ТЕОРЕТИЧЕСКИЕ И ЭМПИРИЧЕСКИЕ ИССЛЕДОВАНИЯ

ADAPTATION OF BUSINESS PRACTICES TO THE COVID-19 PANDEMIC: EVIDENCE FROM MICRO AND SMALL ENTERPRISES

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Goal: to determine how three business model adaptation (BMA) strategies (namely, product development, market development, and diversification) influence firm profitability through the mediating mechanisms of customer behavioral loyalty and acquisition during the COVID-19 pandemic. **Methodology:** the study is based on a telephone survey of 210 Russian micro and small enterprises conducted in the beginning of 2022. Structural equation modeling is used to test the relationships between three BMA strategies, customer behavioral loyalty, customer acquisition, and firm profitability. **Findings:** three BMA strategies positively influence customer acquisition but have no effects on customer behavioral loyalty. In turn, customer behavioral loyalty and acquisition unequally contribute to firm profitability. Diversification strategy is found to be the only strategy that positively influences firm profitability during the crisis. This effect is mediated neither by customer loyalty nor customer acquisition but is supposedly achieved through the strategic choice of higher-margin destination markets. **Originality and contribution of the authors:** the study contributes to the literature on crisis management by examining the effects of product development, market development, and diversification strategies on firm performance in the crisis environment characterized by shrinking demand and increasing turbulence. Unlike most existing studies, the current study goes beyond testing the overall effect of BMA on firm financial performance in times of crises and uncovers customer retention and acquisition mechanisms that mediate this effect, thus reuniting strategic management and marketing areas.

Keywords: business model adaptation, COVID-19 pandemic, customer behavioral loyalty, customer acquisition, firm profitability.

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INTRODUCTION

The COVID-19 pandemic has changed the landscape of the modern world, modified consumer preferences and made firms discover new sources of competitive advantage. Some firms managed to adapt to the new reality and took advantage of emerging opportunities, while the others failed to change and did not survive the crisis. Extant studies extensively emphasize that in order to survive in turbulent environments, organizations are required to critically reassess and adapt existing business models through shifting their businesses and strategic focuses, becoming involved in new businesses, being flexible and making innovative moves [Le Nguyen, Kock, 2011]. To match the marketplace changes and gainfully engage with customers, employees and resources, companies need to realign their overall constitutions through changes in almost all organizational domains such as marketing, technology, finance, production and operations [Salunkhe, Rajan, Kumar, 2021].

During the COVID-19 pandemic, consumers' demands and purchasing behaviors have been changing fundamentally. Extant studies demonstrate the appearance of new behavioral patterns that manifest in buying less, adopting mindful and sustainable consumption practices, increasing the desire for superior products, becoming more price conscious, etc. [Hoekstra, Leeflang, 2022; Kim et al., 2022]. The scope of consumer behavior changes makes it tremendously important for a firm to adapt business model components related to marketing [Wang et al., 2020; Salunkhe, Rajan, Kumar, 2021]. The most critical marketing-related business model components refer to "what" the firm offers and to "whom", that is value proposition and target customers of the firm [Brunelli et al., 2023].

In the COVID-19 situation, many firms have revised their product and customer portfolios. Some started to produce products that the company had not previously produced, such as face masks. Others started to serve new segments to compensate for the demand reduction among target customers. For example, some agriculture firms shifted their focus from supplying their products to restaurants to directly selling them to ultimate consumers as the restaurant market shrunk. A hotel that was predominantly serving business customers before the pandemic sensed the surge of demand from personal consumers as the domestic tourism grew under closed borders; hence, they adapted their offer to a B2C market to take advantage of the opportunity. Existing studies repeatedly report the cases of crisis-induced business model adaptation (BMA) through new products and new segments during crises [Bourletidis, Triantafyllopoulos, 2014; Cioppi et al., 2014; Kang, Diao, Zanini, 2020; Pal, Andersson, Torstensson, 2012; Kang, Diao, Zanini, 2020; Brunelli et al., 2023]. However, most existing studies are exploratory; they focus on describing how companies adapt business models through multiple-case studies, field observation and anecdotal evidence, but rarely test the effects of BMA on firm performance during the crisis. While these strategies were extensively studied under the normal environmental conditions, there is a lack of studies that examine the effectiveness of these strategies in the crisis environment characterized by shrinking demand and increasing turbulence [Brunelli et al., 2023].

BMA-performance relationship is not evidential. On the one hand, it helps firms adjust their offers to a new reality to ensure survival in a crisis through adopting business measures that allow preventing customer churn, declining revenues and eroding market share. On the other hand, BMA does not come without costs [Saebi, Lien, Foss, 2017; Morgan et al., 2020]. Even if it is done successfully, it can negatively affect firm profitability in the short term. A temporary reduction in profitability can be tolerable if BMA is expected to bring higher returns in the future. However, in times of crises, credit financing is limited, and firm internal resources become more important to self-finance change initiatives [Dörr, Licht, Murmann, 2022]. Hence, the adverse short-term effects of BMA on profitability can be critical in crisis environments. It is especially important for micro and small enterprises that frequently lack resources. Even if they think up ideas to adapt to the new reality, they may merely not survive the crisis because of running out of resources to finance the implementation of these ideas. How does BMA affect firm profitability during the crisis? What BMA strategies are the most and least effective?

The objective of this study is to determine how BMA influences firm profitability through the mediating mechanisms of customer behavioral loyalty and acquisition during the COVID-19 pandemic. Because of unavailability of objective performance indicators, firm profitability, customer behavioral loyalty and acquisition are measured as performance levels in relation to competition as perceived by accountable managers. Subjective perceptions of business performance, though being potentially prone to informant biases, tend to be broadly comparable with objective performance results [Singh, Darwish, Potočnik, 2016].

This study is aimed to fill in the gaps in the literature on crisis coping strategies in three ways. Firstly, we test how three BMA strategies that relate to developing new products and serving new customers (namely, product development, market development, and diversification) influence firm performance in the COVID-19 pandemic. These strategies were frequently mentioned as popular crisis coping strategies used by small business [Bourletidis, Triantafyllopoulos, 2014; Cioppi et al., 2014; Kang, Diao, Zanini, 2020; Pal, Andersson, Torstensson, 2012; Kang, Diao, Zanini 2020; Brunelli et al., 2023]. However, their effects on firm performance are not well understood.

Secondly, we explore the role of customer behavioral loyalty and customer acquisition as mediating mechanisms explaining the effects of BMA strategies. Such an approach is particularly relevant, considering the tremendous differences in the costs of customer retention and acquisition and their consecutive effects on firm profitability. The findings can help firms estimate potential risks and benefits of the usage of three BMA strategies to manage relationships with new and current customers.

Finally, we try to address the call for the expansion of marketing perspectives on business models suggested in recent studies [Ehret et al., 2013; Gatignon et al., 2017]. Extant research on business models is rooted in strategic management and information system domains, but the use of marketing foundations in business model research remains limited [Klimanov, Tretyak, 2019]. At the same time, core marketing activities, such as value proposition, value capturing, segmenting and engaging in networks, allow finding and offering value for the customers in a way that helps in making a business model commercially successful [Klimanov, Tretyak, 2019]. Therefore, marketing-related BMA can help in better understanding how business models can be effectively designed to improve firm performance [Gatignon et al., 2017].

The study is based on a telephone survey of 210 Russian micro and small enterprises conducted in the beginning of 2022. Hence, in addition to theoretical contributions, it has an empirical value and describe the stance of Russian small business in the crisis period of 2020–2021. In particularly, the survey results demonstrate what BMA strategies were adopted by micro and small enterprises in Russia during the COVID-19 pandemic, what BMA strategies proved to be more effective and why.

The structure of the paper is as follows. In the first section, we review existing literature on crisis management and business model adaptation to introduce key terms and scope the research field. In the second section, we develop hypotheses about relationships between BMA strategies, customer behavioral loyalty, customer acquisition, and firm profitability from prior literature.

In the third section, we describe the methodology of data collection and analysis to test the hypotheses. In the fourth section, we present the results of hypothesis testing on a sample of 210 Russian micro and small enterprises. In the fifth section, we discuss the findings and provide practical implications in the context of marketing and strategic management decisions.

THEORETICAL BACKGROUND

Characteristics of a crisis environment

Crisis is "a low-probability, high-impact event that threatens the viability of the organization and is characterized by ambiguity of cause, effect, and means of resolution, as well as by a belief that decisions must be made swiftly" [Pearson, Clair, 1998, p. 60]. A crisis can be germinated inside an organization as a result of internal tensions, management problems, and unexpected events such as hostile takeover, security breach materials, plant explosion, personnel assault, etc. Alternatively, a crisis can emerge from outside-in and be driven by natural disasters, economic shocks, pandemics, etc. This study focuses on the latter type of crises and refers to crises as exogenous shocks that "cause major disruptions to economic systems [Morgan et al., 2020]. Modern management theory does not consider exogenous shocks as exclusively negative events. Rather than merely complicating business routines, depriving firms of resources and threatening their survival, exogenous shocks create promising opportunities "for positive change, for accelerating processes that were stalling, for questioning social and institutional norms, forms and processes and for experimenting with new ones" [Gkeredakis, Lifshitz-Assaf, Barrett, 2021, p. 2]. Whether the crisis is perceived as a threat or an opportunity depends on the characteristics of a crisis environment.

Crises differ by the degree of severity. Crisis severity is assessed subjectively and may not correspond to the actual risk [Trkman, Popovič, Trkman, 2021]. The degree of perceived crisis severity corresponds to the number of consequences, assessed self-relevance, and the likelihood that the crisis will continue to be an issue in the future [Sweeney, 2008]. COVID-19 is an example of a crisis with a large number of consequences as it adversely affected consumer demand and reduced the availability of credit financing, thus limiting opportunities for organic business growth.

Crises differ by the degree of turbulence that they create in the marketplace. Turbulent environments are characterized by "continuous changes in customers' preferences/demands, in price/cost structures, and in the composition of competitors" [Calantone, Garcia, Dröge, 2003, p. 92]. In turbulent environments, it is difficult to get the relevant information for the decision-making situation, therefore, managers have to cope with uncertainty regarding their customers' needs, uncertainty as to which are the best long-term technology and market paths to follow, and uncertainty as to levels of resources to commit to various endeavors [Calantone, Garcia, Dröge, 2003; Duncan, 1972]. When the environment is changing, firms cannot rely on past procedures and practices; rather, they have to learn new methods [Duncan, 1972].

Business model and BMA

In a broad sense "a business model is a conceptual tool containing a set of objects, concepts and their relationships with the objective to express the business logic of a specific firm" [Osterwalder, Pigneur, Tucci, 2005, p. 5]. It represents the firm's configuration of intra-organizational and extraorganizational activities and relations geared towards creating, delivering and capturing value [Saebi, 2014]. The components of a business model are "the firm's value proposition and market segments, the structure of the value chain required for realizing the value proposition, the mechanisms of value capture that the firm deploys, and how these elements are linked" [Saebi, Lien, Foss, 2017, p. 567]. A business model can be defined "as the architecture of relationships between network actors that are used to create and deliver value to the customer and capture profits from these joint activities" [Klimanov, Tretyak, 2019, p.118]. Business models are linked but distinct from business strategies: business models show how the pieces of a business fit together, while strategies also include competition [Magretta, 2002].

Business models are not static. They can change over time. Business model changes can be driven by internal or external factors. They can be radical, incremental, evolutionary. In extant literature distinct terms have been used to describe business model changes, such as BMA, business model pivoting, business model innovation, business model evolution, business model transformation [Saebi, 2014; Spieth, Schneider, 2016; Sanasi, Ghezzi, 2022]. Though these terms are sometimes used interchangeably, they tend to refer to business model changes that differ in their nature and driving forces.

Business model adaptation is "the process by which management actively aligns the firm's business model to a changing environment" [Saebi, Lien, Foss, 2017, p. 569]. It represents an update of the current business model to changes derived from the context and can be innovative or not, depending on the degree of novelty of the changes implemented [Peñarroya-Farell, Miralles, 2022]. Hence, the externally induced nature of business model change is a key defining characteristic of BMA.

Business model innovation refers to a change in at least one business model component [Spieth, Schneider, 2016]. It can emerge as a response to environmental pressures and opportunities or initiated proactively. There is a debate regarding the level of innovativeness required for a business model change to be characterized as business model innovation. Some researchers argue that a business model is innovative if it is new to the whole industry or market [Taran, Boer, Lindgren, 2015]. Others consider the basic understanding of business model innovation as a change that is new to a particular firm [Spieth, Schneider, 2016]. The latter approach suggests that business model innovation encompasses all business model changes, and business model adaptation is a specific type of business model innovation.

Business model pivoting is defined as "a structured course correction designed to test a new fundamental hypothesis" [Ries, 2011, p. 149]. This term emerged within the lean start-up methodology. Pivoting is often viewed as a natural step in the development of a startup, which relies on experimenting with different elements of the business model to find the approach that best suits existing market conditions. An essential part of pivoting is purposeful testing of fundamental hypotheses in order to find the most attractive opportunity to pursue [Morgan et al., 2020]. While business model pivoting can be driven by both opportunity and necessity, a necessity-driven initiative rarely results in purposeful testing of fundamental hypotheses. Recent studies have expanded the notion of pivoting to all small enterprises, not only startups [Sadeghiani et al., 2021]. Moreover, recent studies refer to pivoting in the context of a strategic response to crises, thus equating it to a business model adaptation [Sanasi, Ghezzi, 2022; Morgan et al., 2020].

Business model evolution represents the effective standardization, replication, implementation and maintenance of the existing business model, manifested in the fine-tuning process involving voluntary and emergent changes in and between permanently linked core components [Saebi, 2014]. This type of change process is geared towards incremental and continuous adjustments in the firm's existing business model, and the scope of change does not significantly alter core-repeated standard processes of the firm's business model [Saebi, 2014].

Business model transformation is the broadest term. The term can be used to denote any purposeful changes in business models. The term is rooted in the organizational change literature and is frequently presented as a staged process of awareness, analysis and implementation of a goal-directed change [Selezneva, 2022].

BMA strategies

BMA may come in different forms. Depending on whether a firm changes existing products, existing target segments or both, there are three strategies that correspond to Ansoff's business growth alternatives [Ansoff, 1957].

Product development is a strategy that suggests offering new or modified products to existing customer segments. In thinking of the segment for a product, Ansoff introduced the concept of a product mission that describes the job which the product is intended to perform [Ansoff, 1957]. He finds the concept of a mission more useful than the concept of a customer segment, since a customer usually has many different missions, each requiring a different product. Therefore, a product development strategy retains the present mission and develops products that have new and different characteristics such as will improve the performance of the mission. For instance, the pandemic gave an impetus to the development of new fitness services [Pakhomov, 2022]. Due to the lockdown, fitness centers began to run training sessions through social networks to motivate customers to exercise and prevent subscription refunds. There appeared new formats of fully automated fitness centers where there are no employees, except for instructors who come for specific customers.

A market development strategy suggests that the company seeks to improve business performance by finding new customer segments for present products [Ansoff, 1957]. Firms may pursue the temporary acquisition of new customers with minimal resources through growth hacking initiatives [Conway, Hemphill, 2019]. For instance, American airlines Delta and Jetblue were offering flights to medical professionals to ferry them to hotspots across the United States with the support of nonprofit partners and non-governmental organizations [Puhak, 2020]. Such a strategy compensated for a loss of passenger traffic from the current segment and allowed generating revenues from governmental contracts. A market development strategy can be done through finding news product missions. For instance, O2IN, a breathing simulator, focused on athletes before the COVID-19 pandemic but expanded to mass-market segments afterwards to address an emerged need of consumers for the treatment of COVID-19 consequences [O2IN, 2021]. Hence, a breathing simulator changed its product mission from helping athletes excel in sport to helping people affected by the virus recover.

A diversification strategy calls for a simultaneous departure from the present product line and the present market. In the process of diversification, a firm enters a new market, without necessarily leaving its existing one(s), with a product new to the firm but not necessarily new to the world [Lysek, 2019]. While market development and product development strategies are usually followed with the same technical, financial, and merchandising resources which are used for the original product line, diversification generally requires new skills, new techniques, and new facilities and leads to physical and organizational changes in the structure of the business [Ansoff, 1957]. The most frequent product categories that were included into a portfolio during the pandemic were face masks, sanitizers, antiseptics.

BMA-performance relationship

The relationship between marketing-related BMA and small business performance in a crisis has been addressed in previous studies (Table 1). In general, two waves of research interest to this topic can be identified. The first wave of research was caused by the financial crisis of 2007–2009 and almost faded in the next five years. The second wave was triggered by tremendous changes in the economy during the COVID-19 pandemic and is only gaining momentum.

Various metrics are used to evaluate the business outcomes of BMA. Some researchers use company's survival or resilience to crisis but do not estimate the company's losses during the crisis that does not allow estimating how effective the adopted changes were [Le Nguyen, Kock, 2011; Breier et al., 2021; Guckenbiehl, Corral de Zubielqui, 2022; Zahoor et al., 2022]. Given this, it may be difficult to provide recommendations for the particular firm on what BMA strategy should be chosen and what performance results can be expected. A number of researchers considered the financial performance of the firm (e.g. turnover or cash flow), however most of these studies with few exceptions are qualitative and rely on anecdotal evidence, field observations or case-studies [Petzold et al., 2019; Brunelli et al., 2023; Cioppi et al., 2014; Kang, Diao, Zanini, 2020]. Despite the ability of qualitative studies to explore such a complex and poorly understood field, these results are hard to generalize. The dominance of qualitative studies can be at least partially explained by the degree of research field maturity. Prior authors intentionally selected qualitative methodology to explore the process of business model changes expecting to find some non-trivial BMA patterns in a specific crisis context as qualitative methodologies are particularly good for addressing such exploratory research objectives. The review in Table 1 demonstrated that there are many similarities in BMA patterns in different crises, and new product development and new segment targeting are among the most widespread. Hence, the natural development of the research field resulted in the growing need for descriptive research that would go beyond exploration of BMA patterns to establishing relationships between most widespread types of BMA and performance.

Most of the extant research on BMA in a crisis is aimed at answering the question: how did firms change their business models during a crisis, adapting to new conditions? However, they do not show how and through which mechanisms these changes affect firm performance. We assume that to consciously choose the BMA strategies and understand their likely consequences, both questions should be answered. So, our study is designed to close this gap by investigating how BMA strategies influence the company's financial results in a crisis.

HYPOTHESES DEVELOPMENT

Based on the analysis of past research and anecdotal evidence, eight hypotheses were developed. The hypotheses are summarized in Figure.

The hypotheses specify how three BMA adaptation strategies influence two marketing performance outcomes, namely customer behavioral loyalty and acquisition, which, in turn, affect financial performance.

Customer acquisition and behavioral loyalty as drivers of firm profitability

Financial outcomes are driven by non-financial performance. Companies are increasingly realizing that marketing decisions affect the financial value of the company and investments in new products, new channels, advertising reduce fluctuations in the value of the company [Hoekstra, Leeflang, 2022]. The main key performance indicators used to measure the success of marketing efforts are related to acquisition of new customers and retention of existing customers (or behavioral loyalty) [Hoekstra, Leeflang, 2022].

Customer acquisition is a process of attracting new customers to a firm. To become a customer, an individual goes through

Table 1

Selected empirical studies on BMA-performance relationship during a crisis

Crisis	Country	Methodology	Business characteristic	BMA strategy	Business outcome	Source
2007–08 Global financial crisis	USA	Qualitative	Startups	Marketing, cash management, HR management, and network management	Growth, survival	[Eggers, Kraus, 2011]
2007–08 Global financial crisis	Vietnam	Qualitative	SMEs	Shift of businesses and strategic focuses to be flexible and make innovative moves	Survival	[Le Nguyen, Kock, 2011
2007–08 Global financial crisis	Sweden	Qualitative	SMEs, textile industry	Market penetration, diversification and transformational initiatives (incl. product group segmentation, long-term brand promotion, extending the product ranges, expansion into overseas market etc.)	Economic resilience and financial performance (profitability, sales, working capital, etc.)	[Pal, Andersson, Torstensson, 2012]
2007–08 Global financial crisis	Greece	Qualitative	SMEs, commerce area	Alternative marketing strategies and innovative tactics including innovation in product planning, new pricing perception, different approach to supplier alliances, information management etc.	Survival	[Bourletidis, Triantafyllopoulos, 2014]
2007–08 Global financial crisis	Italy	Qualitative	SMEs, furnishing	Product and/or services innovation; changes in target markets; marketing innovation; innovations in the organization/ management of production and supply chain relationship	Turnover	[Cioppi et al., 2014]
2007–08 Global financial crisis	Canada, France	Quantitative	SMEs	Use an MO approach that is both proactive and responsive	Financial Performance	[Petzold et al., 2019]

COVID-19 Pandemic	China	Qualitative	B2B, large firms and SMEs	Marketing responses: (1) embedded in product development management process; (2) built on supply chain management process; and (3) related to customer relationship management	Cash flow	[Kang, Diao, Zanini, 2020]
COVID-19 Pandemic	Austria	Qualitative	Hospitality, SMEs	Any changes in value creation, value proposition or value capture	Survival and restart	[Breier et al., 2021]
COVID-19 Pandemic	Denmark	Quantitative	SMEs	Retrenchment strategy, persevering strategy, or innovation strategy	Turnover expectation	[Klyver, Nielsen, 2021]
COVID-19 Pandemic	Italy	Qualitative	B2B	Marketing agility and marketing strategy on different stages of crisis	Financial performance	[Moi, Cabiddu, 2022]
COVID-19 Pandemic	Australia	Qualitative	Startups	Business model changes aimed at counteracting adversities or/and pursuing opportunities	Survival	[Guckenbiehl, Corral de Zubielqui, 2022]
COVID-19 Pandemic	Finland	Qualitative	B2B, high-tech SMEs	Increase in 3D and virtual tours; focus on new customers in international markets; emphasis on social media and online marketing	Survival	[Zahoor et al., 2022]
COVID-19 Pandemic	Italy	Quantitative	Family SMEs	Changes in the value proposition and changes in the target market	Turnover change	[Brunelli et al., 2023]

Note: the table includes studies that empirically examined the effectiveness of BMA strategies that relate to product, value proposition and segment changes among small business in a crisis environment.

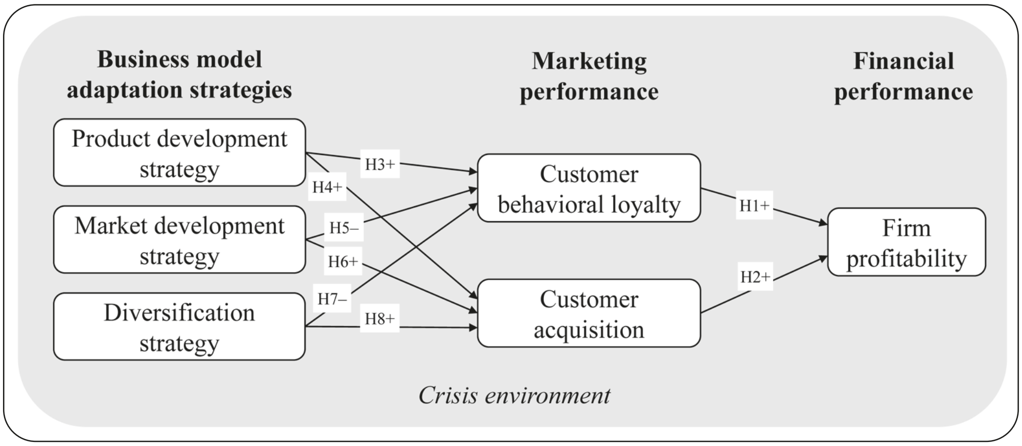

Figure. Conceptual model

Notes*:* "+" — positive influence; "–" — negative influence.

a series of sequential stages: awareness, consideration, choice, and trial [Colicev, Kumar, O'Connor, 2019]. To move a customer from one stage to another, a firm uses specific marketing activities to attract consumer attention, emphasize product benefits and make it stand out of competitors, stimulate purchase. Customer acquisition is hugely important to companies in many contexts and situations: (1) for new business start-ups; (2) when marketing low involvement products and services; (3) when repeat purchases are infrequent; (4) when switching costs are low; (5) when markets show growth potential, and it is strategically important to grow the aggregate market size; (6) when customers may shift out of a target segment; (7) when customers may be lost due to acquisition by another organization [Ang, Buttle, 2006].

Customer loyalty is a multidimensional construct that consists of attitudinal and behavioral components [Rundle-Thiele, 2005; Aksoy, 2013]. Attitudinal loyalty is a customer predisposition towards a brand, which is a function of psychological processes [Rundle-Thiele, 2005]. It is characterized by the intensity of a customer's emotional attachment to a particular brand [Ahmad, Akbar, 2021]. Behavioral loyalty is conceptualized as a nonrandom behavioral response (i.e., purchase) expressed over time of some decision-making unit with respect to one or more alternative brands out of a set of such brands [Jacoby, Kyner, 1973]. Repeat purchasing was recognized as one of the operational measures that could capture the behavioral loyalty of a consumer towards the brand of interest [Aksoy, 2013]. Behavioral loyalty is a function of attitudinal loyalty, which suggests that a favorable attitude towards a brand stimulates repeat purchasing [Jacoby, Kyner, 1973; Watson et al., 2015]. Customers with repeat purchase behaviors are critical to both short- and long-term success [McCarthy et al., 1992].

The question of finding the profit-optimizing balance between allocating resources on customer acquisition and loyalty formation has been of interest to marketers for a long time [Reinartz, Thomas, Kumar, 2005; King, Chao, Duenyas, 2016]. Research has shown that loyal customers are more profitable than new customers [Helgesen, 2006]. This conclusion is based on several behavioral patterns attributable to loyal customers: (1) loyal customers generate more profits because they get accustomed to the service and use the service more; (2) they are less price sensitive and thus, companies can charge more; (3) they bring extra business through referrals [Ranaweera, 2007]. Therefore, given the same sales revenue, the company will have higher profits if it sells more products to repeat customers. Hence, it is hypothesized that:

hypothesis H1. Customer behavioral loyalty positively influences firm profitability.

At the same time the acquisition of new customers increases the customer base and allows achieving economies of scale. Scale economies arise from several principal sources: (1) in many activities, increases in output do not require proportionate increases in input; (2) many resources and activities are unavailable in small sizes, hence, they offer economies of scale as firms are able to spread the costs of these items over larger volumes of output [Grant, 2019]. "In R&D, new product development and advertising market leaders tend to have much lower costs as a percentage of sales than their smaller rivals" [Grant, 2019, p. 169]. Hence, the more customers a firm serves, the lower the cost per customer, the higher firm profitability. Therefore, we hypothesize:

hypothesis H2. Customer acquisition positively influences firm profitability.

The impact of BMA strategies on customer acquisition and behavioral loyalty

Product development strategy. The number of new and loyal customers depends on how well the firm knows the target market and can offer customers products that meet their expectations. In a crisis customers become more price sensitive [Hoekstra, Leeflang, 2022; Kim et al., 2022]. When the price could not be changed, customers are looking for additional product/service value [Eggers, Kraus, 2011]. Thus, companies need to change the price-value ratio by modifying or upgrading the product. A product development strategy helps improve the effectiveness of product/service, thus making potential customers evaluate it more favorably and prefer it to competitive offers. Hence, it is expected to lead to the acquisition of new customers. Moreover, it increases the satisfaction of existing customers, which further stimulates behavioral loyalty. This logic is also confirmed by real business cases. Morgan et al. give an example of Camp Gladiator, a fitness center, that, following the pandemic, released its online option for virtual workouts, which allowed it to retain 97% of its customer base and acquire many new users. Compared with many traditional gyms that have been forced to close during generic shelter-in-place/stay at home orders, Camp Gladiator pivoted to online success [Morgan et al., 2020]. Hence, it is hypothesized that:

hypothesis H3. Product development strategy positively influences customer behavioral loyalty;

hypothesis H4. Product development strategy positively influences customer acquisition.

Market development strategy. In times of crisis companies extend their market reach by offering existing products and services in other and less recession-impacted customer groups, regions, and countries [Eggers, Kraus, 2011]. A target market switch is intended to minimize the negative externality of crisis event, especially when the crisis severely impacts a major target market [Hong, Huang, Li, 2012]. Entrepreneurs try to reposition products and adapt them to new environments through quick product modifications that should attract different, recession-resistant target groups [Eggers, Kraus, 2011]. A market development strategy is targeted at new customers, which requires the reallocation of a portion of the marketing budget for customer acquisition in the new market. Given that marketing resources are limited, and customer acquisition and retention objectives are to some extent competing, a stronger focus on acquiring new customers will decrease the resources available for stimulating behavioral loyalty. Hence, it is hypothesized that:

hypothesis H5. Market development strategy negatively influences customer behavioral loyalty;

hypothesis H6. Market development strategy positively influences customer acquisition.

Diversification strategy. When diversifying the business, firms pursue the same objective as in a market development strategy: they try to find growing markets and enter them to compensate for the decline in the core market. Analogously to market development, a diversification strategy will require reallocation of organizational resources from a current shrinking or stable market to a new more promising market, thus shifting firm attention from loyalty formation among existing customers to acquisition of new customers. Therefore, the following hypotheses are proposed:

hypothesis H7. Diversification strategy negatively influences customer behavioral loyalty;

hypothesis H8. Diversification strategy positively influences customer acquisition.

METHODOLOGY

Sample

The study is based on a telephone survey of 210 Russian micro and small enterprises conducted in March — May 2022. Respondents were employees who have information about the firm's marketing strategy, the competitive situation in the market, and the general direction of the company's development (for example, firm owner, marketing department head, commercial director, marketing director) were interviewed. A simple random sampling procedure was used to select firms. The sampling frame was the SPARK database[1] that contains information on 2.5 mln active commercial firms. Firstly, the list of firms that indicated some contact information (phone number and email) and financial information (revenue and net profit in 2019–2020) was created. Secondly, 2235 firms were randomly selected out of the list and invited to complete a survey via email and then a follow-up phone call. Eventually, 218 firms agreed to take part in the survey. The response rate accounted for about 10%. Four firms were excluded from further analysis as they relate either to medium or large enterprises. Four other firms were excluded because the respondents indicated a relatively low awareness of the issues discussed. Hence, the ultimate sample accounted for 210 micro and small firms. The sample description is provided in Table 2.

The sample includes firms from different industries with trade and manufacturing enterprises representing the largest groups. Most firms in the sample work in B2B markets solely (53.6%) or serve both businesses and individual customers (23.8%).

Operationalization of variables

To identify the dominant type of BMA strategy used by each firm, the respondents were asked to indicate whether their firm: (1) developed new products/services; and (2) discovered new customer segments inside the country in the last two years. Those who checked only new products/services were assigned to a product development strategy; those who checked only new customer segments were assigned to a market development strategy; those who checked both options were assigned to a diversification strategy.

To measure marketing and financial performance, we used established scales and measurement procedures [Singh, Darwish, Potočnik, 2016; Vij, Bedi, 2016]. Informants were asked to rate how they performed during last two years of the pandemic crisis (2020–2021) relative to their competitors on the scale from 1 ("Much worse than competitors") to 5 ("Much better than competitors") on three parameters: repeat purchases to existing customers (to measure customer behavioral loyalty), the number of new customers (to measure customer acqui-

[1] SPARK. URL: https://spark-interfax.ru (accessed: 31.01.2022).

Table 2

Sample characteristics

Characteristic	Option	Sample share, %	Characteristic	Option	Sample share, %
Industry	Wholesale and retail trade	25.7	Firm age	1–5 years	21.0
	Manufacturing	21.4		6–10 years	37.1
	Community, social, and personal service activities	13.8		More than 11 years	41.9
	Professional and business services	8.1	Firm size (average revenue, 2018–2019)	Up to 3 mln	17.1
	Construction	11.4		From 3 up to 20 mln	40.5
	Information and communication technologies	5.2		From 20 up to 50 mln	17.6
	Healthcare	3.8		From 50 mln	23.8
	Agriculture	2.9	Customer type	Only B2C	20.5
	Hospitality and recreation services	1.9		Only B2B	53.8
	Transportation, leasing, repair and recycling	5.7		Both B2C & B2B	23.8

sition) and return on sales (to measure firm profitability).

Subjective performance measures are frequently used in management research. The subjective evaluation of firm performance in relation to competition is possible, as small and micro firms can become aware of their competitors' performance from informal sources or through personal interactions [Kingsley, Malecki, 2004; Kalita, Chepurenko, 2020]. Subjective performance measures are found to be closely correlated with objective performance indicators and can be used as replacement of objective measures of business performance [Singh, Darwish, Potočnik, 2016; Vij, Bedi, 2016].

Moreover, subjective measures have several advantages in comparison to objective measures. First, SMEs are often very reluctant to publicly reveal their actual financial performance and the use of subjective performance can mitigate the perceived risks of information disclosure [Deutscher et al., 2016]. Second, as profit levels differ across industries, subjective performance measures are more appropriate in cross-industry studies [Deutscher et al., 2016]. The shares of companies that adopted each BMA strategy as well as descriptive statistics on performance measures are indicated in Table 3.

Several control variables were included in the analysis to account for possible heterogeneity of effects in different contexts industries and enterprises. Industries and customer types were coded as binary variables. Firm age was measured in years. Firm size was measured as an average firm revenue for two years preceding the pandemic (2018–2019) and included into the model as a natural logarithm transformation. To measure market turbulence and crisis severity respondents were asked to

Table 3

Descriptive statistics

Category	Option	Sample share, %
Adopted BMA strategy	Product development	34.8
	Diversification	14.8
	Market development	3.8
	No BMA	46.7
Customer acquisition	1 — “Much worse than competitors”	0.5
	2 — “Slightly worse than competitors”	17.1
	3 — “The same as competitors”	26.2
	4 — “Slightly better than competitors”	48.6
	5 — “Much better than competitors”	7.6
Customer behavioral loyalty	1 — “Much worse than competitors”	1.4
	2 — “Slightly worse than competitors”	12.4
	3 — “The same as competitors”	45.2
	4 — “Slightly better than competitors”	32.4
	5 — “Much better than competitors”	8.6
Firm profitability	1 — “Much worse than competitors”	5.7
	2 — “Slightly worse than competitors”	28.6
	3 — “The same as competitors”	36.2
	4 — “Slightly better than competitors”	25.2
	5 — “Much better than competitors”	4.3

provide their answers to statements on the scale from 1 (“Very uncharacteristic”) to 5 (“Very characteristic”). Market turbulence was measured using the statements “In our markets, customer preferences change quickly”, “New customers we serve are different from our traditional customers”, “It is very difficult to predict demand for our products” (Cronbach’s alpha = 0.76) adapted from [Zhou, Mavondo, Saunders, 2019]. Crisis severity was measured using the statements “The pandemic had a serious negative impact on our market”, “The pandemic has caused negative changes in the demand for products in our industry” (Cronbach’s alpha = 0.75) based on [Trkman, Popovič, Trkman, 2021]. Scale items were further averaged for each respondent.

Analytical procedure

Structural equation modeling in Stata 14 is used to test the relationships between three BMA strategies, customer behavioral loyalty, customer acquisition, and firm profitability. All multi-item scale variables were modelled as observed. The results of the analysis are presented in Table 4.

The determination coefficients vary between 12 and 23% for different models, which suggests that only a small portion of variation in dependent variables is explained by the factors considered in the models. But the values are comparable to similar studies and can be treated as adequate for the purpose of research [Beliaeva, Shirokova, Gafforova, 2017; Brunelli et al., 2023].

Table 4

Structural equation modeling results

Independent variable	**Direct effect on**			**Indirect effect on firm profitability**	**Total effect on firm profitability**
	Customer behavioral loyalty	**Customer acquisition**	**Firm profitability**		
Core variables					
Product development strategy	0.04	**0.23*****	0.07	0.04	0.11
Market development strategy	0.06	**0.19*****	–0.06	0.04	–0.02
Diversification strategy	0.08	**0.20*****	**0.16****	0.05	**0.20*****
Customer behavioral loyalty	*NA*	*NA*	**0.25*****	*NA*	**0.25*****
Customer acquisition	*NA*	*NA*	**0.13***	*NA*	**0.13***
Control variables					
Market turbulence	0.07	–0.04	–0.03	0.01	–0.02
Crisis severity	**–0.20*****	**–0.23*****	–0.02	**–0.08*****	–0.10
b2b_only	0.12	0.04	0.10	0.04	0.14
b2c_only	0.06	0.00	–0.02	0.01	–0.01
b2b & b2c	*Omitted*	*Omitted*	*Omitted*	*Omitted*	*Omitted*
Firm age (years)	–0.04	–0.03	–0.09	–0.01	–0.01
Firm size (av. revenue, 2018-19)	–0.07	–0.04	–0.01	–0.02	–0.07
Wholesale and retail trade	*Omitted*	*Omitted*	*Omitted*	*Omitted*	*Omitted*
Manufacturing	0.09	0.00	0.07	0.02	0.10
Community, social, and personal service activities	**0.16****	0.05	0.05	**0.05***	0.10
Professional and business services	0.08	–0.06	–0.03	0.01	–0.02
Construction	0.07	0.03	0.02	0.02	0.04
Information and communication technologies	0.10	–0.06	0.05	0.02	0.06
Healthcare	–0.03	–0.03	0.08	–0.01	0.07

End of Table 4

Independent variable	Direct effect on			Indirect effect on firm profitability	Total effect on firm profitability
	Customer behavioral loyalty	Customer acquisition	Firm profitability		
Agriculture	0.02	–0.11	0.04	–0.01	0.04
Hospitality and recreation services	**0.12***	**0.22*****	**0.16****	**0.06****	**0.22*****
Transportation, leasing, repair and recycling	–0.05	0.01	**0.18*****	–0.01	**0.16****
R2, %	**12.1**	**18.6**	**23.2**	*NA*	*NA*

Notes: the table reports standardized beta-coefficients; statistically significant coefficients are bold; coefficients significant at $p<0.01$***; $p<0.05$**; $p<0.10$*; *NA* — not applicable.

RESULTS

The results of hypothesis testing are summarized in Table 5. As expected, structural equation modeling results showed that customer behavioral loyalty and acquisition positively influence firm profitability, thus confirming *hypotheses H1* and *H2*. However, customer behavioral loyalty and acquisition unequally contribute to firm profitability. Behavioral loyalty is found to be a stronger predictor of firm profitability ($B=0.25$, $p<0.001$), while the effect of customer acquisition is weaker and marginally significant ($B=0.13$, $p=0.07$).

Three BMA strategies do not influence customer behavioral loyalty as all three beta coefficients are not significant, hence *hypotheses H3, H5* and *H7* are not supported. At the same time, all three BMA strategies positively influence customer acquisition, thus confirming *hypotheses H4, H6* and *H8*. A product development strategy is found to be the most effective in terms of customer acquisition ($B=0.23$, $p<0.001$), followed by diversification ($B=0.20$, $p<0.001$) and market development ($B=0.19$, $p<0.001$). Additionally, the direct significant effect of diversification on firm profitability is found ($B=0.16$, $p<0.001$).

CONCLUSION

The study was aimed at filling the gap in the existing literature by examining how three BMA strategies (namely, product development, market development, and diversification) influence firm performance during the COVID-19 pandemic. In addition to considering financial performance, the study includes two marketing performance indicators (customer behavioral loyalty and customer acquisition) in order to provide a more complex view on BMA effectiveness and reveal potential paradoxes in the effects BMA strategies on financial and non-financial performance.

Firstly, the results support an assumption that loyal customers contribute more to firm profitability than new customers. This assumption has been long propagated in the marketing area and made firms transform their strategies to account for an important role of existing customers and focus on building long-term relationships with them [Helgesen, 2006; Ranaweera, 2007]. This finding suggests that firms should nurture customer behavioral loyalty not only when the market is well-functioning but also in times of crisis.

Nevertheless, none of BMA strategies considered in the study influenced cus-

Table 5

Results of hypothesis testing

Hypothesis	Result
H1. Customer behavioral loyalty positively influences firm profitability.	Supported
H2. Customer acquisition positively influences firm profitability.	Supported
H3. Product development strategy positively influences customer behavioral loyalty.	Not supported
H4. Product development strategy positively influences customer acquisition.	Supported
H5. Market development strategy negatively influences customer behavioral loyalty.	Not supported
H6. Market development strategy positively influences customer acquisition.	Supported
H7. Diversification strategy negatively influences customer behavioral loyalty.	Not supported
H8. Diversification positively influences customer acquisition.	Supported

tomer behavioral loyalty, which leaves room for other marketing and non-marketing instruments to be applied to address this important profit-generating group of loyal customers. The lack of links between BMA strategies and customers' loyalty deserves deeper exploration. There appear to be several explanations for this phenomenon which can be elaborated in further research:

- loyalty has a complex nature and is formed over a long period of time. So, the taken period may be too short to assess loyalty or its significant change;
- to build customer loyalty, firms rely on a broad set of tools (such marketing communications, loyalty programs, prior customer experiences), thus the contribution of any single BMA strategy may appear insignificant without considering others loyalty management endeavors;
- loyal customers may stay with the firm during the crisis as an act of support and attachment even if the brand does not provide a satisfactory level of service any longer. Hence, both types of firms — those who improve customer experience through BMA and those who don't change — may enjoy customer loyalty if they have invested into customer-relationship management in the past;
- the sample is comprised of B2B firms predominantly. Given the crisis circumstances, the customers of considered B2B companies are also expected to try to use the same set of strategies to overcome the crisis. So, they will also try to develop new products and open new markets, and this should lead to an expansion of their portfolio of suppliers. In this case their loyalty to old suppliers may decrease or just keep unchanged, even despite all the efforts of old partners as at the time of development of new products and markets the company will be focused on relationships with new suppliers. This complex "nested" links could be discovered and explored in a dyadic study, which explores the relationship between a supplier and a buyer in a B2B market in a situation when both of them are trying to apply new marketing strategies to deal with crisis.

Secondly, the results demonstrate that all three BMA strategies are good at attracting new customers to a firm. However, the effect of customer acquisition on firm profitability is minor and not comparable with a profitability increase generated through customer behavioral loyalty development. This means that BMA strategies through new products and new segments are more likely to help increase or retain sales volumes but not financial effectiveness. Still, these results suggest that BMA is a viable tool to stay afloat in the crisis environment. Besides, these results are especially promising, given that customer acquisition may be considered as an investment into future financial effectiveness that will pay off after the crisis is over. For example, many educational platforms and online cinemas provided free access to their digital content to new customers during the COVID-19 pandemic. While these actions did not make firms earn more instantly, they increased a customer base that could be profitably managed after the crisis, thus generating returns in the future.

Thirdly, the study shows that unlike product development and market development strategies, diversification can positively influence firm profitability during the crisis. This effect is mediated neither by customer loyalty nor customer acquisition but is supposedly achieved through the strategic choice of higher-margin destination markets. Hence, it is of critical importance for firms to sense the market and detect new opportunities for diversification that appear due to changing consumer preferences and shifts of consumer demands from one product/service categories to another.

This study is not without limitations. Firstly, the study does not differentiate between distinct types of diversification strategies. However, diversification into related and unrelated businesses can produce different effects. Secondly, we have considered three BMA strategies independently of other strategic actions taken by a firm. However, extant studies suggest that application of multiple crisis management practices is important for firms to effectively deal with crisis events [Hong, Huang, Li, 2012]. We suggest future studies to address these limitations. Moreover, future research could account for both short-term and long-term effects of BMA on business performance, thus validating whether increasing the number of new customers acquired in times of crisis improves long-term financial performance or represents a temporary survival measure that supports business during the crisis but does not improve firm profitability in the long-term. Future studies can also validate the results with objective performance measures and include additional factors that fell out of scope of this study, such as dynamic capabilities, strategic orientations, financial, technological, intellectual and relational assets and resources that can help implement BMA and drive performance in crises.

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Адаптация бизнес-практик к пандемии COVID-19: опыт микро- и малых предприятий

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Цель исследования: определить, как три стратегии адаптации бизнес-модели (развитие продукта, развитие рынка и диверсификация) влияют на прибыльность фирмы через развитие поведенческой лояльности существующих клиентов и привлечение новых клиентов во время пандемии COVID-19. **Методология:** исследование основано на телефонном опросе 210 российских микро- и малых предприятий, проведенном в начале 2022 г. Тестирование гипотез о взаимосвязи между тремя стратегиями адаптации бизнес-модели, поведенческой лояльностью существующих клиентов, привлечением новых клиентов и прибыльностью фирмы производится с помощью моделирования структурными уравнениями. **Результаты исследования:** три стратегии адаптации бизнес-модели положительно влияют на привлечение клиентов, но не на их поведенческую лояльность. В свою очередь, поведенческая лояльность и привлечение клиентов вносят неодинаковый вклад в прибыльность фирмы. Только стратегия диверсификации положительно воздействует на прибыльность фирмы во время кризиса. Этот эффект не опосредован ни усилением лояльности, ни ростом клиентской базы, а предположительно достигается за счет стратегического выбора целевых рынков с более высокой маржой. **Оригинальность и вклад авторов:** исследование вносит вклад в литературу по антикризисному управлению путем изучения эффективности стратегий развития продукта, развития рынка и диверсификации в кризисных условиях, характеризующихся сокращением спроса и ростом турбулентности. В отличие от существующих исследований, данная работа выходит за рамки проверки влияния адаптации бизнес-модели на общие финансовые показатели фирмы во время кризиса и раскрывает, как механизмы формирования лояльности и привлечения клиентов опосредуют этот эффект, объединяя области стратегического управления и маркетинга.

Ключевые слова: адаптация бизнес-модели, пандемия COVID-19, поведенческая лояльность, привлечение клиентов, прибыльность фирмы.

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