RPTSS 2017

International Conference on Research Paradigms Transformation in Social Sciences

ECONOMIC DIAGNOSTICS IN ENVIRONMENT OF STATICIZED RELATIONSHIP MARKETING

Ekaterina Danilovna Schetinina (a)*, Svetlana Konstantinovna Kochina
*Corresponding author

(a) Belgorod State Technological University named after V.G. Shoukhov, 308012, Kostukov St., 46, Belgorod, Russia, schetinina@inbox.ru
(b) Belgorod State Technological University named after V.G. Shoukhov, 308012, Kostukov St., 46, Belgorod, Russia, swetakochina@yandex.ru

Abstract

Strategic operation of the enterprise of the real sector of Russian economy is one of the most important instruments of protecting its interests, raising to a new development level, consolidating its competitiveness in the long-term. Scientifically substantiated management implies the use of extensive and available instruments including reliable methods of business diagnostics. The article considers the essence and significance of economic diagnostics to ensure smooth functioning of a company. Diagnostics is aimed at detecting weaknesses in the organizational structure as well as identifying and assessing reserves for the development of the company. The paper presents different views on the definition of *economic diagnostics* and describes the methodology to carry out economic diagnostics that includes three main stages, namely descriptive, analytical and diagnostic synthesis. With this in view, the authors developed a framework for monitoring key competence indicators of the company. In this paper, the authors state that elaborately crafted business ties with partners, clients, suppliers, which is basically referred to as relationship marketing, have a big impact on the functioning of the company at large. To this end, the authors reviewed the structure and principles of relationship marketing and added a corresponding unit to the diagnostic system. Besides, the authors assessed the main parameters of such relationships, followed by the identification of regularities and possible ways of their development.

© 2018 Published by Future Academy www.FutureAcademy.org.UK

Keywords: Diagnostics, methodology, relationship marketing, parameter, assessment.

1. Introduction

For any company to operate smoothly, it is necessary to develop a real strategic plan for its long-term development. This, in turn, can be achieved through the relevant preliminary assessment resulting from the analysis and objective economic diagnostics of the object under control, i.e. the company.

Theoretical footings for diagnostics are widely presented by such economists as A. S. Vartanov, M. I. Bakanov, M. I. Voronin, Yu. M. Bakhramov, O. G. Dmitrieva, V. V. Glukhov, A. I. Muraviev, V. Sh. Rapoport, T. Ambler, E. Altman, J. J. Lambin, E. M. Korotkova, D. Peppers, A. D. Sheremet, B. Colasse and others. In their works, they are greatly concerned with the nature and forms of diagnostics as well as possible ways for conducting diagnostic analysis of companies.

Thus, O. G. Dmitrieva believes that economic diagnostics has much in common with economic analysis, but this is not the same thing. They differ in terms of goals, objectives, and tools applied (Kalinina, 2016). A. I. Muraviev interprets economic diagnostics as the way to identify the reasons of disruption to smooth functioning, which are based on some typical characteristics related to this disruption (Moiseeva, Goncharova, 2014).

Yu. M. Bakhramov and V. V. Glukhov think that diagnostics of the economic system is a set of studies to determine objectives of the company, ways to achieve them and identify shortcomings (Bakhramov, Glukhov, 2011).

It is noteworthy that, despite the existing developments in this area, there is still a lack in tools applicable for conducting the diagnostics procedure so as to improve the efficiency and sustainability of enterprises.

Modern diagnostics methods and techniques should have integrative nature and address a number of new phenomena including the development of relationship marketing, business partnership and the efficiency of company structure. As a matter of fact, these management aspects significantly benefit the level of transaction costs (it is the field where the competition takes place today!), liquidity and solvency, reputation, corporate strategic security, etc. (Kurbatova, 2010).

2. Problem Statement

The authors will define economic diagnostics of a company as a strategic management tool constituting a multidimensional, multidisciplinary and multilevel analysis of contradictions and problems that occur in 'company-external environment' relations. The analysis is geared to evaluate the current state of affairs and, most importantly, to forecast the future position of the company. To ensure a comprehensive approach, let us introduce the term *business platform* that refers to the company's fixed capital, as compared with a more circulating part, i.e. strategic business units. This approach lays a foundation for a thorough structural analysis of corporate assets so that to develop an updated business model for a company. It is more relevant to the changing context of socio-economic and marketing environment.

In addition, let us distinguish at least three levels of diagnostics, namely:

1) corporate;

2) portfolio (process);

3) functional.

The above-mentioned levels have different aims, objectives and instruments for implementation in the light of management goals related to this period. It seems that ensuring the implementation of all three levels will provide an integrated approach to diagnosing the organization.

Thus, management at the corporate level is likewise management of the economic activity of the enterprise, and the most important task for this type of management is to determine the overarching strategy of the enterprise and its strategic partners. Therefore, this type is aimed at the enterprise's potential (business platform) as a whole, assessment of the strategy type and quality, identification of threats to its implementation, and evaluation of the company's strategic ties (diagonal cut). All this provides a basis for transforming the business platform and its new behavior model.

Business portfolio management involves developing a marketable product portfolio of the company that encompasses long-term diverse tasks and providing solutions with regard to environmental factors and estimate of its own resources. This should be the aim of diagnostics performed at this hierarchical level. It is aimed at identifying the most significant points of costs as well as shaping the quality - at the level of business processes or in the chain of product creation, value for the consumer. Thus, at this level, it means evaluating the business portfolio as to whether business units are prospective, whether core competencies are available, and whether products are competitive in the long-term outlook.

3. Research Questions

According to literature (Schetinina, Kochina, 2017). a core (key) competence is referred to as the ability to create good quality, acceptable classical and new products and services, thus providing services and marketing support, to find effective (sufficient) market segments, and to manage the company under possible risks.

This can be considered as an element-by-element type of system analysis (horizontal section).

Finally, functional management implies organizing and maintaining ties and relations between different elements of the system defined as *enterprise,* coordinating, motivating and responding to strategic changes occurred in business environment. It also comprises specific methods of adaptive enterprise activity in relation to resources and consumers. At this level, diagnostics is geared to identify areas of concern in the implementation of functions, their quality evaluation, consistency, expenditures, in particular, by using function cost analysis, etc. This can be attributed to the inter-element analysis of the system, the analysis of interaction (vertical section).

The authors are particularly interested in the corporate level as at this very stage they assess business ties and relationship marketing at the enterprise (Ambler, 2010).

Table 1 shows hierarchical levels of economic diagnostics and tasks solved at different levels in general terms.

Table 01.   Hierarchical levels of economic diagnostics

Level	Meaning and content
Corporate	Enterprise analysis in terms of its integrity, openness, dynamic development; comprehensive assessment of its business platform, core competences; current and future position; corporate strategy and cost.

Portfolio	Business portfolio analysis and evaluation; production, economic and marketing parameters of commodity groups; business process study.
Functional	Quality analysis of functional connections; assessment of functions as to how they are performed by structural divisions of an enterprise; internal business communications.

It is notable that portfolio level is sometimes identified with the notion of a process level (Karamyshev, 2017). It could well be endorsed if processes at the enterprise have already been isolated, identified, characterized as 'how it is', normalized and can be correlated with commodity groups (units). In this case, economic diagnostics aims to study business processes and describe them as 'how it should be', but prior to this future state to be formalized by managers, they determine process requirements (commodity group requirements) currently available on the market and their possible modification, i.e. future requirements. Then, at the next stage of diagnostics, we can determine the gap between 'how it is' and 'how it should be'.

It should be noted that economic diagnostics can be significantly facilitated at the enterprise if it has responsibility centers including the ones established to monitor business processes like profits, quality, expenditures, and that accumulate great amounts of information on the flow of processes, costs and revenues, incoming and outgoing resources.

Thus, let us single out the following parameters of economic diagnostics according to its levels.

Corporate level:

- scale and evolution of production;

- strategic assets and their state;

- index of unit costs and prices;

- capitalization rate;

- core competences;

- market breadth (commodity and geographical);

- strategy quality;

- company's competitive position.

Portfolio level:

- profit margin of strategic business units in the total revenue of a business (%);

- the ratio of sales value (including business units) and salvage value;

- the ratio of sales value and inventory value;

- the ratio of sales volume to the loan portfolio showing which part of the output sold is delivered to customers in line with the commercial credit;

- strategic perspectives of business units.

Functional level:

- workforce productivity calculated as the ratio of added value to the number of responsible parties in each functional unit;

- balance in the development and differentiation of functions (system elements);

- quality of endogenous functional links;

- time and quality parameters to implement certain functions, etc.

Corporate level of economic diagnostics is facilitated through the coverage of main business measuring instruments, namely:

- production;

- finance and investment;

- marketing;

- management;

- innovation;

- personnel.

Thus, the methodology for conducting economic diagnostics of an enterprise generally includes three stages: descriptive; analytical; diagnostic synthesis.

The overall assessment (referred to as the descriptive stage) is made up of general description of a business and its business environment including its factors as well, particularly, political, economic, socio-cultural, legal, etc., and evaluation of the competitive environment (number of competitors, geographical location, market share, capitalization, business reputation, brand, commercial terms of activity and settlements) (Ponomareva, Dubino, 2016).

The analytical stage involves:

1) analyzing the requirements for the enterprise, in particular, for its products, price, quality as a set of properties generated by the business platform, while taking into account marketing reinforcement relied on service, delivery, supply of spare parts, etc.;

2) identifying the most significant competences;

3) evaluating competences as to whether they comply with some external requirements.

Company's competences are considered as certain skills well developed and favourably distinguished from those of competitors, which enable to efficiently control the framework of economic resources while creating consumer value.

The third stage consists in synthesizing customer expectations and the company's capacity to meet them. In other words, it relies on the intersection of links between the structure of external requirements and business processes, as a real manifestation of resource-management capabilities of the enterprise or its competences. Owing to this, it becomes possible to rank them according to their importance and value to achieve strategic goals. This, in turn, makes it possible to plan investments more rationally and reasonably (by types and volumes), taking into account priorities in business competences, to plan marketing steps to strengthen competences that have average parameters (insufficient level), or to stop gradually the production of certain goods and services. Table 2 presents the proposed description of company's competences.

Table 02. Main Dimensions Of Corporate Diagnostics Level

Diagnostics dimension	Indicators
Human Relations	1. Level of employees with many years of experience; 2. Level of motivation for the growth of economic indicators, the expansion of sales, innovations; 3. Attraction of young specialists; 4. Coefficient of staff turnover; 5. Forms of labour organization.

Marketing	1. Marketing complexity; 2. High competitive service level; 3. Advanced differential product policy; 4. Flexible pricing; 5. Level of sales channels; 6. Availability and number of regular customers.
Management	1. Managerial staff qualification; 2. Flexible management system; 3. Automation degree of management process; 4. Specific objectives; 5. Advanced branding strategy; 6. Business partnership.
Production	1. Provision of raw materials; 2. Overall automation incl. quality control; 3. Smooth production flow; 4. Materials-output ratio; 5. Energy efficiency.
Finance and Investment	1. Stable financial standing of the company; return on assets; 2. Regular investment income; 3.Credit rating; 4. Timely salary payments; 5. Investments (rate and behavior), into shareholders' interests inclusively.
Innovation	1. Kind of implemented innovations (local, radical); 2. Share of innovation (percentage of related investment in the total volume); 3. Return on innovation projects.

Core competences of the enterprise are also identified at this stage. However, one should keep in mind that during economic diagnostics it is extremely important not just to identify certain core competences and corresponding strategic assets of the enterprise, but also to determine their current state and forecast their future behaviour.

4. Purpose of the Study

Development of theoretical provisions and methodical recommendations on conducting economic diagnostics of parameters, included in relationship marketing at the enterprise.

5. Research Methods

When solving the assigned tasks, system and process approaches were used; complex methodology with the use of functional and logic, technical and economic, balance, marketing and statistical analyses was applied, including predicting and simulation.

6. Findings

The current efforts to ensure the sustainability of the enterprise should basically be carried out through relationship marketing including social marketing that was introduced as a separate field of marketing science in the 70-80s of the last century. It will be referred to as the management system of long-term mutually beneficial relations with key partners co-operating on the market (customers, suppliers, investors, distributors) (Peppers, 2006). *Customer Relationship Management: how to turn your customer base into money*, Mann, Ivanov and Ferber).

The company with elaborately crafted relationship marketing no longer remains one-on-one with competitors. Together with the manufacturing company, the whole system of market and psychological interaction is engaged in the struggle for customers.

Relationship marketing includes:

- dealers;

- consumers;

- counterparts;

- suppliers;

- retailers.

The main elements of relationship marketing are:

- creating a superior proposal for partners;

- creating a cooperative surplus for partners;

- increasing the loyalty of partners and customers owing to the following factors:

a) reliability;

b) sympathy and synergy;

в) cognitive and creative relations.

Relationship marketing is aimed at:

- establishing long-term relationships in order to keep consumers and partners, which costs far less than purchasing them. As far as the authors are concerned, it is long-term relations that are fundamental to contribute to the competitiveness of an economic entity;

- building long and strong personal privileged relations. This can be achieved by maintaining a high service level and reasonable prices. It is also necessary to establish close economic, technical and social ties with partners who help to increase the company's technical and economic performance indicators on the market.

Relations between the enterprise and its main partners, counterparties, suppliers, etc. should be based on certain principles (measurable parameters). One should keep in mind all possible types of economic obligations, which is the prerequisite to creating a reliable system of relationships.

Relationship marketing has four measurable parameters:

1) insurance arrangements – the parties shall guarantee each other the development of long-term contacts, mutual interests should coincide;

2) responsiveness – the ability to view the situation from the outside;

3) reciprocity – any long-term relations between the parties suggest some amount of concession, favor to others in return for the same treatment;

4) trust – the degree of confidence demonstrated by one party in the honesty and decency by another. It is this principle that is the link in partnerships created for many years (Altman, 2006). *Corporate Financial Distress and Bankruptcy,* 3rd edition, John Wiley and Sons).

Thus, relationship marketing strives for the creation of the unique company asset, called the marketing operational system.

The scheme of increasing relationship with the consumer can be represented as a ladder of loyalty, or as a sequence of evolutionary phases involved in relations with the consumer (Fig. 1):

- suspect – a potential customer, i.e. the one who can purchase a product or a service;

- prospect – a potential customer, i.e. the one who has shown a strong interest in a product or a service;

- customer – a consumer, i.e. the one who has paid for goods;

- client – a consumer, i.e. the one who has purchased more than one product;

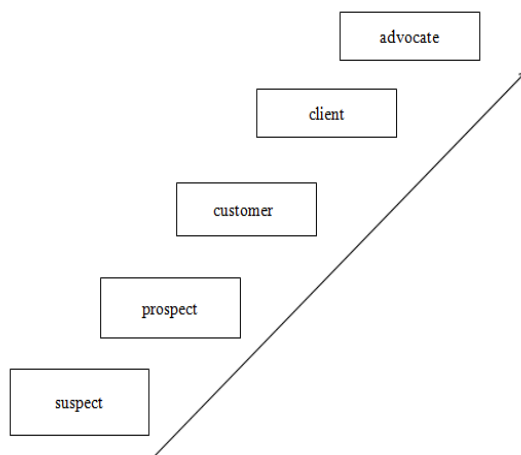- advocate – a committed consumer, i.e. the one who always buys goods from the same supplier.

Figure 01.   Consumer loyalty ladder.

Establishing long-term relationships with consumers increases the company's competitiveness, moving consumers up the loyalty hierarchy, from a suspect to a prospect, then to a customer, a client and, finally, an advocate who not only buys the company's goods, but also recommends them to others.

One of the key aspects is the evaluation of relations. Marketing and communication investments can be fully considered as capital investments, as indicated by foreign authors. Expenses incurred to attract a new customer, as experience shows, are five times higher than those incurred to keep the existing customer base unchanged (Stupnikova, Davletgareeva, Sharaeva, 2015). Table 3 presents a set of parameters to assess the key aspects of relationship marketing based on the scales.

Table 03.   Main Aspects Of Corporate Diagnostics. Relationship Marketing Assessment

#	Parameter	Point-based Assessment (1-10)
1	Contractual (agreement) status	
2	Terms and conditions	
3	Contract validity period	
4	Service quality (from the partner's side)	
5	Customer relations (number and time)	
6	Receivables-payables ratio	
7	Individual approach to each customer	

Each of the above-mentioned parameters has a significant impact on the economic state of the company. In particular, contractual status affects the cost of its maintenance and overheads, the number and time of customer relations. On the one hand, it increases the cost of wages for communicators; on the

other hand, it ensures sales gain, and the ratio of debt and its impact on the financial situation is not even worth talking about. However, one is to precisely evaluate the relationship between these parameters in the future study. It is possible to predict with a high degree of probability that the level of this dependence will vary in different industries and on the markets B to B and B to C (Colasse, 2011). Table 4 depicts relationship marketing levels that are defined by the above-mentioned parameters. As one can see, the highest level is achieved when relations are multidimensional and multifaceted covering several types of ties.

Table 04. Relationship Marketing Value. Relationship Marketing Levels

Characteristic	Level 1 (1-30)	Level 2 (31-60)	Level 3 (Above 60)
Main relation	Financial	Social	Structural
Quality of individual service (responsiveness and trust)	Low	Average	Average -high
Potential support of competitive advantage (insurance arrangements and concessions)	Low	Average	High

7. Conclusion

In conclusion, the authors evaluated the overall state of a particular enterprise, namely, BELOGORYE Confectionery, based on the proposed methodology, and predicted its future development. Table 5 presents an assessment of key competences of the enterprise, taking into account the relationship marketing.

Table 05. Assessment Of Key Competences

#	Key competence	Main characteristic (requirements)	Assessment (Customer satisfaction compared to competitors), score (max 100)	Rank (significance)
1	Unique production technologies, product innovation	Unique selling proposition	49	0.12
2	Human resource management	Staff qualification, discipline, customer care skills	66	0.11
3	Production and economic management	Expenses and prices	58	0.12
4	Quality assurance	GOST, product defects	56	0.15
6	Marketing , commerce	Continuity, availability, purchase, on-line commerce	44	0.12
7	Financial and investment management	Security yield, investment attractiveness of the enterprise, shareholders' satisfaction	29	0.05
8	Service	Quality of service, packaging, delivery	47	0.03
9	Stimulational marketing	Favorable terms of purchase, merchandising, lotteries, gifts, etc.	41	0.10
10	Relationship marketing, business and social partnership	Contracts, business reputation, goodwill, brand, "weight" of business partners, general level of relationship marketing	40	0.06

Based on the results of the diagnostics, it can be agreed that business platform of the enterprise as a whole meets the existing environment requirements on the domestic market; the breadth of geographical markets is higher than that of the industry average.

However, there are some problem areas. A decrease in effective demand requires lower prices and, as a consequence, the reduction in costs that are poorly manageable under the existing control system. Meanwhile, the amount of investment into managerial innovations is insufficient to implement a reliable supply of the chain management system and automate the production thus lowering costs. This entails a negative tendency to increase the material consumption of products.

Economic diagnostics showed that the share of innovative products in the product portfolio is low.

Financial management at the enterprise is insufficient, providing highly specialized production-only services. Investments in intangible assets, PR and goodwill are also insufficient, although business partnerships are significant in their own scope. The sales potential is above the average level, generally corresponding to the production level as such. There is Trading House and its branches, but merchandising, e-commerce, and catering-based trade are poorly applied.

Thus, with these diagnostic results, there are certain strategic security threats and a potential decrease in the share of the enterprise on the confectionery market in the future. The reason is the above-mentioned discrepancies and imbalances in individual elements of the business platform.

Concerning the foreign market, at present, the business platform does not meet its requirements. The company's export orientation index is very low for objective reasons, on the one hand, due to political and economic environment, risks; on the other hand, company's marketing efforts with respect to its own international visibility are limited. This has not been a priority strategic development field of the studied object yet.

In the end, one can say that the position of the enterprise is vulnerable in such areas as the level of innovative developments, the terms of trade and relationship marketing.

Let us specify that the development of relationship marketing as a system incorporates three main areas: development of database for the identification of consumer qualities, analysis of specific signals from consumers, and monitoring of relationship programs (Lambin, 2007).

Monitoring can facilitate the calculation of the costs incurred to attract new consumers, and profit that pays for these costs. After-sales service or product service often result in the added value. Therefore, a stable relationship between the customer and the seller is a critical component of the marketing relationship (Podrezova, 2013).

In the context of the move towards the knowledge economy, the information economy, where the key success factors are not only production technologies, but relations and ties between entities, issues related to relationship marketing and the formation of partner capital are becoming increasingly important. These are invisible assets that have a number of advantages over material and technical resources that require storage, depreciation. They are easily copied by competitors and do not provide sustainability in the long term. Relationship marketing, on the contrary, is aimed at long-term interactions with partners, especially consumers. Today, it is most widely spread in the services sector, particularly, in health, education, advertising, construction, and trade.

However, the existing methods of economic analysis have not yet included this aspect of the relationship in their tools, which narrows the horizon and depth of such analysis and does not provide an opportunity for a precise assessment of the success or failure factors of a business (Schetinina, Starikova, Borzenkova, Chizhova, Androsova, 2014). The proposed approach allows us to consider the enterprise from various angles, both resource and activity-communicative, thus conducting some preparatory work for the development of a more justified business development strategy that is adjustable to modern conditions and requirements.

Acknowledgments

References

Altman, E. (2006). *Corporate Financial Distress and Bankruptcy,* 3rd edition, John Wiley and Sons.

Ambler, T. (2010). *Practical Marketing*, Peter.

Bakhramov, Yu. M., Glukhov, V. V. (2011). *Financial management*, Peter.

Colasse, B. (2011). *Financial management of the enterprise. Problems, concepts and methods*; trans. from French. Ed. prof. Ya.V. Sokolov, UNITY.

Kalinina, K. (2016). The classification and comparative analysis of the methods available for developing the financial strategy of a company. *Journal of economics and social sciences*, *8-8,* 80-86.

Karamyshev, A.N. (2017). Analysis of process management methodologies that fully cover business processes of an enterprise. *Bulletin of Belgorod State Technological University named after V.G. Shukhov, 5,* 214-217.

Kurbatova, M.V. (2010). Post-industrial economy institutional environment formation problems in modern Russia. *Journal of institutional studies*, *2-1,* 54-66.

Lambin, J. J. (2007). *Management focused on the market*; trans. from English. Ed. V.B. Kolchanov, Peter.

Moiseeva, N.K., Goncharova, T.N. (2014). Marketing relations in an open business environment. *Marketing and marketing research*, *2,* 100-107.

Peppers, D. (2006). *Customer Relationship Management: how to turn your customer base into money*, Mann, Ivanov and Ferber.

Podrezova, P.A. (2013). Online marketing as a form of modern approach in attracting new clients and increasing interest in goods or services. *Journal of economics and social sciences, 3,* 46-48.

Ponomareva, T.N., Dubino, N.V. (2016). Management of competitiveness of an industrial enterprise: approaches to the evaluation and selection of indicators. *Bulletin of Belgorod State Technological University named after V.G. Shukhov, 1,* 178-184.

Schetinina, E.D., Kochina, S.K. (2017). System approach to the interpretation of the economic diagnostics of an enterprise in modern conditions. *Belgorod Economic Bulletin*, *2-86,* 48-55.

Schetinina, E.D., Starikova, M.S., Borzenkova, K.S., Chizhova, E.N., Androsova, G.A. (2014). The development of the business strategy based on the commercialization of innovations. *International Journal of Applied Engineering Research, 9-22,* 16881-16890.

Stupnikova, O., Davletgareeva, T., Sharaeva, M. (2015). Customer relationship management as the efficient tool for organization management. *Journal of economics and social sciences, 6,* 4-6.