVID-19 pandemic is highly uncertain and not yet fully assessed, since the second wave is in place in most developed and emerging markets (Cacciapaglia et al., 2020; Chohan 2020). Still, there is consensus that this impact is unprecedented and devastating (Baker et al., 2020; Bénassy-Quéré et al. 2020; McKinsey, 2020). Most researchers have the opinion that the COVID-19 pandemic is a society-changing event that can have a profound long-term impact on all aspects of life Crick & Crick, 2020; Jordà et al., 2020; Nicola et al., 2020). This implies, inter alia, serious shifts both in consumer behavior (Donthu and Gustafsson, 2020; Fetzer et al., 2020; Laato et al., 2020; Sheth, J. (2020), and in business models of economic actors from different industries (He Wen Long and Wu Jian Feng, 2020; Priyono et al., 2020; Ritter & Pedersen, 2020).

A growing layer of empirical papers discusses recent developments in SMEs activity due to COVID-19 and possible changes in their business models (Bartik et al., 2020; Kuckertz et al., 2020; Le et al., 2020; Robinson and Kengatharan, 2020). A number of surveys witness that the pandemic has led to extreme financial fragility of SMEs in different industries (Dafny, et al., 2020). They generally face a sharp reduction of orders, cost pressures such as rent, wages, and taxes, a general increase in the prices of raw materials, insufficient demand, and difficulty in finding alternative suppliers (Parker, 2020; Wang et al., 2020). Emergency measures to protect local firms are in place in most countries since spring 2020 (Mastropietro et al., 2020; Poljašević et al., 2020), with special attention to SMEs needs for urgent help (Simen and Sheresheva, 2020; Kuckertz et al., 2020; Le et al., 2020). Still, not in all cases, these measures were successful and able to reach the goal set by authorities.

Therefore, many SMEs faced bankruptcy in 2020 (Amankwah-Amoah et al., 2020; Wang et al., 2020). The most used anti-crisis measures mentioned by SMEs are loans, forced staff reduction, reducing wages (Bartik et al., 2020). At the same time, the most active managed to find ground for survival and further development (Baum and Hai, 2020; Sheresheva, 2020). As Eggers (2020) underlines, SMEs have more flexibility when threats or opportunities are in place. But there are also changes in business concepts or marketing strategy (Anthony and Petersen, 2020; Efremova et al., 2020;). Many firms switch to online services, partially or completely (Anthony and Petersen, 2020; Priyono et al., 2020).

2.2 Russian SMEs in the face of COVID-19 challenges

The coronavirus pandemic has badly affected Russian small and medium-sized enterprises (SMEs). More than half of Russian SMEs describe their situation as a "crisis" or "disaster". In spring and summer 2020, the Russian government has developed systematic support measures for SMEs that resulted in some stabilization (Sheresheva, 2020). But the analysis of the feasibility and efficiency of the urgent state support measures of small business under the COVID-19 shows that they were insufficient for most SMEs (Efremova et al., 2020; Obratsova, Chepurensko, 2020). Thus, the biggest chance to survive have those enterprises that only rely on their own.

Therefore, it is important to understand how Russian SMEs are dealing with the effects of the COVID-19 crisis and what they are doing to protect their businesses and to find ways to reestablish and increase competitiveness in the context of big challenges.

3. Data collection and analysis

Data collection is organized through a series of semi-structured interviews with managers of SMEs to identify best practices that they implement in the pandemic. There are five blocks of questions: information about the company, how has business suffered because of Covid-19, pre-pandemic course of actions, current business activities, what has changed in the company routines and what practices will they apply after the pandemic. The data obtained will be analyzed using the content analysis method, which will allow identifying strategies and tactics used. All interviews will be transcribed, words categorized and classified into categories to count frequencies. At least 50 SME managers will be interviewed to create a list of strategies, actions and routines that can be useful for most of SME companies. Several Mann-Whitney tests will be conducted to compare practices in different industries. According to Wang (2020)

there are four strategies that help SME to survive in the Chinese market in the pandemic: responsive strategy, proactive strategy, collective strategy and partnership strategy. They are differentiated based on two dimensions: motivation for innovations (problematic search or proactive search) and level of collaboration (whether innovations are based on a company itself or in collaboration with partners). So, we will test this model on the basis of Russian SME companies.

4. Preliminary results

The research is still in progress, but some preliminary results illustrate flexibility of most business owners to find strategy to survive in current situation are available now. Let us consider some of them (Table 1):

	Case 1. Dental clinic	Case 2. IT consulting company
Company profile	Year of foundation 2008, a branch opened 2012, Moscow region. In total, the company has 32 full-time employees and about 10 freelance employees	Year of foundation 2015, Moscow. In total, the company has 3 full-time employees and about 3 freelance employees. Provides b2b IT services: business portals, employees engagement to IT Tools
Pre-pandemic situation	the company faced a drop in the level of demand associated with a decline in real incomes due to sanctions and low level of GDP growth.	High demand because the proposed solution was inexpensive and required a one-time payment (CAPEX costs), unlike other systems on the market (OPEX costs). The company also conducted trainings on the development of corporate expert communities, increasing the level of engagement in the corporate collaborative software.
Covid-19 challenges	the clinic was forced to close for the period from March to June. Insufficient money for salaries and rent. This significantly depleted resources, but the	Contrary to expectations, demand for services fell dramatically, as most of the IT resources were directed to providing remote work for employees and buying

	company managed to retain most of employees. Additional costs to follow health standards	simple solutions that could establish interaction and business processes (Zoom, Jira and etc.). Problems with Leads generation for 2021
Current business activities / changes in business model	In the period July-August, the clinic faced with increase in demand due to fears of a new wave of coronavirus, as well as a sharp drop in the ruble exchange rate, which forced many Russians to look for an opportunity to spend money before it got depreciated.	The company has initiated negotiations with a large IT provider that was interested in the company's competences in improving the engagement level of the proposed software.
Changed in the company routines during the pandemic	After that, revenue began to decline and the company decided to use the state's help in allocating credit funds (non-refundable, if the conditions for preserving jobs are met) and use them to purchase a microscope to expand the list of services and business margin. This allowed the clinic to enter a new consumer segment of clients who are willing to pay more for high-quality treatment.	4 projects have been implemented with big clients, new consulting services were suggested, which allowed for the big IT Provider to increase customer satisfaction and loyalty
Practices after the pandemic	This allowed the clinic to enter a new consumer segment of clients who are willing to pay more for high-quality treatment.	Expanding the list of offered IT services such as new applications, integrations and chatbots

Table 1. SME strategies to meet the COVID-19 crisis.

As we can see from the case studies, both companies have found the ways to survive and change their business practices, however, the first company did it by its own with the help of government (proactive strategy) while other found new opportunities in the partnership collaboration (partnership strategy).

5. Conclusions and directions for further research

Russian SMEs respond to the COVID-19 pandemic in different ways. The study reveals such strategies as 1) partnership with large companies, focusing the offered services on their needs; 2) changes in the range of provided services, e.g. add new services or products thanks to the government support investing programs; 3) switch to online business models. The findings suggest that not only these strategies are ways to survive in the pandemic crisis, but they also can serve for gaining additional competitive advantages for SMEs in the post-pandemic. It is possible to use the understanding of pandemic-caused shifts in business models to stay more competitive in the long-run.

We can state that the longer anti-coronavirus measures continue that are now hardening again in many countries, the more uncertain is the future of many businesses, and the more resilient will be the changes in business models that initially were perceived as temporary. The promising avenue for further research is to understand what “survival patterns” of SMEs will appear to be resilient in a long run and result in the shift of SMEs' business models.

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