

Management of the diversification of a trading company's activities

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Abstract. The strategy of overcoming the crisis is still relevant for Ukraine's economy: diversification, entering new areas of business and trade, and searching for risks and alternatives have become important tasks after the full-scale invasion in 2022 and the declaration of martial law. The purpose of this study was to investigate the features of diversification of trading activities in crisis conditions on the example of Ukraine. Using the method of statistical analysis, the most effective and popular methods of risk distribution and features of Ukrainian crisis management were identified. The study proved the effectiveness of such diversification measures as the transition of sales to online formats, the use of postal and courier delivery services, duplication of export routes in the process of developing supply chains during martial law, and the expansion of the range of private label products by retailers. Separately, statistics on the dynamics of sales of dietary supplements in Ukrainian pharmacy chains were analysed and it was proved that sales of this group of products increased during the crisis. Based on the data obtained and the conclusions, the need to tackle corruption and immediately reform the judiciary and tax systems was proved, as these are the actions expected by the Ukrainian business community. Using the modelling, a model of enterprise diversification was created. The practical significance of the study lies in the publication of systematic information on ways of diversification, which can be useful for representatives of business and the economic block of power

Keywords: anti-crisis management; risk distribution; online sales; own production; private label

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● INTRODUCTION

In conditions of instability of the global socio-economic environment, enterprises are forced to be able to quickly adapt to internal and external changes to ensure their own survival. An important factor in this case is the ability of the enterprise to diversify its own activities, that is, to penetrate into new areas of activity, open new markets and increase the range of goods or services. Enterprises in Ukraine, as a country with a developed trade infrastructure and a dynamic business environment, are forced to constantly find new methods to improve their management strategies to ensure sustainable development. The situation in the country's economy is currently unique, as the COVID-19 pandemic, to which the business community has learned to respond and adapt its processes over several years, was followed by a full-scale military invasion that further changed the consumer market, introduced changes

in the processes of supplying raw materials, changed the human resources potential, and dealt a powerful blow to financial stability. This led to the need to find new trade routes for purchasing raw materials, build new strategies for personnel management and search, and change the business model of enterprises.

Ukrainian researchers have repeatedly paid attention to the skills of companies to plan future steps and resort to strategic changes. O. Hrabovenko & O. Hrebeshkova (2020) created a model of economic management of enterprise diversification, which provides an exhaustive description of the course of relevant processes and determines the conditions under which reasonable management decision-making is possible. Among the factors of successful diversification management, the researchers attributed cyclicality, goal balancing, comprehensive controlling, a two-level

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approach, and the introduction of evaluation metrics. Investigating the key trends in the Ukrainian practice of developing corporate trading systems, I.P. Mishchuk & K.V. Trofymenko (2022) came to the conclusion that the creation of clusters and participation in business associations lose their effectiveness, but the classic type of business expansion – the creation of joint-stock companies – remains an effective tool for trading corporations and is the main diversification trend in Ukraine. D.S. Zaitsev & M.V. Litvynenko (2021) attributed assortment policy to the strategic aspect of the trading company's activity. According to their conclusions, expanding or, conversely, narrowing the range of sales is the very lever through which key sales management takes place in the company. Accordingly, the new management system in the development of the product range of retail enterprises should be based on constant feedback from consumers regarding their wishes and expectations.

Diversification of a trading company as an additional source of competitive advantages was considered by V. Proskura & V. Rosokha (2023), paying special attention to the classification of diversification into vertical, which implies the separation of manufacturing enterprises, and horizontal, where divisions operate in the same industry and even compete with each other. Considering both approaches, the researchers come to the conclusion that from the standpoint of competitive advantages, the most optimal is a concentric form of diversification, which does not force the enterprise to change its key profile, but involves expanding the range of goods and services similar to existing ones. K. Kuznetsova & G. Zavadskykh (2021), who investigated the features of developing strategies of small trading enterprises, proved that the successful launch of a small trading company requires clearly formulated ambitious goals, careful market analysis and identification of its own unique trading offer, and reasonable inclusion of such advantages as location, friendly relations with suppliers, narrow market focus.

It is important to note that almost any diversification activity requires funding and additional investment. A. Loi (2023), defining strategies for using such funds, argued that the company, first of all, should clearly define its goals and needs and assess possible risks. Using the example of "METRO Cash and Carry Ukraine" network, the researcher proved that choosing the right strategy for connecting additional financial flows is the key to the further success of a trading enterprise. The greatest development potential in the modern world is found in those trading companies that introduce online sales to their traditional sales channels. O. Shaleva & I. Sereda (2023), who dedicated their work to the capabilities of online stores, described the process of creating them and their advantages over traditional retailers operating in an offline format. Having investigated the synergistic effect that arises from the combination of digitalisation and a balanced assortment policy, the researchers conclude that traditional sales can only be an adjunct to online trading. However, most of these and similar studies did not address the issue of diversification in the context of cumulative effect of the COVID-19 pandemic in 2020-2021 and a full-scale invasion of Ukraine. The purpose of this study was to determine the specifics of managing the diversification of trade enterprises in modern Ukraine.

● MATERIALS AND METHODS

The study used methods of statistical analysis and synthesis. The comparison was also used to contrast indicators for several previous years to obtain not only statistical data at the moment, but also to track the dynamics of processes in such a key indicator of trade entrepreneurship development as the number of business entities by type of economic activity. These indicators were additionally compared in the context of two types of business entities – enterprises and individual entrepreneurs (sole proprietors). As part of the theoretical study, the impact of the COVID-19 pandemic and the subsequent quarantine regime in 2020 and 2021 on the processes of diversification in the trade industry was analysed, and the synthesis method systematised and combined data on the transfer of part of sales by a number of retail operators to an online format with the involvement of postal and courier structures.

The materials used for this study included operational and archival data from the State Statistics Service of Ukraine (Number of economic entities..., 2023). The open access data held by the Ministry of Economy of Ukraine (Register of data sets..., 2023), current laws and regulations (Law of Ukraine No. 904-IX, 2020), and observations by GfK (Analysis of the PL development..., 2023) on consumer behaviour towards private label (PL) products were used. Using the method of statistical analysis, the increase in the share of diversified enterprises during crisis conditions in the economy was investigated.

Based on the data obtained during the study of the state of business in Ukraine by the Advanter Group companies in cooperation with the Ministry of Digital Transformation and the Ministry of Reintegration of Temporarily Occupied Territories, the study also analysed business problems and the most important tasks for the economic block of the government from the standpoint of 753 owners and managers of small and medium-sized businesses. By using the induction method, data on the dynamics of total sales in the pharmacological market in previous years and, in particular, dietary supplements were identified and extrapolated to the retail market as a whole. This information was analysed as a special case of diversification of the trade enterprise's activities in the direction of creating an economic "safety cushion".

Based on the modelling, a theoretical model of diversification of a trading enterprise was created in the form of a flowchart, which shows the conditions for the emergence and interrelation of various components of the phenomenon, and the influence of external and internal factors, awareness of the need and substantiation of the feasibility of diversification. Using the descriptive method, based on the data obtained, the further development of diversification in Ukraine among companies specialising in trading activities and the prospects for business expansion in this area were described, in particular, what actions the business community expects from the economic block of power, so that its further steps on diversification are effective and bring the expected profit.

● RESULTS

The impact of the COVID-19 pandemic on the global economy is difficult to overestimate – entire industries, such as tourism, hotel, and show business, were forced to stop or

significantly reduce any activity for a long period of time, and a large number of companies went bankrupt. However, if at the beginning of 2022 the rest of the world began to gradually recover from the consequences of the coronavirus and the forced isolation regime, then for Ukraine, on the contrary, the conditions of economic activity have become even more critical. The multiplicative effect of the pandemic crisis and the subsequent full-scale military crisis forced Ukrainian businesses to look for opportunities to minimise risks and diversify their further activities.

During the pandemic restrictions, when traditional trading, with a few exceptions, was restricted, many trading companies and consumers discovered the benefits of online orders and contactless purchases. An indicator of these processes was the growing statistics of online sales. In 2020, Ukrainians spent more than UAH 107 billion on online purchases, which, according to the news portal, is 41% higher than the same indicator in 2019 (Number of the day..., 2020). During the year, the number of online payments increased by half, which also illustrates the diversification processes of that period – in order not to lose business, trading companies quickly changed their market strategy, transferring their retail outlets, showrooms, and cash registers to a contactless electronic format. Those enterprises that managed to diversify their operations in time not only retained their business, but also made additional profits at the expense of companies that failed to digitise and were forced to leave the market. A separate factor in the strengthening of e-commerce was the adoption by the Verkhovna Rada of Law of Ukraine No. 904-IX “On Amendments to Article 19 of the Law of Ukraine ‘On

Medicinal Products’ Regarding Electronic Retail Trade of Medicinal Products” (2020), which allowed e-commerce of the relevant goods, significantly enhancing diversification processes in the pharmaceutical industry.

The next test for the ability to manage diversification processes in crisis conditions was 2022. Despite the temporary loss of certain territories and localities, the number of online purchases in Ukraine in 2022 almost recovered and amounted to three-quarters (77%) of the indicators of 2021 (Everyone needs smartphones..., 2023). This fact shows that the Ukrainian segment of trade was able to cope with the second crisis in a row and, using the diversification of sales channels, responded in a timely manner to changes in consumer expectations and general market conditions.

In the context of crisis management analysis and risk distribution, special attention should be paid to the powerful development of courier delivery and postal services as an example of a company’s diversification in response to market needs. A clear example of the expansion of trade specialisation is the Rozetka and OLX market places – reflecting the need of customers to physically receive the purchased goods, the former created their own extensive network of export points with free delivery, while others implemented the “OLX-delivery” system, through which 11 million orders were sold in 2022, which was twice as high as in 2021 (Everyone needs smartphones..., 2023). According to the State Statistics Service of Ukraine, the number of commercial enterprises in the period from 2019 to 2022 had a negative trend, but insignificant (Number of economic entities, 2023). More detailed information is shown in Figure 1.

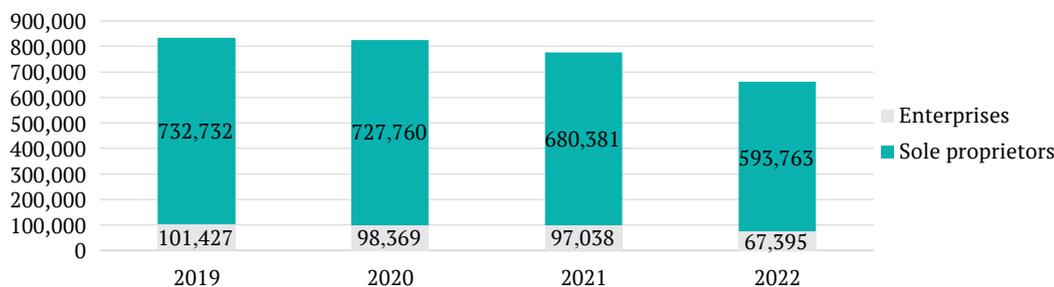


Figure 1. Number of sole proprietorships in Ukraine by year

Source: compiled by the author based on Number of economic entities by types of economic activity (2023)

The trend shown in Figure 1 confirms the fact that in the process of passing through two consecutive crises, Ukrainian business suffered losses in quantitative terms. Firstly, not all trading market operators have focused on time and reallocated existing resources to such new market niches as e-commerce and contactless sales. Secondly, some of the companies were destroyed by invasion and military operations. Thus, this trend is typical for both commercial enterprises and sole proprietors. However, those companies and entrepreneurs who were able to diversify not only retained, but also strengthened their own positions in the sales market, and the existing drop in the nominal number of legal entities by only 20% over the three crisis years does not look critical. Further challenges and obstacles faced by Ukrainian business, and the most important tasks that commercial structures expect

the economic block to address, were investigated as part of the Initiative for economic recovery, business development and export of Ukraine (2023). According to the conducted Study of the state of business in Ukraine (2023), priorities were distributed according to the bar charts below (Fig. 2). According to the results of a survey of 753 entrepreneurs from all regions of Ukraine, entrepreneurs consider further uncertainty to be the main challenge for business – both in the context of the unpredictable future of the warring state and in the context of the actions of government representatives. Accordingly, crisis management skills and an understanding of the most promising areas of development for risk distribution remain relevant in 2024. The study of the highest priority tasks for the authorities, which was conducted within the framework of the same initiative, is shown graphically in Figure 3.

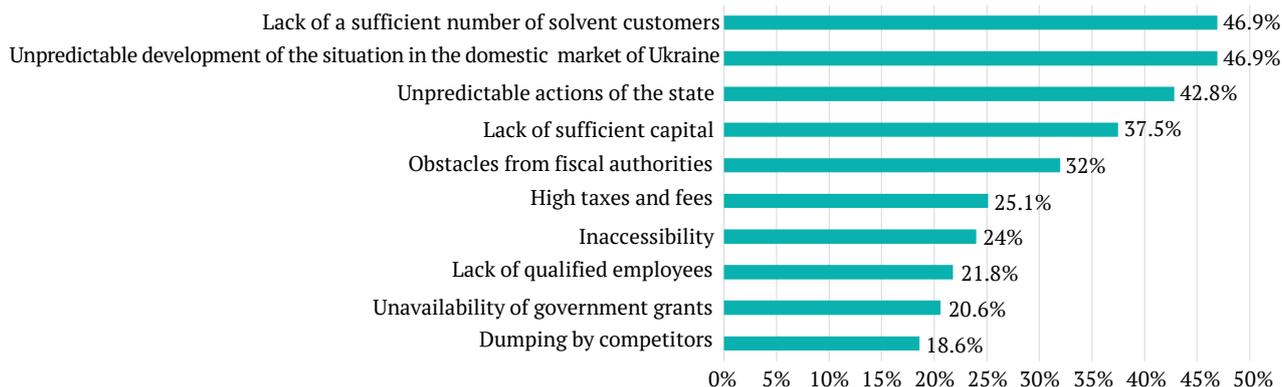


Figure 2. Rating of business problems in Ukraine from the standpoint of entrepreneurs

Source: compiled by the author based on the Study of the state of business in Ukraine (2023)

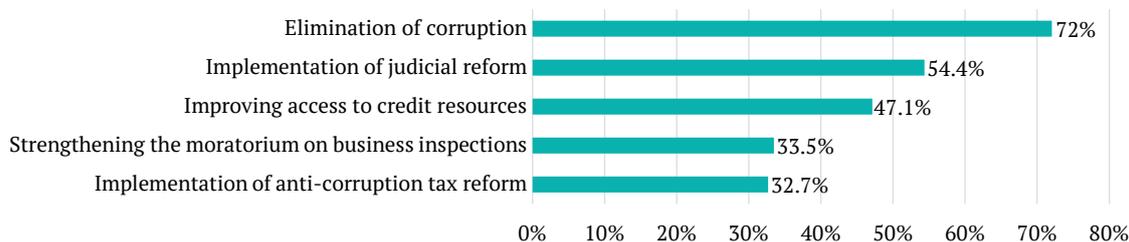


Figure 3. Rating of tasks for the economic block of power from the standpoint of entrepreneurs

Source: compiled by the author based on the Study of the state of business in Ukraine (2023)

As can be seen from the diagram above, entrepreneurs consider defeating corruption and implementing judicial and tax reforms to be key conditions for improving the business climate. Until these expectations of the Ukrainian business community are met, risk diversification may turn into a form of capital flight abroad, which will negatively affect the situation in the country's economy. One of the key vulnerabilities of the trading business is dependence on manufacturers and suppliers of products, and in conditions of uncertainty, it is especially difficult to correctly assess risks, quickly respond to disruptions in the supply of goods, and prevent the breakdown of the manufacturer-distributor-buyer chain. As a result, in crisis conditions, the usual logistics cycles are disrupted, warehouses can either quickly become empty, or, conversely, be overloaded with goods that have lost demand in the new realities.

In order to reduce dependence on third-party factors that the business entity is not able to influence, after weighing all the risks and available resources, the distributor can decide to diversify its activities towards its own production and transform the business into a trading and production enterprise. This step, in addition to guaranteed deliveries and, accordingly, the possibility of confident planning, also gives the company an assortment advantage – having its own production facilities at its disposal, the business can more flexibly manage the introduction of new products that are in demand in the market, or vice versa – quickly remove items from the assortment that have ceased to be profitable.

As an example of assortment diversification, it is worth mentioning the pharmacy market. In particular, according to the assessment of a specialised publication Apteka.UA newspaper (n.d.), since 2017, the share of dietary supplements

in retail sales of pharmacies has been growing by 1% annually. This growth is approximately UAH 1.5 billion per year, and, in relative terms, corresponds to global trends observed in the markets of Europe and America. In 2020, the COVID-19 pandemic further stimulated demand for dietary supplements, bringing the share of dietary supplement sales to 7% of the total pharmacy market. Moreover, the full-scale aggression in 2022 and the resulting decline in the purchasing power of the population and the relocation of a significant share of the target audience only strengthened the position of dietary supplements, increasing their share in the retail pharmacy market as of the first half of 2023 to 10%. Thus, pharmacies that once shared the risks and included dietary supplements in their range were able to compensate for losses from reduced turnover in other product categories with the help of additional profit in this product niche.

Another case of high-quality management of diversification processes is the export channels of Ukrainian grain during martial law and the increased danger of navigation in the Black Sea. Due to a well-thought-out policy regarding the distribution of risks and the use of both the so-called sea “grain corridor”, and the transportation of grain by river through the Danube estuary and the use of rail transport, Ukraine managed to increase exports of a number of grain crops in 2022. According to the Deputy Minister of Economy T. Kachka, up to 25 million tonnes of corn, 2 million tonnes of soybeans, and 2.7 million tonnes of sunflower seeds were exported (Ukraine exported..., 2023). Revenues from the sale of these volumes partially covered the losses of the economy from the decline in exports in other industries, which is also an illustration of sound diversification.

An important tool for diversifying retail trade enterprises (mainly network ones) is the inclusion of PL in the product range. Trading companies order such products from manufacturers under their own brand and, accordingly, sell them exclusively through their own sales channels. Since such products are cheaper than familiar brands without a significant loss of quality, the demand for PL products is increasing due to a number of crisis factors for the population. According to the results of GfK's observations, sales of Ukrainian PLs in the first half of 2022 increased by +35% compared to the same period in 2021 (Analysis of the PL development era, 2023). Thus, by diversifying their risks, retail chains have become a supplier of unique low-cost products and do not lose profits, even if the demand for familiar brands decreases.

In the current economic and political realities, it is important for the Ukrainian commercial environment not only to determine the impact of social factors on diversification processes, identify and classify factors that influence management decision-making in the company, but also to create applied models of diversification processes that are substantiated by complex mechanisms. One of the variants of such a structural model-scheme is shown in Figure 4.

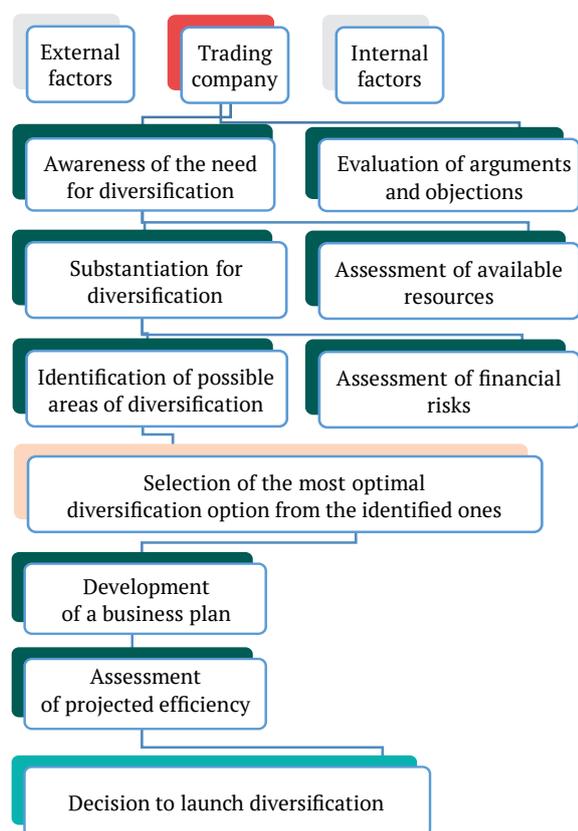


Figure 4. Conceptual model-scheme for launching diversification processes by the management of a trading enterprise

Source: developed by the author

As can be seen from the analysis and data obtained, risk diversification is an important factor in business activities even in normal conditions, and during crises, managing diversification processes becomes many times more

important. Since Ukraine and its economy have been in a state of permanent crisis since 2020, high-quality anti-crisis management and balanced risk distribution are vital for the very existence of the state. At this stage, the government and business jointly manage to solve pressing issues, using such forms of diversification as building trade and production associations, reviewing assortment policy, online sales, maintaining operational feedback with consumers, searching for new logistics channels, and developing PL.

However, as noted above, the business community has a clear request for reforms that can solve a number of problems at the system level, not just reducing some threats, but completely neutralising them. If tax and judicial reforms in Ukraine are not implemented in the near future, there will be a risk of leakage of production capacities and capital abroad, which is also a form of commercial diversification.

● DISCUSSION

Diversification of a trading company's activities has many dimensions and is usually addressed not only in crisis circumstances. It is through diversification that the company has the opportunity to explore new areas of activity that can minimise future risks and ensure sustainable development. It is not uncommon for an additional vector of development to become more promising over time than the main ones. The experience of other countries in this matter quite often appears as objects of research.

G. Li *et al.* (2022) considered diversification as a way to mitigate supply disruptions and guarantee the sustainability of the supply chain – it is the effectiveness of this option to minimise risks that was also discussed in this paper. Despite some departure from stereotypical views, the researchers proved that a manufacturer can have an incentive to share insider information about demand with its supplier, and such an exchange of information can even increase the reliability of supply. It was found that in the case when the reliability of supplies is low, the manufacturer still prefers diversification. The impact of hidden diversification on macroeconomic stability was described by D. Lederman *et al.* (2021). As mentioned above, in the event of increased pressure within the parent market, the business has a fallback option in the form of relocating abroad. This hidden diversification, in contrast to the more familiar internal risk management, considers the potential movement of production capacity and capital to countries where the company has previous export experience, and creates an additional reserve in case of forced relocation. In the Ukrainian context, such a movement of resources can be critical for the economy.

Diversification of export channels, as a method of protecting supplies, which was also used in Ukraine in relation to grain, became the object of research by V. Sarin *et al.* (2022). The researchers analysed almost a hundred papers on the topic published in various scientific journals. Most of these sources proved the positive impact of export diversification on economic growth, which confirmed the need to duplicate supply channels by various transport routes – sea, rail, and road. If one or two channels are temporarily blocked (as was the case with the “grain corridor”), the trading campaign will not spend resources searching for alternatives. S. Gopal *et al.* (2021), exploring the boundaries of diversification processes in emerging

economies, found that traditionally dominant business groups in such countries diversify by expanding the scale of existing subsidiaries and creating new ones. Such manipulations, which only have the appearance of competition, but in fact are a form of internal cartel collusion, negatively affect the economic and investment climate of the country. Since this topic is also relevant for Ukraine, it is important to realise that a high-quality tax reform is a guarantee of preventing such transactions – this was the subject of the analysis of urgent requirements from business to the Ukrainian authorities.

Export diversification in developing countries was also discussed by S.A. Carrasco & E.D. Tovar-García (2021), assessing the structure of the external sector of the economy. The researchers identified features that demonstrated a certain relationship between economic growth and the consequences of economic reforms. Based on a sample of 19 developing countries and using the dynamic panel data method, it is found that the structure of exports and export diversification have little impact, while the domestic content of exports and the share of high-tech products in them are of importance. However, the results of this study call into question this statement, since the diversification of Ukrainian exports turned out to be an important factor. The Portuguese scientist F. Esposito (2022) developed his own theory of calculating risks in trading. According to the diversification index, which depends on the ratio of demand in the country and in its neighbouring countries, a trading company can make additional profits if it takes deliberate risks. Using statistics from a number of trading companies, the researcher demonstrated that the “diversification index” significantly affects the size and stability of profits, and risk diversification increases trading income by 17% compared to neutral risk models.

As mentioned above, one of the most effective ways to diversify risks for a trading company is to introduce PL to the product range. On the one hand, the company does not turn into a production company, saving money on the purchase and launch of industrial equipment, on the other hand, it is guaranteed to receive high-quality exclusive goods at an affordable price. The advantages of this approach were described by K. Gielens *et al.* (2021), who confirmed that over the past 40 years, the volume of production under PL has been steadily increasing worldwide. Due to modern monitoring technologies, retailers are able to collect and analyse huge amounts of data, which is used to understand the diverse needs of customers and respond accordingly. Similar conclusions regarding private stamps were also reached by M. Sansone *et al.* (2021), who confirmed the hypothesis that the trust of a particular seller extends to its PL, despite the fact that the actual manufacturer of these products is another company. The influence of the coronavirus pandemic on the diversification of trading activities in the field of e-commerce was investigated by L. Eger *et al.* (2021). By examining the impact of COVID-19 on the structure of the retail market and consumer purchasing behaviour, the researchers have shown a significant increase in the share of online sales and a corresponding increase in offers from former offline networks.

P. Aversa *et al.* (2021) conducted a longitudinal study of Amazon's business model diversification, and demonstrated how the company's use of the network effect and the

single window effect drives sales growth. The competitive advantage of sales in the digital space was also investigated by D. Pernot (2021). The researcher proved that the popularisation of online order pickup, as discussed in this study, allows consumers to adopt a diversified shopping practice that can be easily integrated into their personal schedules. It was the activation of these service areas during the pandemic that was discussed above – the new shopping algorithm provoked by the pandemic turned out to be not only safe, but also convenient for many conservative consumers.

Another dimension of diversification processes against the background of military aggression, which was discussed in this paper, is risk management on the part of European states. As noted by M.A. Ruiz Estrada & E. Koutronas (2022), numerous restraining sanctions imposed against the aggressor country, forced to change trade chains not only at the European, but even at the transcontinental level. The refusal of energy carriers from sanctioned sellers forced them to diversify their energy activities and find more reliable suppliers of natural oil and gas. A similar network analysis of the impact of war on the economy of third countries was also conducted by E. Braun *et al.* (2023), who came to the same conclusions – the rejection of the products of the aggressor country and the diversification of energy suppliers added constancy and predictability to European economy.

In general, high-quality management of diversification processes is a guarantee of development for any trading company. Businesses that are unable to adapt to rapid external and internal changes are forced to leave the modern dynamic market. Business leaders need to keep constant feedback from both consumers and competitors to understand the mood and prospects of the industry.

● CONCLUSIONS

As a result of the analysis of statistical data, the dynamics of the number of commercial enterprises and sole proprietors for several previous years, including the first year of a full-scale war, was revealed. Despite a certain decline in indicators, it can be concluded that in general, the industry withstood the blow and avoided a catastrophic scenario. In addition, based on the example of the pharmaceutical business, some positions, on the contrary, increase their economic attractiveness in crisis situations. The results obtained indicate a high level of risk diversification management in Ukraine – both in the case of forced transition of sales from the traditional to the electronic and courier sector, and in the case of expanding the range of retail chains with products of PLs, and in the case of redirecting logistics flows of export products bypassing the temporarily occupied territories. Accordingly, there is every reason to be sure that the Ukrainian anti-crisis management will cope with future challenges, having calculated in advance alternative diversification ways that will minimise risks.

This study allows identifying the factors that influence managerial decision-making in diversification processes in order to open new ways of development and ensure effective operation. This applies both to managing real sales channels and export logistics chains, and to strengthening the role of e-commerce, virtual marketplaces, and postal services. However, the request of the Ukrainian business community regarding the implementation of reforms and

the elimination of corruption remains unanswered. If the authorities continue to ignore proper communication with private business, there is a risk that human and production resources will flee abroad. A comprehensive analysis of such a negative scenario may be the topic of the next study.

● ACKNOWLEDGEMENTS

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● CONFLICT OF INTEREST

None.

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Управління диверсифікацією діяльності торговельного підприємства

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Анотація. Для економіки України стратегія подолання кризових явищ досі актуальна: диверсифікація, вихід підприємства в нові сфери діяльності й торгівлі, пошук ризиків та альтернативних шляхів стали важливими задачами після повномасштабного вторгнення у 2022 році та оголошення воєнного стану. Метою даної роботи було дослідження особливостей диверсифікації торговельної діяльності в кризових умовах на прикладі України. Завдяки методу статистичного аналізу були виявлені найбільш ефективні та популярні методи розподілу ризиків та особливості українського антикризового менеджменту. У результаті дослідження була доведена ефективність таких диверсифікаційних заходів, як перехід продажів в онлайн-формати, використання поштових служб та служб кур'єрської доставки, дублювання експортних маршрутів у процесі формування логістичних ланцюжків у період воєнного стану, а також розширення роздрібними торговими мережами асортименту продуктів під власною торговою маркою. Окремо було проведено аналіз статистики щодо динаміки реалізації біологічно активних добавок в українських аптечних мережах та доведено, що продажі цієї групи товарів під час кризових станів зросли. На основі отриманих даних та зроблених висновків була доведена потреба в подоланні корупції й негайному реформуванні судової та податкової систем, оскільки саме цих дій від влади очікує українська бізнес-спільнота. За допомогою методу моделювання було створено модель диверсифікації діяльності підприємства. Практична значимість дослідження полягає в оприлюдненні систематизованої інформації щодо шляхів диверсифікації, що може бути корисна представникам бізнесу та економічному блоку влади

Ключові слова: антикризовий менеджмент; розподіл ризиків; інтернет-продажі; власне виробництво; приватна марка