The Impact of the Economic Crisis on the Marketing Management of Czech Service-Providing Companies

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Abstract: The goal of the article is to prove the impact of the changes in the economic power of Czech Republic in the 21st century on the marketing management processes in the service-providing companies. The study is based on an original research conducted with 231 service providers, conjunctural research results and ad hoc studies. It reveals the intensity of and the delay in the reaction of the service sector to the recession in the processing industry as well as the rate of the implementation of marketing activities in the period of global economic crisis. The final part of the study focuses on the deduction of the possibilities and limits of effective application of marketing in services (and other branches).

Key-Words: economic crisis, sector, GDP, services, marketing in services, marketing departments, implementation

1 Introduction

The current economic crisis affects all aspects of company life, not only the economic performance of the company, but also its strategic management. With that comes the higher or lower rate of implementation of marketing management in the management of the company, both in the primary and secondary sectors and in the service sector. Companies and organizations realize the importance of marketing management for the company prosperity, competitive advantages and long-term sustainability on the market. That is why they include marketing departments, sections or positions in the organization structure of the companies. This study focuses on the search for the relation between the economic crisis, its impact on the service sector and the implementation of marketing departments in services.

The scientific problem: there is a time disproportion between the establishment of companies and organizations and the implementation of marketing departments and sections in the organization structure of the companies and organizations. Companies start marketing departments some time after the establishment of the company, often as a result of the reaction to lower economic performance and prosperity, under the influence of crisis management and the loss of market position.

The goal of the study: to measure by means of a marketing research to what extent the economic crisis influences the marketing management in the management of companies and the rate of implementation of marketing sections and departments in the organization structure of companies.

Methodology: primary marketing research, quantitative research, standardized interviews with a sample of 231 selected companies operating in services, analysis of data, searching for connections among the measured criteria, induction of findings, research of primary and secondary sources.
2 The development of Czech economy since 2000

The division of economy into the primary, secondary and tertiary sectors is determined by the character of the activities and the resulting products as well as by the degree of the economic development. The economic development changes the GDP share of the individual sectors. The level of Czech economy, measured by the GDP, is such that the share of the secondary sector is above the reference line of the developed economies and the level of the service providing (tertiary) sector is, by contrast, below the line, even though it is gaining importance. [1]

After overcoming a period of stagnation in the late 1990s, the development of Czech economy was positive in the new millennium, with the peak of the economic cycle in 2006. According to the Czech Statistical Office data, the GDP share of the tertiary sector increased from 38 to 55.9 % in 1989 – 2001. It was mainly at the cost of the primary sector (agriculture and mining), which dropped from 15 to 6.9 %, and the secondary sector (industry, energetics, construction), dropping from 47 to 37.2 %. In the next six years, the sales in services increased by nearly 54%. Retaining a comparable price level (prices from 2000), sales would increase by 30.4 %, the slowest year over year growth being in 2004. From the perspective of the branch structure of growth, the dynamics of the industrial sector was crucial. Industry and services contributed equally 4.4 % to the average yearly increment of the total gross value added (GVA) in 2000 – 2008. Industry contributed to the value added with lower weight and stronger dynamics, while with services it was the opposite. The acceleration of GVA by more than 2 percentage points in 2005, as compared to 2004, was mainly determined by the service sector. In contrast, it was industry that influenced the year over year growth by 0.6 percentage points in 2006. Gradual weakening of Czech economy began in 2007. The most significant drop in GDP in comparison to the previous quarter was in the first trimester of 2009 – by 3.8 %. In the year over year representation, the fall of the overall performance of Czech economy reached its bottom in the 2nd quarter of 2009, mainly as a result of the fall in value added in the processing industry. The service sector saw an 0.1 per cent fall in the sales in constant prices in 2009. The fall mainly affected segments connected with industrial demand, particularly transport, the use of external services (architectural, legal, bookkeeping and other). [2,3]

The intensity and delay of the reaction to the recession in the processing industry varied, as shown by diagram 1 and an analysis showing the behavior of selected services (according to NACE H, I, J, L, M, N) in the crisis period between 2008 and 2009.

Fig. 1 Processing industry and selected services (year over year changes in %, constant prices) [1]

Initial signs of recession, even before the decline in the secondary sector, were noted in Realities (NACE – section L), recession in transportation developed simultaneously with industry (NACE – section H), sales in section Information and communication activities (NACE J) and section Professional activities (NACE M) began to fall with delay, as expected, only in 2009, and in Administrative activities (NACE N) in the last quarter of 2008. Administrative and professional activities showed the greatest flexibility in their reaction to the development of the processing industry. In reaction to the job market, decline in the demand for unemployment office services occurred (year over year by more than 40 %). [1]

It can be concluded that the withdrawal trend of the primary and secondary sectors and the share increase of the service sector were enhanced by

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1 Section H includes Transport and stocks, paragraphs 49-53; section I Accommodation, boarding and catering, paragraphs 55-56; section J Information and communication activities, paragraphs 58-63; section L Realities; section M Professional, scientific and technological activities, paragraphs 69-71 and 73-74; and finally section N Administrative and supporting activities, paragraphs 77-82. (For more detailed definitions see: The Classification of Economic Activities CZ-NACE on Czech Statistical Office website)
the economic recession due to a relatively lower sensitivity of the service sector to the development of the economic cycle. Another fact that plays a further role in the Czech Republic is that the industrial branches are particularly dependent on export, i.e., foreign demand, which declined in 2009. On the other hand, the restructuring of the GDP shares of the individual fields of services occurred. [2]

The „insensitivity“ of the service sector to the impact of crises, that is, the longer delay in the perception of their symptoms in service providing companies, is also supported by the respondents‘ reactions in the conjunctural measurement of Business environment and economic growth in CR. „If optimism in industry during boom years is shown by the fact that a third of companies perceived no limits to growth, then there were about 75 – 85 % of such trouble-free companies in services in 2005. Two thirds of companies still perceived no barriers to growth in the service sector from mid-2006 to October 2008.“ Then, low demand for services set in due to the acceleration of value from January 2005, when low demand was seen as a problem only by 1,8 % of companies, while in 2009 it was 27 % of respondents who considered low demand as a limiting factor. The pressure in services job market began to relieve from mid-2008 – only 1,5 % of companies stated they had a lack of staff in October 2009, while in April 2008 it was nearly 8 %. In contrast, financing problems did not escalate, like in industry. Some worsening occurred, as in January 2008, for instance, financing was seen as a problem by 1,7 % of respondents, while in October 2009 it was 3,5 %. Between 2007 and 2008 the lowest number of respondents stated the problem of the availability of financial resources as a limiting factor of the company development in service sector in CR. [4]

Up-to-date results of the study „B2B monitor“ from the spring of 2012 (conducted semi-annually via standardized interviews with the minimum of 300 business and marketing managers of companies in the Business to Business sector) show that there has been a year over year decline in the „Optimism Index“ as compared to the spring of 2011, particularly by 10 % on average. The most important decline in optimism was noted in construction companies (18%), chemical and machine industry as well as transportation companies. Such decline was probably caused by the increase of VAT and state intervention related to the pension reforms. [5]

The above facts show that the service sector is sensitive to the changes in economic, legislative, and particularly business environment, as it dramatically responds to changes especially in branches related to processing industry and the quaternary sector (named according to Foote and Hatt), in which key role is played by processes and process management. In small and medium sized companies it is frequently the marketing department that is in charge of process management. [6]

3 The relation between the economic crisis and marketing in services

Marketing is considered by many authors (according to published scholarly monographs) to be the company function that attempts to find balance between meeting customers‘ demands, the economic stability and prosperity of the company and recently also the social responsibility of the company. It thus responds to the influences of economic, legislative, demographic and cultural
environment of the company, adjusts the structure and intensity of the employment of marketing tools, and attempts (especially in services) to balance the fluctuations between the supply and the demand. [7,8]

The aim of the research conducted by the authors of this study was to find the rate of marketing implementation in Czech service providing companies, the scope and volume of the employed marketing activities, the application of strategic analyses and individual marketing tools. 231 service providing companies were addressed between February and May 2011 and standardized moderated interview was conducted with them. One of the researched areas was the relation between economic changes and the introduction of marketing department or the establishment of a position in charge of marketing in such companies.

The results of the research suggest that a marketing department or section (possibly a position in charge of the company marketing) was established in 132 out of 231 service providers, which is 57.14%. In the organization structure of companies, marketing is most frequently represented by the services in which key role is played by processes (that is in the quaternary sector according to Foote and Hatt) - 61.9%; by the services emphasizing the tangible elements of the service (tertiary sector) - 57.89%; and the lowest representation - 43.75% - is in quinary sector (emphasizing the quality of staff and consultancy). [6] If we exclude from the analysis those companies that emerged before 2008, we can compare the rate of implementation in services with a similar research in industrial companies conducted with 220 production (mainly machine-producing) companies in the GAČR project. Marketing in services was implemented in 77 out of 120 companies established by 2008, which is in 64% of service providers as opposed to 48% of industrial companies. The years 2000-2002 represent a boom in the establishment of independent marketing departments in the studied industrial companies. The authors did not find an explanation of such dynamic growth (as high as 13% per year) of marketing departments [9]

The trend in the emergence of marketing departments in services is not completely clear. While the linear regression of data shows an increasing tendency in time, data from individual years show uneven distribution of the increment. The majority of service providers founded a marketing department in two phases: between 2003 and 2005 and in 2009. However, the greatest boom of the emergence of the studied service providers (regardless of the existence of the marketing department) had occurred by 2000.

In 48 service providers, the marketing department was established with the start of the company (that is, 36% out of those who have a marketing department). In 31 cases it was a company from the quaternary sector. In other service providing companies, the marketing department was founded later – in 5 years with 81 (61%) companies, in 6-10

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Fig 4 Frequency of established companies and marketing departments (N=132)

Note: The structure of the respondents of the GAČR project was as follows: 42% of machine producing companies, 32% of consumer industry companies, 26% of electronics. The structure according to size: 53% of small companies with 11-50 employees, 34% of medium sized companies with 51-250 employees and 13% of large companies with over 251 employees.
years with 23 (17%) companies, in more than 10 years with the remaining 28 companies (in half the cases it was organizations founded before 1989). The results show that a marketing conception (represented by the creation of an independent marketing department) was adopted by companies with a delay after 1989 – on average it was 4 years after the establishment of the company. According to a partial report of the research [9,10], it is mainly large production companies that have an independent marketing department, while only a quarter of small and medium-sized companies and a third of service providing companies do.

In the conducted marketing research the production companies were also asked about the character of the trends of selected development indicators, such as profitability, competitiveness – the position of the company on the market, turnover, profit, cost, etc. 69.6% of the studied production companies gave positive assessment of the function of the marketing department as early as 2008. This fact was also shown by the results of the “B2B monitor” study, in which 325 companies operating in B2B segment took part in the fall of 2011. According to the findings, investment in marketing budgets during the economic crisis paid off: 69% of the companies saw turnover growth leading to an increase in the volume of finance. In contrast, companies that cut the marketing activities budget saw an increase in turnover only in 43%. Besides the increase in budget, the placement of investment is a crucial factor. Generally speaking, quality marketing plays a key role in the economic results of companies and its importance increases in crisis times. Over 90% of B2B companies that invested in marketing believe it was the right decision. It is a shame that almost a half of the addressed companies cut the marketing budget during the crisis. Marketing and business directors now admit that cutting the marketing budget during the crisis was wrong. Only 46% of directors consider the decision right, other find it wrong or cannot decide. Thus, the importance of quality marketing in the strategic planning of local companies is increasing.

The results of the original research of the authors of this study, the studies of industrial companies as well as B2B agree that the willingness of the management to manage the company according to a marketing conception is essential for an efficient use of marketing in the company. This includes the clear setting of measurable goals and performance indicators, the qualifications of employees, the definition of their competencies as well as the support of all departments in the implementation of marketing activities and strategic and tactical management of the budget respecting the needs of the market and the possibilities of the company. The respondents from production companies stated the following barriers of the effective application of marketing in the company: “The lack of human resources, work not being the employees’ hobby, insufficient knowledge of the products, a low level of data work automation, bad organization of marketing activities, insufficient exchange of information and its interconnectedness, narrow range of customers.” [10]

4 Conclusion

The above results of the research and their comparison with the research in industry and B2B show that the boom in the introduction of marketing departments in the organizational structure of service providing companies responds to and collides with the economic situation in services, especially with the perceived business climate. The majority of marketing departments were created in the studied companies in periods in which the business climate began to show a significant decline in the demand from service providers and Czech economy was in recession - in 2009. However, marketing was also implemented in services in times when the service sector accelerated, especially due to an increase in the volume of banking and other quaternary services, which caused a significant increase in GVA in 2004 and 2005. That period saw an increase in the purchase power and demand for services and service providers felt the need for a more sophisticated management of the marketing activities of their companies. In sum, services are to a certain extent a stabilizing factor of the economy, even more so if they are less directly dependent on industry. Companies with an independent marketing department have better conditions for prosperity.

References:


