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Development of product promotional strategy considering the risk of non-demand

Nataly Podolyakina^{a*}, Yelena Popova^a

^a Faculty of Management and Economics, Transport and Telecommunication Institute, Lomonosova str. 1, Riga, LV-1019, Latvia

Abstract

The present research is devoted to the modern methods of evaluating the organization ability of development within economic crisis. Peculiarity of strategic planning is underlined in this research. The goal achievement is limited by the risk of non-demand of products or services. Assessing this risk is company task in the process of strategic plan development. Present research allows summarizing the reasons of non-demand occurrence, describing the procedure of non-demand risk assessment. There presented analysis of services prospects, the level of risk of study programs non-demand, and the risk of launching the service. There presented the recommendations for decreasing non-demand risk.

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1. Introduction

During existing situation of economic downturn many entrepreneurs face their products or service demand decline. There are many factors needed for success in business. One of these factors is strategic planning tool appliance. Strategic planning is fundamentally different from other types of planning, and this difference occurs not in degree of plan detailed elaboration, its structure or planning boundaries, but in planning direction decision.

* Corresponding author. Tel.: +371 26431628.
E-mail address: Podolakina.N@tsi.lv

Traditionally, this direction of planning is chosen and forwarded from past to the future. Strategic planning assumes that this vector is built according to another principle, from the future to the past. As consequence, in order to develop this direction manager should possess really unique skills, think and behave strategically, i.e. be able to imagine future success and the way it looks like. One of the most inspiring examples of these kind of managerial strategic skills is Apple Company, which has got extremely successful growth during financial crisis which has been possible due to CEO and one of the co-founder of Apple Steve Jobs' managerial talent. Apple products are not the first need products; nevertheless company is growing fast and dynamically, increasing its sales annually.

Thereby, the aim of this research is to identify the level of risk of non-demand for Latvian company offer within the modern economic situation. This research results will allow developing the promotion-marketing plan for the company offer, directed on decreasing the risk of non-demand.

2. Non-demand reasons

The fundamentals of modern management theories make possible to assume that the importance of any corporation is defined not by its internal or external structure but the way how the corporation demonstrates itself within the system where it is included as a component.

Strategic plan development is a system of consecutive decision making on corporate level, presupposing target condition determination, which company will seek for in its development (David, 1986).

Strategy is integral and coordinated set of liabilities and activities developed for employment of fundamental competences and obtaining the competitive advantage (Hitt, Ireland & Hoskisson, 2011).

In case the company would like to utilise the possibility of employment of all resources the company has or can have and to use all the prospects presupposed by the external environment, it should choose the strategy, allowing achieving the goals as soon as possible and with minimal possible risk level.

In order to understand and determine what kind of future development we forecast for our organization, first of all, it is necessary to evaluate the prospects and business risks, in which it is involved.

There are many risks which company faces in the process of functioning in the market economy circumstances. However despite the type or field of activity every organization faces the risk of non-demand of offered products and services.

Risk of non-demand emerges when consumers do not wish to buy company products or services; this risk is assessed according to the span of possible material and moral damage the company has due to this reason. Different approach to this risk is simultaneous possibility of identifying the level of financial investment risk existing for the business owners.

The risk of non-demand is determined and affected by various factors. Traditional classification of risk of non-demand for services is based on visible non-demand phenomenon. For instance, one of the obvious external reasons is consumers' inability to pay; one of the evident reasons of inability to pay is a physical absence of cash or other payment assets. Nevertheless, the deep analysis of the nature of this event manifests that not only the consumer but also the seller are involved in the existing problem of power to purchase goods and service.

Consumer is a need bearer by definition; the offered services have certain value for him and satisfy his need; in other words, every service is oriented on satisfying the particular need of the consumer. The fact of absence of financial funds for buying this particular oriented service does not eliminate the need of consumer. Necessity is objective thing. If necessity exists and manifests itself, it means, it should be satisfied. However, the lack of necessary financial funds becomes the obstacle for the consumer for buying the service in demand, offered by company.

Consequently, deep reason of services non-demand is not the absence of the financial funds but a structure of economic relations between organization and its customer. Therefore, in order to make any conclusion about risk of non-demand due to lack of finance, it is necessary to have a detailed research about economic relations, which can occur between company and consumer during the service selling process. There are many possible options in this area. In case the payment on the spot is not available for the consumer, the other ways to have a deal between the parties can be implemented, i.e. leasing, loan for buying goods, forfeiting, buying in instalments and etc. The deep serious analysis of various forms of deal between buyer and seller allows discovering the real reasons of non-demand occurrence; it is also possible to plan the ways of overcoming the existing difficulties.

There are three main types of non-demand described in theoretical basis; these kinds of non-demand are also considered in this research.

First, there is a risk of non-demand, which is conditioned by consumer preferences dynamic structure. External and internal surrounding influence consumer's choice and he can refuse traditionally purchased and consumed service. Estimating this type of risk requires assessing the probability that customer's system of preferences coincides with the service properties at the moment when the customer considers the possibility of buying this service.

Non-demand risk can be conditioned by disparity between the service value estimated by customer and by seller; otherwise, two different sides of deal have different estimation of quality, price, selling conditions and system of guarantees and cannot match each other. Assessing this kind of risk is crucial for answering the question, what is a probability that the customer's and seller's vision of quality, price and selling conditions totally correspond to each other.

Another possible risk of non-demand is related to the scientific and technical progress. Scientific and technical progress is the reason of exchanging the existing services, suggested to the customer, with other ones, which are able to satisfy the customer's needs better and cheaper. Estimating this type of risk requires the assessment of probability that investments in this business, necessary for producing the considered type of service, will give real return before the possible future solution occurs and becomes more technologically advantageous. (Podolyakina & Miscenuks, 2011).

Risk of non-demand can occur also due to the competition influence within the particular market. In this case the estimation of this type of risk requires the assessment of probability that the offered product is more preferable for the customer compared to the competitors' one'.

And finally, risk of non-demand of product or service might be conditioned by buying uncertainty. Every service buying process is related to the buyer's uncertainty when consumer is thinking about the service value for him, what kind of problems can occur and what kind of risks are connected with this buying decision for the consumer. Customer should be sure that his hopes would come true after this purchase. Estimation of this kind of risk requires the assessment of probability that the customer is able to overcome this buying uncertainty towards the offered product (Yefremov, 2001).

3. Risk of non-demand assessment

The efficient strategic activities within the context of thoroughly integrated formulation of strategy and efforts, oriented on its implementation, should provide the positive results (Crook *et al.*, 2008).

Having assessment of different risk categories for every potential product or service with employment of taxonomic analysis for the set of estimates it is possible to separate all services into two subsets – prospective ones and non-prospective ones (Yefremov, 2001).

The fundamentals of taxonomic analysis are operations with matrix. This type of analysis not only takes into account the values of absolute rates, but also allows eliminating their different variations. Taxonomic analysis allows comparing objects, which are characterized by variety of indicators; they solve the problem of multidimensional statistical material order and regulation in one quantitative characteristic; they also consider the possibility of development of a generalized estimation of complex object or process (Ashmanov, 2001.). The example of this type of evaluation is given in Table 1.

Risk categories assessment can be heterogeneous because of risk factors, which are revealed differently in different business spheres and situations. Therefore in order to eliminate the misrepresentation in further analysis it is necessary to work out the special procedure of risk standardization. This procedure is based on X_{ij} and Z_{ij} indicators replacement calculated according to formulae 1 and 2 (Yefremov, 2001):

$$Z_{ij} = \frac{X_{ij} - \overline{X_j}}{\sigma_j} \quad (1)$$

and

Table 1. Different types of risk of non-demand assessment for products within the market

Service name	Risk assessment						
	Risk 1	Risk 2	Risk 3	.....	Risk j	.....	Risk n
Service 1	X_{11}	X_{12}	X_{13}	.....	X_{1j}	.....	X_{1n}
Service 2	X_{21}	X_{22}	X_{23}	.....	X_{2j}	.....	X_{2n}
Service 3	X_{31}	X_{32}	X_{33}	.....	X_{3j}	.....	X_{3n}
.....
Service i	X_{i1}	X_{i2}	X_{i3}	.....	X_{ij}	.....	X_{in}
.....
Service m	X_{m1}	X_{m2}	X_{m3}	.....	X_{mj}	.....	X_{mn}

$$\bar{X}_j = \frac{1}{m} \sum_{i=1}^m X_{ij} \text{ и } \sigma_j = \left[\frac{1}{m} \sum_{i=1}^m (X_{ij} - \bar{X}_j)^2 \right]^{\frac{1}{2}} \tag{2}$$

where $j = 1, 2, 3, \dots, n$;

X_{ij} is a risk of category value j for service i ;

\bar{X}_j is a mean of risk of category j ;

σ_j is a standard deviation of risk of category j ;

Z_{ij} is a risk of category standardized value j for service i .

In order to make decision about every particular service and its prospects, some kind of service characteristic reference value should be taken; comparison of the company indicators with this reference standard can prove that this particular service is prospective. This will be peculiar starting point.

The service with minimal level of non-demand risk is chosen as reference one. Then the standardized values of risk of category j for this reference product θ will be determined as minimal among all values for this particular category of risk:

$$Z_{0j} = \min_i Z_{ij}, \tag{3}$$

The distance between services and reference service in the space of standardized risk estimations will be calculated according to formula 4 (Yefremov, 2001):

$$C_{i0} = \left[\sum_{j=1}^n (Z_{ij} - Z_{0j})^2 \right]^{\frac{1}{2}} \text{ (} i = 1, 2, 3, \dots, m \text{)} \tag{4}$$

After calculating the space between all services and reference service within the risk area according to the above described procedure, it is possible to define the vector, which can be shown as follows:

$$C = \begin{bmatrix} C_{10} \\ C_{20} \\ C_{i0} \\ C_{m0} \end{bmatrix} \tag{5}$$

The obtained spaces are original values in order to calculate Di indicator of prospects for each i- service:

$$D_i = 1 - \frac{C_{i0}}{C_0} \tag{6}$$

where

$$C_0 = \overline{C_0} + 2S_0 \tag{7}$$

$$\overline{C_0} = \frac{1}{m} \sum_{i=1}^m C_{i0} \tag{8}$$

$$S_0 = \left[\frac{1}{m} \sum_{i=1}^m (C_{i0} - \overline{C_0})^2 \right]^{\frac{1}{2}} \tag{9}$$

Indicator of promise D_i i- service can be interpreted as follows: this service is the more prospective the closer is the value of indicator to 1. There takes place the decision making procedure on determining the services as prospective ones or non-prospective ones due to the risk of non-demand on the market; it comprises determining the average level of prospects and can be obtained as follows:

$$\overline{D} = \frac{1}{m} \sum_{i=1}^m D_i \tag{10}$$

In order to ensure the clearness and validity of decision making indicators of prospect, the calculating results can be arranged as a table, which takes into account list of services and level of risks assessment.

4. “AUTOSKOLA” Company services perspectives analysis

There is consideration of analysis of prospective services for “AUTOSKOLA” Company. Assessment results of prospective services offered by “AUTOSKOLA” are given Table 2.

Estimates of different categories of risk for every of the study programs, obtained via the expertise procedure, are presented in Table 1; there are also the values of indicators for prospective services, calculated on the basis of these expert estimations.

Table 2. Assessment of non-demand risk categories for “AUTOSKOLA”

Service name	Risk evaluation						D	
	Risk 1	Risk 2	Risk 3	Risk 4	Risk 5	D		
Drivers' education for A category driving license	0.7	0.3	0.9	0.8	0.5	0.6	+	
Drivers' education for B category driving license	0.9	0.4	0.9	0.8	0.4	0.7	+	
Drivers' education for BE category driving license	0.9	0.3	0.9	0.8	0.4	0.2		
Drivers' education for C category driving license	0.7	0.9	0.7	0.7	0.7	0.6	+	
Drivers' education for CE category driving license	0.9	0.7	0.6	0.6	0.8	0.7	+	
Drivers' education for D category driving license	0.9	0.7	0.6	0.7	0.6	0.7	+	
Help in driving skills recovery lost after long pause in a car driving	0.7	0.8	0.3	0.8	0.5	0.3		
Driving skills education in extreme conditions	0.7	0.8	0.3	0.8	0.5	0.4		
Qualified teachers' consultancy about rules of the road	0.8	0.7	0.8	0.5	0.4	0.5	+	

The last column of the table contains the outcomes of prospective services offered by “AUTOSKOLA” from the point of view of non-demand risk.

The outcomes of the conducted analysis show that company has to optimize the variety of offered services, in particular to motivate the enrolment of students and to develop training programs.

It is possible not only to define risk of non-demand of services offered, but also to forecast the level of market launch risk for a brand new service.

There known several ways of risk forecasting. Expert appraisals (sometimes, especially in small and medium business, the intuitive risk assessment is used, based on experience and entrepreneur talent); risk assessment with employment of statistical and probability methods, based on theories of decision making; grading risk assessment.

The most accessible and therefore widely spread method of risk evaluation is based on the market conditions analysis, taken as a measure of risk indicators of variability and sustainability of the main market parameters, as well as development of trend characteristics. The more intensive the variations are, the higher the risk is, ceteris paribus. The larger the market capacity is, the better the trends are and the lower the risk is.

The grades are assigned on the basis of these data by the experts.

Every risk (R) is described by definite number (n) with i factor (risk criteria), usually not more than ten. Every value is ranked by probable risk degree and standardized, that is graded (Bi) from 1 to 10. With an allowance for risk capacity degree, for every of mentioned factors its weight (Wi) is assigned (by expertise); they should reflect a share of risk in an entire risk volume. Sum of all weights is equal to 1. Absence of any of factor is graded by zero. Factor grade is multiplied by appropriate weight and sum of all results represents the level of the given risk:

$$R = \sum_i^n B_i W_i \tag{11}$$

The closer R to 1, the lower the risk is; the closer R to 10, the higher the risk is. There is a concept of risk areas. Risk area is presented by the limits; if the risk is within these limits, it is supposed to be accessible. Risk boundaries are shown as a value of risk average level (R). Table 3 shows the risk area scale.

Table 3. Scale of risk area

Boundaries of risk area	0	0.1 – 2.5	2.5 – 5.0	5.1 – 7.5	7.6 – 10
Risk area	Without risk	Minimal	Heighten	Critical	Impermissible

There is a calculation of average level of risk for «AUTOSKOLA» Company at completing stage of the process of development of new offer (Driving education in extreme conditions). The type of risk to be considered here is the danger of not attracting the necessary minimum of students; having insufficient return on investments in labor (teachers) and training simulators (they allow preliminary training without car and developing extreme driving skills simulating danger situation on computer); then not gaining the desirable level of profit.

Authors of the present study have selected 10 factors (criteria) of risk. The grades, corresponding to the existing situation and based on data obtained as a result of marketing research, are assigned by the experts. Grades are assigned to every factor, representing the risk degree for this factor, as well as its weight, which reflects this risk factor role in a risky situation generation. The results of this calculation are given in Table 4.

Thereby, the average level of risk is equal to 3.3. This result means that company is within increased (but acceptable) risk area, at the lower boundary. Following recommendations could be given for new offer development and gaining the competitive advantage:

- Expand extensive advertising campaign for promoting the new offer on the market;
- Create stimulating remuneration system, capable of motivating the employees who have no impact on company financial results but create a platform for new offer promotion on the market and generate the company image on the competitive market.

Table 4. Assessment of risk level

Risk factors	Opportunistic estimation	Grade B_i	Weight W_i	Risk area $B_i W_i$
Market capacity	Middle	2	0.15	0.3
Demand trends and sustainability	Not stable	6	0.15	0.9
New offer competitiveness	High	3	0.15	0.45
Competition intensity	Middle	5	0.08	0.4
Company financial standing	Normal	4	0.08	0.32
Provision with modern technical tools	Normal	3	0.1	0.3
Quality of services	Sufficient	3	0.1	0.3
Marketing level in company	Below middle	1	0.05	0.05
Demand for of this type of services	Good	2	0.08	0.16
Company image in the market	Good	2	0.06	0.12
Total	–	–	1	3.3

5. Conclusion

Modern management conditions determine intensification of competition, exclusion of companies from the market, if these companies are not adapted to the market conditions or are not able to show to the customer the advantages of their product or service; these advantages can present the service/good as the product of first necessity for the customers; in this case the customers are forced to buy these services despite having restricted budget. Thereby in order to survive and develop in existing market companies need to consider the strategic planning and manage their activities, i.e. determine, what will bring them success in the future and assess the possible risk of non-demand of their services.

The situation of recession years on the market manifests that traditional strategic decisions are not efficient enough. It is not sufficient solution to employ the marketing tools which have been used for decades for promoting the goods and services on the contemporary market.

The conditions of economic recession predetermine that the decline of sales revenue in most cases is explained by customers' lack of financial resources. Nevertheless, the research under consideration allows concluding that the products are not sold in case when the consumer does not appreciate the product at required level and the demand for it is not generated; in other words, the risk of non-demand occurs.

It is the reason for assessing the non-demand risk for offered products in the process of elaborating the strategy of enterprise development.

The present research is exemplified by Latvian company; the company business area is theoretical and practical driving training; the research under consideration allows assessment of the risk of non-demand of new offer, the company brings to the market (driving in extreme conditions) and allows working out the recommendations oriented on decreasing the level of non-demand risk.

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