

Trading tools for SME's in „hard times“

Jiří Kolečák, František Milichovský

Abstract:

Purpose In the last couple of years the world economic growth is getting slower, the share markets are strongly falling down and former confirmed, global players are crushing. This fact has hard impact on nearly all companies and as consequence is falling the business volume, payment morale is worsening, the access to operating and investment capital is more difficult, etc.

This situation creates a new dimension of competition because the above mentioned hyper-competition on the markets which is due to developed logistics and information technologies causing lower barriers for entry into these fields, it is now still more intensive as the total volume of businesses is smaller.

Scientific aim The main aim is to present results of a research executed in 2009 among small and medium size companies with the following target: To determine the level of usage of the business tools as a part of the crisis management in companies under the context of the world's economic crisis and partial targets: Investigate the effects of the economic crisis upon the economical results of the companies (lower turnover, worse payment morale, aggravated access to financial resources, etc.). Identify tools and provisions in the business whereby the management of companies is striving to solve the situation. Discover the barriers hindering wider usage of these tools in the companies' practice.

Methodology/methods During the work were used the methods of secondary research, especially for set up of suitable portfolio of the business tools and acquiring of the information about course of the economic crisis and also methods with questionnaire surveys and for field research among the representatives of the target group (managers of small and middle companies in Czech Republic). In addition to impacts of the economic crisis upon the current activities of the companies there were evaluated mainly the ways for keeping and development of distribution channels, promotion methods, usage of compensation tools (barter trade, counterpurchases) and formation of networks and alliances.

Findings The analysis show which impacts have small and medium-sized enterprises during financial crisis.

Conclusions The business tools described in the contribution have excellent usage not only in the time of crisis but also in welfare times, when they provide the companies with unique competitive advantages. They should be introduced into the practice of companies and innovate herewith the currently used procedures. The realised research indicated important barriers for wider use of these tools, which will have to be overcome.

Keywords: Economic depression, trading tools, crisis management.

JEL Classification: M21, M16

Introduction

In the last couple of years the world economic growth got slower, the share markets are strongly falling down and former confirmed, global players are crushing. This fact has hard impact on nearly all companies and as consequence is falling the business volume, payment morale is worsening, the access to operating and investment capital is more difficult, etc.

This situation, often called the global financial and economic crisis, creates a new dimension of competition because the above mentioned hyper-competition on the markets, which is due to developed logistics and information technologies causing lower barriers for entry into these fields, is now still more intensive as the total volume of businesses is smaller. Today's effects of the crisis are alarming: All the places where cash is „flowing“ are hit – primarily the banks, energy and media, oil, food and consumer industry generally. The immediate fall of demand is felt everywhere. Central banks are lowering the interest rate, the prices of cars are falling, there are clearances of consumables but there are not any radical adjustments to these changes – nobody wants to become bankrupt and he prays for the others to become bankrupt.

The governments of single states started with some precautions against the crisis trying to limit the negative impacts upon their economics. But these provisions help especially to big companies in the construction or car industry. In that context Zich argues that “contemporary economic-political situation itself offers the theme of the influence of links formed by various stakeholders in competitive space upon the possibility of the development of company competitiveness and its ability to succeed” (Zich, 2009).

During the state's provisions against the crisis the small and middle companies are often on the edge of interest even if they represent more than 99 % of all firms and they make more than two thirds working places in the EU. They are the engine of innovations in lower orders and a platform for development of entrepreneurial spirit. Theirs presented flexibility is maybe the reason for the expectation that they will help themselves. Then the management has the priority task to find and

realise provisions for their stabilization and in the better case usage of the situation in favour of the company.

The tools available to the managers in these conditions could be generally classified as tools for the crisis management, eventually tools for the turnaround management.

This article has for the target to present the research of the recognition level and especially the application of the methods and tools in the field of commercial activities of the company during „hard times“. There are also partially incorporated the activities concerning management of the company finances as due to their close cohesion with the business they can't be displaced from the field of the turnaround management.

Another partial target was monitoring the impact of the economic crisis upon the economical results of the companies (lower turnover, worse payment morale, aggravated access to financial resources, etc.).

Definition of the term „hard times“ – in the following text we understand it as a conditions determined by strong uncertainty about the development on the markets, by immense intensity of competition trying to keep the existing market share. This situation is a consequence of the global financial and economical crisis and for many companies it means fundamental evolutionary shift.

1 Research problem and research methods

The research problem was the confirmation or refutation of this hypothesis:

1. the managers of small and middle companies in Czech Republic are not well prepared for management of the companies in „hard times“,
2. due to bad preparation they do not react sufficiently to arising situation,
3. and that the reason for bad preparation is: low knowledge and practical experiences with usage of the tools for crisis and turnaround management.

For confirmation or refutation of the hypothesis were used more research methods:

1. secondary research – on the basis of actual information, published in the specialised literature, there was compiled a portfolio of tools from the business field usage of which should be at least considered during the management of the firm in hard times.

2. primary research – during which were asked the managers of Czech small and middle companies in an questionnaire survey and in some cases with controlled interviews.

The questionnaire used for primary investigation was divided in three categories:

1. Identification of the company
2. Impacts of the „hard times“ in the business field
3. Impacts of the „hard times“ in the financial field
4. Knowledge and usage of the tools for company management in hard times with stress upon ensuring the business activities (more details are in the part theoretical outcomes). In this section it was investigated independently, if the managers of small and middle companies have enough information and knowledge in this field and how they are acquiring them.

2 Theoretical basis

For many companies the „hard times“ are the constant of the present period. Difficult situation on the market has indisputably strong influence upon the companies. But it doesn't have to bring them at the brink of living conditions. There are many tools for identification of the coming troubles and if the possible problems will be discovered in time there can be used another tools for mastering the situation.

3 Unveiling threats

There are many indicators which allow to recognize the coming difficulties. Relevance of the indicators will differ between various fields and also between various companies. The basis should be the tools for strategic analysis of the company surroundings - PEST analysis of environmental influences, Five forces analysis, The life cycle model (Johnson, Scholes, 1997) and also of the internal forces and environment Value Chain, Value system, Competitive advantages (Porter, 1993). Many suitable indicators could be also selected from the models of the company processes and from strategic and operative controlling (Steinstöcker, 1992).

In addition to listing of the single indicators it is also necessary to consider their quantifiability (some indicators are so called soft indicators) and also with „decontamina-

tion“ from relations to others, unrelated trends, cyclic and seasonal deviations, etc.

For the purpose of this article were selected indicators for the coming crisis status mainly from the business field, monitoring the changes of the demand volume and structure, availability of resources at the input (materials, raw material ...) and basic associated services.

In the financial field were investigated data about availability of external financial resources, payment discipline of the customers and the faculty to cover the obligations.

4 Tools for outcome from the problems

For the need of the executed research were selected tools helping to get control over cash-flow (see. Castor and Newcomb, 2006), for example provisions for quicker recovery of debts, postponement of the obligations maturity, use of compensation businesses and also many exclusively business tools from the field of marketing, promotion, relationships with customers or development of the businesses channels (see MacPherson, Miller, 2007).

Many of the described tools can act in contrary and it depends only on the given situation and management attitude if the way out of the crisis will be for example limitation of the loyalty actions for constant customers or their development. From the point of view of crisis management it is essential to take this situation into consideration and evaluate the pro and con for both attitudes.

From the view of the activities in crisis, strategic partnership enabling companies with minimal effort and above all quickly to diversify their portfolio, to extend their services or distribution channels, should be mentioned as well. (more see Somnath, Pradyot, Sanjit, 2003 or Koleňák, 2008)

But the basic role in the so-called turn-around management play the compensation trade forms, especially barter and multilateral barter.

The clean barter is a direct exchange of goods for a goods, where is signed one contract for the supply and counter-supply, there is no invoicing neither in the supplier's nor customer's currency, no movement of money.

Multilateral barter is a modern form of a barter trade with many parties. The principle of the multilateral barter is that a client buys from other client a goods / services he just

needs and pays by supplying his products to other clients. Single businesses are not bound by a time frame, it is possible to purchase and sell continuously according to needs. Each transaction is made by means and with support from some of the barter centre. These subjects – trade companies with various legal form and size, number of clients, turnover and field of activity – are registering and booking in the accountancy single transactions and they are supporting the mutual business of its clients, participants in the corresponding barter chain with various means.

In Czech Republic are active more than ten barter companies. The participation in the barter system can be for many entrepreneurs very interesting way how to finance the overheads connected with operation or extension of the company. Especially in today's difficult time when nearly each company fight with unbalanced cash flow.

In spite of all arguments supporting the usage of barter there are many opponents declaring that there are not many business cases, when the barter couldn't be substituted by a „classical“ payment with money.

But the problem is in the fact that most of the businesses made with barter trade wouldn't be done otherwise or only in incomparably small volume or with other limitations.

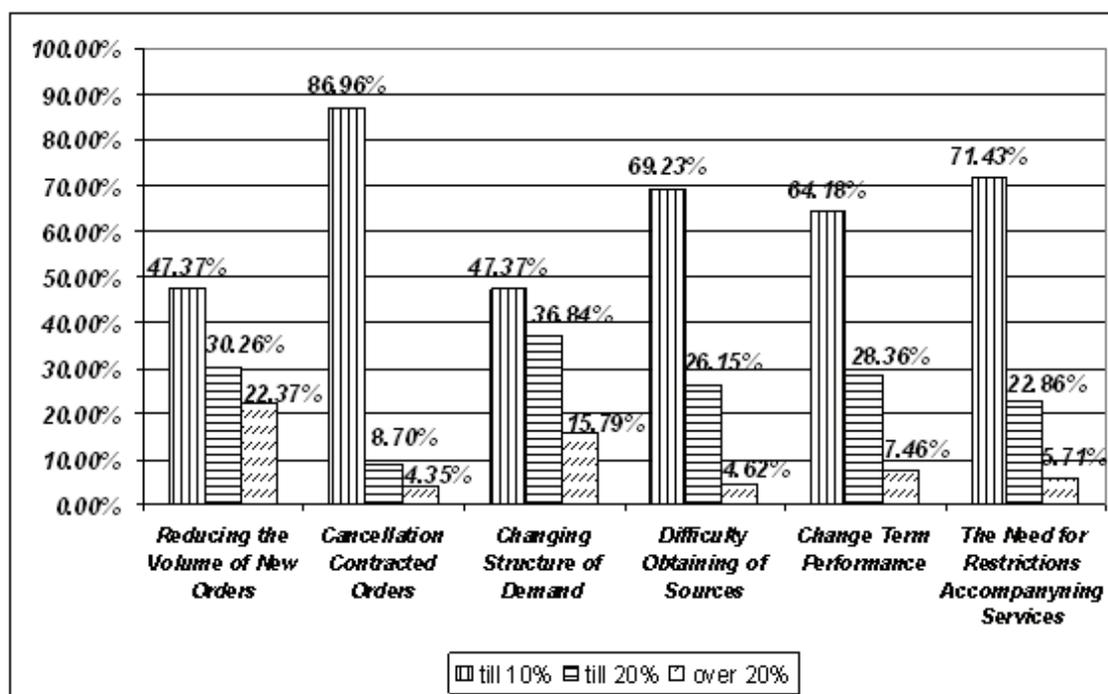
One of the biggest problems the entre-

preneurs have to solve today is the redundant capacity in the form of unused production facilities or gathering of the goods in stores (see Uijttenbroek, 2004). These surplus products means „dead“ money which are missed in the cash-flow. And just that money could be used by barter trade for further development of the company. Herewith the barter trade helps to recreate the actual state of the assets to desired state.

5 Research results

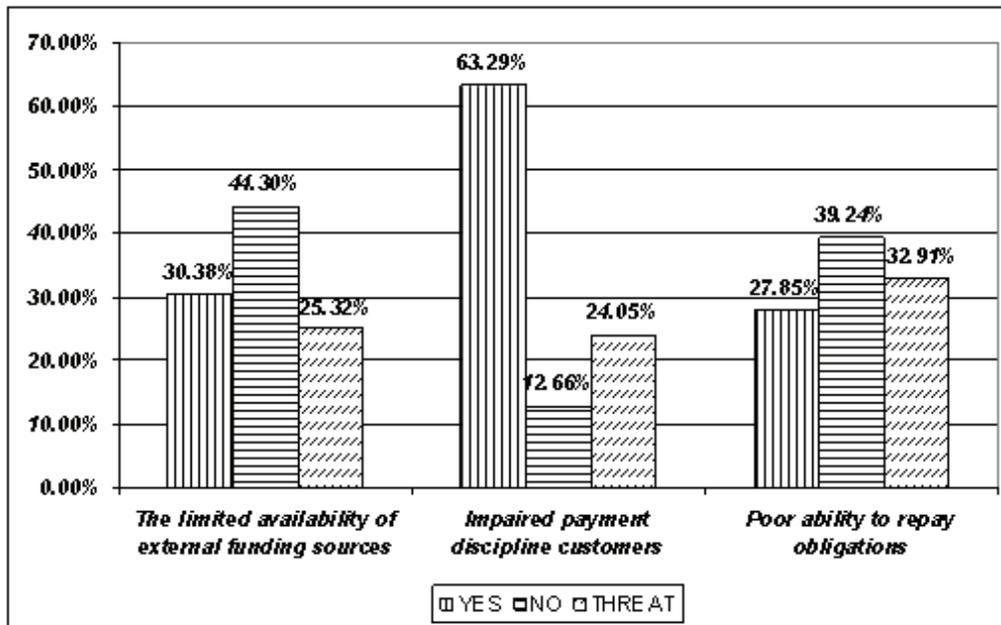
There are further showed and commented the results from questionnaire survey of selected indicators. The questionnaire survey was conducted in the framework of a preliminary research with 79 participants and more then 80 % of them were owners, responsible directors or managers of companies. The others belong to middle management level in the business field. The field of activity of each company could be put into the fields of services, production and construction industry.

Business area probably will have to be included in the explored parameters, because we can assume that it will influence the answers of the individual respondents (proposed tools for solution of crisis situations can be used much easily in some business areas than in the others).



Graph 1 Impacts on the business enterprise

Source: Own research



Graph 2 Impacts on the financial field

Source: Own research

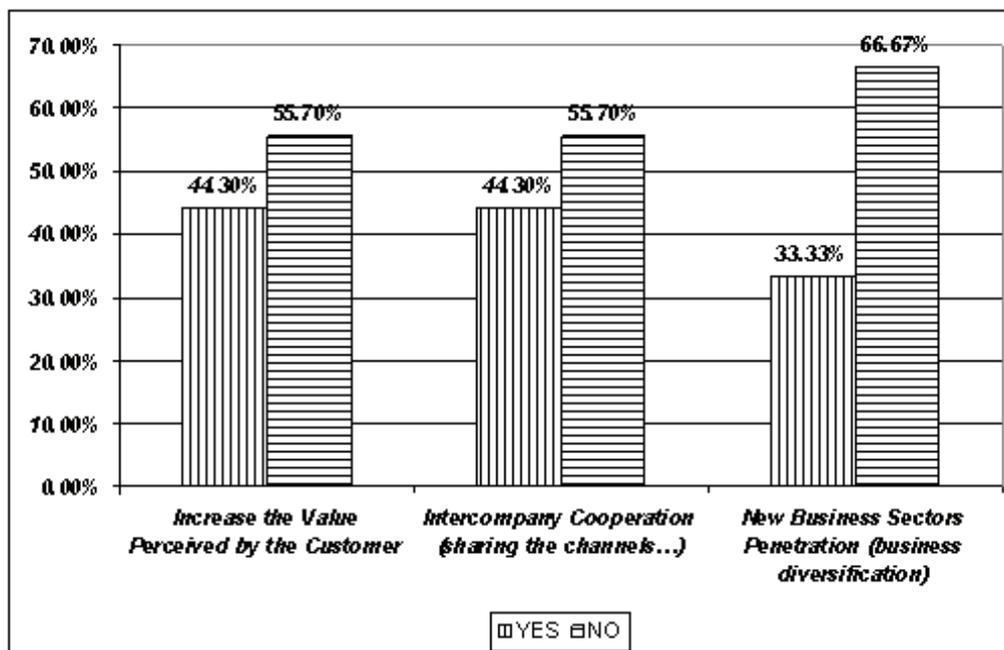
The responses to each question are stated in the Graph 1.

Due to existing hard times there are many impacts upon single activities of the company and the consequent management provisions. The questions to the participants were primarily targeted only upon a few basic risks which are also coming from the mentioned financial crisis. In the field of the company's business activities are considered only 4 types of impacts which can have significant influence upon survival of the company.

From the responses of single partici-

pants it is obvious that the new orders are lowered only in 47 % and they fall by up to 10 % of their volume. In a similar way is coming also to cancellation of the already agreed orders, i.e. nearly in 87 % of cases the orders are cancelled in up to 10 % of the total volume.

Herewith it can be assumed a certain limitation in acquiring single resources. This assumption is partially confirmed also by answers from the participants who speak about some difficulties when searching for resources. But there is not a clampdown in contrary to general assumption, the most often limitation



Graph 3 Trading field activities in hard times

Source: Own research

is only a few per cents. Similar evaluation was also in the field of changes of fulfilment terms and necessity for limitation of associated services, where was made a certain adjustment in the fulfilment schedule but mainly in the range up to 10 %.

Except the mentioned impacts there can be mentioned also some others which could be included for following research. That means increase of small orders, decrease of labour costs by means of firing employees or delaying the payments for the work done.

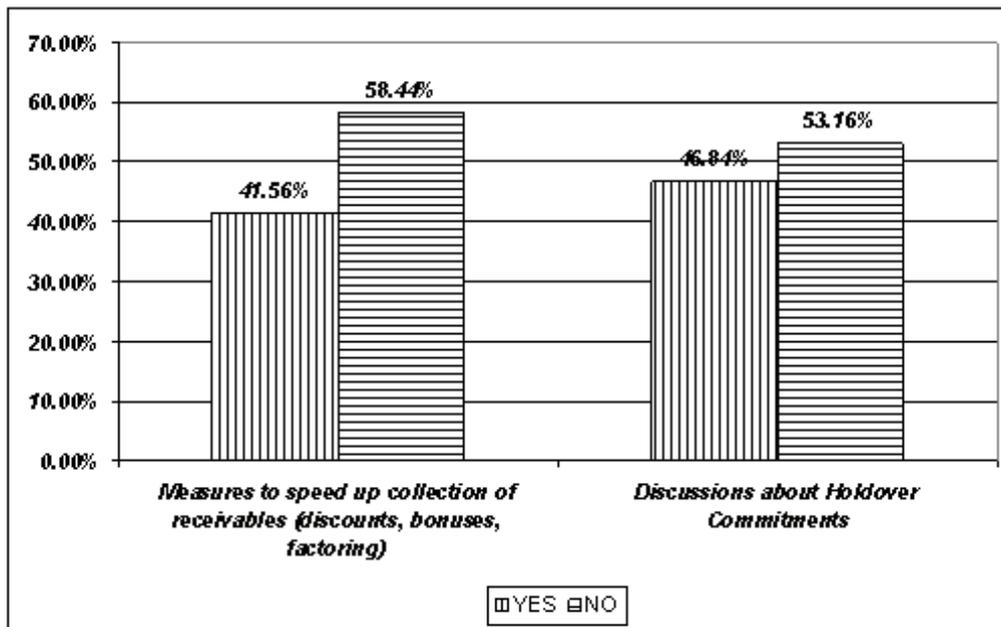
In the financial field are basically considered only 3 types of impacts, which is stated in Graph 2. These are: limited accessibility to external financing resources, worse payment discipline of the customers and deterioration of the capability to pay the obligations. The mentioned impacts endanger roughly one quarter of the investigated companies. Except the above-mentioned impacts there were stated also some other types of the impacts which have some elements of a risk for the companies (direct or indirect one). Among these im-

As the most often used provisions in the field of business management are stated the activities leading to sharing of trade channels (in the form of opening corporate retail shops, shared management of internet shops, shared possibilities for promotion and other forms of trade alliances). These trends are showed in Graph 3. There is also often mentioned drift to increase the added value perceived by the customer in the form of building up the brand, additional services and sales actions.

In spite of being mentioned as the most often used provisions, only some 44 % of the participants take advantage of them.

As other business precaution is in 33 % stated the effort to decrease the entrepreneurial risks by entry into a new field (diversification).

The tools helping to balance the cash flow during hard times (as speeding up the recovery of debts) is actively used in the practise by only some 41.5 % of the inquired persons. (Graph 4) The effort for postponement of the obligations maturity is confirmed by some 47



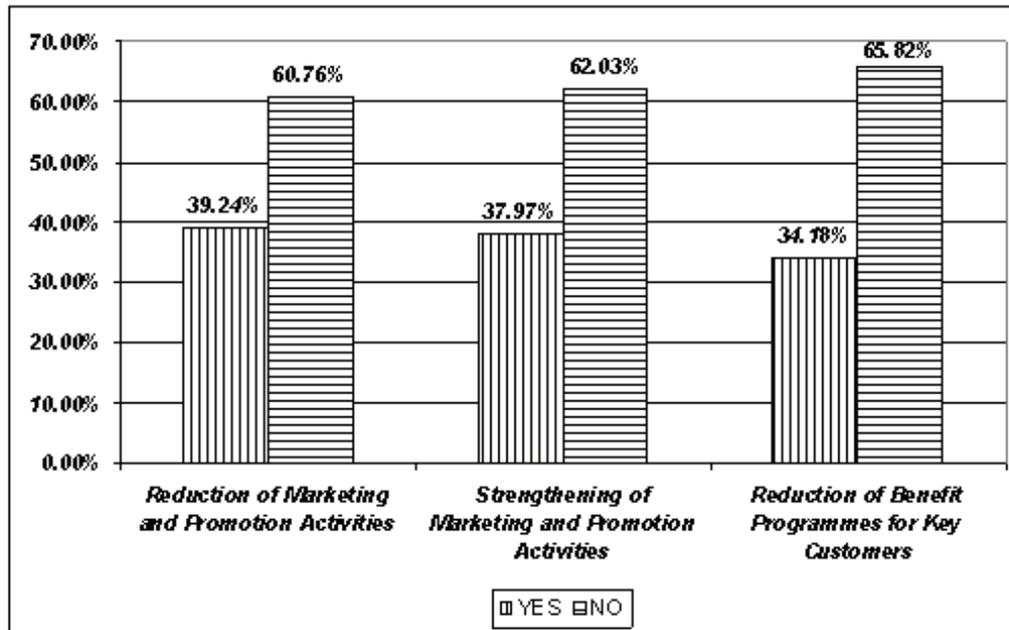
Graph 4 Financial activities in hard times

Source: Own research

pacts were stated deterioration of the suppliers discipline, more strict conditions from the suppliers or decrease of customers due to their termination of activities. All the above mentioned impacts may have significant influence upon correct functioning of the company. For their minimization there is necessary to introduce some manager provisions.

% of participants. During searching the reasons for this state the most often mentioned fact was limited experience with the so-called crisis communication.

Roughly 39 % of participants state that due to decrease of the costs they limited the activities in the field of marketing and promotion and nearly the same number said they in-



Graph 5 Marketing activities in hard times

Source: Own research

creased these activities. (Graph 5) For both attitudes there are good reasons in the framework of turnaround management. One of the attitudes say that what is not the „core“ business should be limited as strong as possible in hard times.

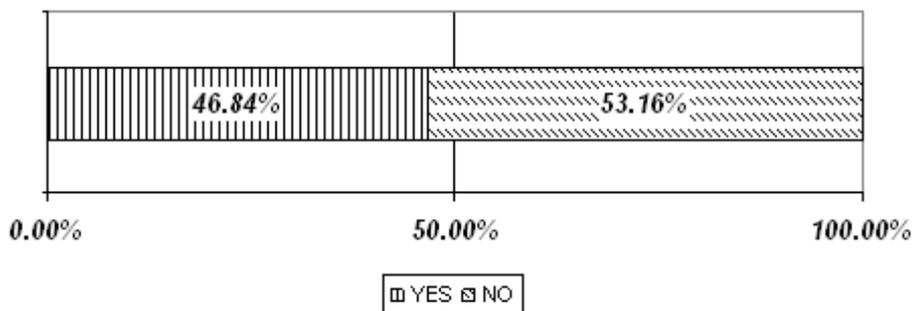
The second attitude says in contrary that without customers it doesn't have any sense to keep other activities (there is nobody for whom to produce).

This attitude is supported also by the fact that only 34 % of the inquired persons limited beneficial programs and other forms of

third of the participants, but in the following interview they say it was only occasional business case. (Graph 6) And in most cases it was a reaction to offer from counter party and not intentionally developed form of business.

Mainly due to this point the managers of small and middle companies can be designated as poor prepared for the management in „hard times“ because the compensation trade plays in the turnaround management key role.

In case of sale in difficulties they often represent the only possibility how to sell quickly and especially with minimum loss



Graph 6 Counter trade activities in hard times

Source: Own research

cooperation oriented on the existing customers. (Graph 5)

Just in this field there is successfully used in the world the compensation form of trade (see Mardak, 2008).

Usage of the compensation trade form (counter purchase, barter or multilateral barter) in the business practise is confirmed by a weak

(usually the seller doesn't lose tens of per cents as in case of sale for cash but only few per cents). Of course, there is the condition to have something what can be exchanged for the given products and this can bring about the requested effect. For this it is necessary to have wide information basis or to be a member in some of the barter centres.

6 Results

The article proposed the evaluation of three hypotheses formulated on the basis of the secondary research, the monitoring of the trends described in the specialized literature and presented on the specialized meetings of managers and entrepreneurs. I.e.: 1. managers of small and medium-sized companies in the Czech Republic are not ready well for the management of their companies in the "hard times", 2. they do not respond adequately to the occurred situation as the consequence of their poor readiness, 3. the cause of the poor readiness is the low level of knowledge and practical experience with the utilization of the tools of the crisis and turnaround management.

The questionnaire survey was applied for the verification or disapproving of the hypotheses, with the aim to verify the situation in the Czech small and medium-sized companies.

On the basis of the identified facts all three hypotheses can be declared as partially verified. Their validity is highly probable; nevertheless, at least one research in the field of the adequacy of the individual implemented provisions will have to be carried-out with a certain time distance.

References:

- Castor, R., Newcomb, T. (2006). From RED to BLACK: rebuilding wounded companies. ABI/INFORM Global,
Johnson, G., Scholes, K. (1993) Exploring Corporate Strategy, Prentice Hall.
Koleňák, J. (2008). Business alliances in economic crisis. In *Periodica Academica* (pp. 35-40). Brno: Vysoká škola Karla Engliše,
Macpherson, D., Miller, D. (2007) Breakthrough Business Development. John Wiley and sons.
Mardak, D. (2008). Barter your way to better meetings, successful meetings. ABI/INFORM Global, 7, pg26,
Porter, M. E. (1993) Konkurenční výhody. Přel.: Irgl, V. Victoria Publishing, Praha,
Somnath, Pradyot, Sanjit. (2003) Strategic alliances: A valuable way to manage intellectual capital?, *Journal of intellectual capital*, vol. 31, page 10, Bradford.
Steinöcker, R. (1992). Strategický controlling. Praha: BaBtext.
Uijttenbroek, A. (2004). BDM Business Development Methodology - Core Processes.
Zich, R. (2009). Application and Development of Success-Ability Concept in Research of Company

So as to further verify the validity of the hypotheses, a separate monitoring of the industry focus of the investigated companies will be necessary on the grounds of the differing difficultness of the implementation of the crisis activities. The paper mentions the barter central offices as one of the examples of the strategic partnerships; however, this field offers a space for the future profound research.

7 Conclusions

Most of the participants state as the most often source of information for the compensation trade generally the internet together with confirmation of the negative response to the question if they have enough information for possible execution of the compensation trade. The experience from practice shows that the only way how to make full use of the compensation trade is the membership in some of the barter centres. They have available trained specialists (brokers) who are working for a provision of a few percent and they are actively looking for trade opportunities and solve the problems with single client.

It is a fact that in Czech Republic is actively organized in the multilateral barter systems less than 2 000 companies.

Competitive Advantage. In KOCOUREK, A. (ed.). Proceedings of the 9th International Conference Liberec Economic Forum 2009. Technical University of Liberec, s. 432-443.

Author (s) contact (s)

Ing. Jiří Koleňák, PhD.

Vysoké učení technické v Brně
Fakulta podnikatelská, Ústav managementu
Kolejní 2906/4,
612 00 Brno, Česká republika
E-mail: kolenak@fbm.vutbr.cz

Ing. František Milichovský, DiS. et DiS.

Vysoké učení technické v Brně
Fakulta podnikatelská, Ústav managementu
Kolejní 2906/4,
612 00 Brno, Česká republika
E-mail: milichovsky@fbm.vutbr.cz

Doručeno redakci: 30.9.2010

Recenzováno: 8.11.2010

Schváleno k publikování: 30.11.2010