



Strategy formulation for SMEs in Greece's uncertain environment

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ABSTRACT

Greece's contemporary financial environment is still toxic, something which devastates the whole market spectrum and especially SMEs which struggle to survive. This paper aims to suggest some strategic movements which will be able to help SMEs in Greece's contemporary financial environment in order to survive and overcome the financial and uncertainty problems the vast economic crisis provoked.

Keywords

SMEs; Greece; Crisis; Financial; Strategy; Metrics.

Academic Discipline And Sub Discipline

Economics; Strategy; Management

TYPE (METHOD/APPROACH)

Literary Analysis



Council for Innovative Research

Peer Review Research Publishing System

Journal: Journal of Social Sciences Research

Vol. 9, No.2

jssreditor.cir@gmail.com

www.jssronline.com



INTRODUCTION

In this paper, we will discuss some specific strategic moves, SMEs (Small and Medium Enterprises) in Greece should implement in order to confront with success the uncertainty in the Greek market which is the result of the big financial crisis Greece is facing the last years.

According to Knight (cited in Kliesen, 2013), uncertainty is an unknown risk. The last 5-6 years, Greece is facing a vast financial crisis which has many bad effects in the whole Greek society. In general, uncertainty springs from different kind of sources such as, demand uncertainty, supply uncertainty, competitor's uncertainty and "externalities"¹ (Wernerfelt and Karnani, 1987, p.189). 66% of businesses in Greece faces a pressing problem of gaining access to bank credit at affordable rates (Aldeman, 2014). This fact per se creates a supply uncertainty. It is important to notice that political decisions (i.e. threat of currency default), unstable governments, and new heavy tax laws, are creating the last years external uncertainty.

FORMULATION OF STRATEGY IN TODAY'S UNCERTAIN ENVIRONMENT

According to Courtney et al. (1997, pp.75-78), there are four levels of uncertainty: 1. A clear-enough future, 2. Alternate futures, 3. A range of future, 4. True ambiguity. Although Greek SMEs are facing the fourth category, which means that the interaction of multi dimension uncertainties create a virtually impossible to predict future, it is not wise to throw up hands and act purely on gut instinct (Courtney et al., 1997, p.72). This is exactly the situation in contemporary Greek market. "In volatile markets, corporate management should focus on processes more than positioning" (Eisenhardt and Brown, 1999, p.77), so, Greek SMEs should implement a proactive, market-based marketing action plan, in order to determine a future marketing performance and confront with success, uncertainty, which should consist of the following steps:

Analyze the current situation.

In order to choose the right strategic steps and avoid potential threats, Greek SMEs should start with an analysis of the current market situation by using the appropriate analytical tools. The use of SWOT analysis with a combination of PEST analysis, can help them to detect their weaknesses (SWOT analysis), while it can scan the businesses environment in order to spot the opportunities needed (PEST analysis). Also by identifying their weaknesses and strengths (SWOT analysis) they should focus on themselves and create the right opportunities. By eliminating weaknesses can create opportunities, or by focusing on strengths can open new ones. Creating opportunities in an uncertain environment can be vital. The use of PEST analysis can be helpful in terms of analyzing the Political, Economic, Socio-Cultural, and Technological changes in Greek SMEs' business environment. This can help them understand the forces of change that shaping the market (Mindtools, n.d.). Also, Greek SMEs, in order to acquire a better insight of the character of the crisis-uncertainty in their market segment, can participate in industry consortia (Courtney et al., 1997, p.77), something which will help them to better analyze the situation.

Going lean-make less wastes.

Greek SMEs can follow Toyota's lean production system paradigm, with its the "just-in-time" method (Ohno, n.d.). They can start ordering from manufactures, only *just-in-time*. The merchandise, should come only just after the customers' order. In that way, they will eliminate "wastes" which will inevitably lead to bigger, unnecessary inventories. In that way, they can decrease costs, increase quality of service with a faster flow and services to their customers (Ruffa, 2009). Going

lean can improve operational efficiency, which is one of the three defensive approaches² a company should use in a crisis-uncertain environment (Gulati et al., 2010, p.67).

Use of internet and disruptive technologies.

Many of Greek SMEs, do not have an online sales point. By establishing their internet and-or mobile network of sales, they can, without much expenses which is crucial in so uncertain environments, expand their market share by attracting customers from different locations in Greece. Also, by creating an online tool in order to achieve customer interaction, they can gain a competitive advantage. For example, furniture companies can create an online tool by which their customer will be able to choose their favorite fabric color and the size for their sofa etc. With the just-in-time system the case company could order the specific furniture with the specific dimensions from their supplier. This "customer as innovator" (Thomke and Von Hippel, 2002) approach can create waste elimination, customer satisfaction thus customer retention and bigger market share. Greek SMEs should adopt a disruptive innovation approach in e-market. As Jesper Brandt, Chief Commercial Officer of Cylindo³, indicated: "We have taken all the knowledge gained from Love My Home's successful

¹ With the term "externalities", we mean uncertainty due to external factors such as social factors and government intervention (Wernerfelt and Karnani, 1987, p.189)

² According to Gulati et al. (2010, p.67), companies combine three defensive approaches -reducing the number of employees, improving operational efficiency, or both. They tend to combine them with three offensive ones -developing new markets, investing in new assets, or both.

³ Cylindo is a Danish software company with headquarters and sales departments in Copenhagen and San Francisco and development sites in the Philippines and in Fyrom. Cylindo offers immersive visualization software, state of the art 3D content creation and cloud-based deployment. Cylindo helps the furniture industry take maximum advantage of today's most advanced technologies that translate directly into increased sales and enhanced brand image, through the use of gaming technology (PRWEB, 2013).



gamification (sic) of the online shopping experience, and refined it into business software that can be used both in-store and online. A solution that effectively bridges the online/offline gap that exist in the furniture industry' (PRWEB, 2013). Adopting such disruptive technologies, can help SMEs to confront uncertainty, because they can achieve better customer satisfaction thus customer retention.

Investment in new business and assets.

During this period of uncertainty and recession, Greek SMEs should consider to invest in new markets and enlarge their assets bases. Investing in new assets is being considered to be an offensive approach (Gulati et al, 2010, p.68). For example, now that the prices for acquiring a store are at their lowest level, a company can buy a bigger and more central positioned store. Also, it can invest in new adjacent business, i.e. a furniture company can invest into carpets or tapestries selling or other home based accessories. In that way, a black swan can be avoided, i.e. when business is going bad in the furniture market, the furniture company can find a grip in its adjacent business sales. Greek SMEs can act as reserving the right to play. They can make incremental investments which could put the company in a privileged position. They can achieve such a posture by joining forces with other companies in the same market fragment. With little investments they can wait until the environment will become more certain before formulating their strategy. Such joint ventures should be limited, and mainly in distribution, in order to minimize the risk (Courtney, 1997, p.74).

Increase customer retention.

According to Best (2014, p.24), the marketing cost of retaining customers, is 5-10 times lower than acquiring them. By increasing the number of retention customers, the Greek SMEs will be able to increase their profits and create the basis upon which they can stabilize their sales in such unstable environment. In order to increase customer retention, they should increase customer satisfaction, as there is a strong bond between them (Best, 2014, p.24). Due to heavy antagonism and low prices in Greece's constrained market, customer retention springs from better customer satisfaction. Greek SMEs should focus more on customer satisfaction in order to acquire a competitive advantage and create more customer value which accordingly will lead to increase company's profits. Retain current customers in such a turbulent and uncertain market environment like Greece's, can create a stable source of profits and monetary liquidity.

USE OF METRICS IN STRATEGY FORMULATION

"The general who loses a battle makes but few calculations beforehand. Thus do many calculations lead to victory, and few calculations to defeat: how much more no calculations at all!" (Sir W. Faser cited in Sun Tzu, 1910). With this phrase Sir W. Faser indicated the importance of calculations in a battle. In business calculations (metrics), are equally important. Greek SMEs can use some of the available metrics (they cannot use them all due to heavy cost) in order to survive the crisis-uncertainty. These are the following:

- **Customers' retention (forward looking marketing metric):** Customer retention = $1 - (1/N)$, N = average customer life (Best, 2014, p.27).

From the above we can see that as customer retention increases, the customers' life expectancy increases exponentially with customer retention (Best, 2014, pp.26, 27).

- **Customers' satisfaction (forward looking customer metric):** Customer satisfaction Index (CSI) = The average of the customer's satisfaction ratings for a sampling of customers (Best, 2014, p.18).

Best (2014, p.17), suggests a six-category scale ranges from "very dissatisfied" to "very satisfied". The levels of customer satisfaction are rated from zero for "very dissatisfied" to 100 for "very satisfied" customers. Finding the CSI, the case company can determine - predict in a degree, the customer's future behavior thus their rate or retention, as high levels of customer's satisfaction generally correspond to high levels of customer's retention (Best, 2014, pp.454,484).

- **Market Development Index:** Market Development Index (MDI) = $\{(Current\ Market\ Demand) / (Market\ Potential)\} \times 100$.

The MDI, can help the case company to understand the evolution of the market and to measure the market's potential for future growth. For example, if MDI goes beyond 67, although there is a growth potential, this task can be proved to be more difficult than when having an MDI of i.e.33, because the business faces strong forces that impede full market development (Best, 2014, p.92).

- **Variance analysis:** This kind of analysis should be implemented in order to determine the results of the metrics and target the specific sources of potential problems in the company's marketing strategy in order to evaluate the plan's performance.

This is an analytic tool the business can use in order to break down the Net Marketing Contribution (NMC), in order to determine which component is responsible for the marketing plan's behavior (Best, 2014, p.469).

NMC = Volume x Margin per Unit - Marketing & Sales Expenses = (Demand x Share) x Price - Variable Unit Cost - Marketing & Sales Exp. (Best, 2014, p.469). From the above mentioned equation, which is a fundamental marketing profitability metric, we can calculate the demand Variance, the share Variance, the price and the cost Variances (Best, 2014, pp. 470, 471).



CONCLUSIONS

Greek market for SMEs nowadays confronts a mixture of recession and uncertainty. This mixture makes strategy implementation for Greek SMEs a very difficult task to accomplish. Greek SMEs should not adopt a "wait-and-see" strategy postponing large investments until the future becomes clear, because we don't know how long is going to take to be clear, while in the short run this kind of approach can create an opportunity window to existing and new competitors (Courtney et al., 1997, p.68). Greek SMEs should implement certain strategic formulations in order to survive and confront with success unpredictable situations that may arise due to the Greek market's uncertainty. The author suggests that they should implement certain metrics, in order to predict with better accuracy, in the degree that this is possible, the future and accordingly to implement the strategies needed.

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