

“Business marketing activities in Ukraine during wartime”

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BUSINESS MARKETING ACTIVITIES IN UKRAINE DURING WARTIME

Abstract

The war in Ukraine dealt a crushing blow to the country's economy. The relevance of the topic is due to the marketing ability to be an effective tool for restoring and developing business in Ukraine. The paper aims to define the state and prospects for developing business and its marketing component during the war in Ukraine. The research analysis demonstrates that the share of business representatives who completely or partially ceased their activities during the first three months of the war decreased from 75.3% in March to 49.0% in May (compared to February 24, 2022), which is indicative of the gradual resumption of business in Ukraine. At the same time, it was found that in May 2022, the food retail, non-food retail, household appliances, and electronics sectors partially resumed their work. The best renewal rates are observed in the jewelry sector, and the worst – in the entertainment sector. A study of marketing activities in Ukraine shows that the most positive changes regarding gradual renewal are observed in digital marketing. The paper highlights the key consequences of hostilities for Ukrainian business and its marketing activities: supply chain disruption, reduced purchasing power, changes in consumer demand, stockpiling, and a state of uncertainty among business representatives. In addition, the study offers general approaches to adapting marketing and SMM during the war to preserve, restore, and further develop business in Ukraine.

Keywords

marketing, business, retail, sustainability, economy,
Russian-Ukrainian conflict, hostilities

JEL Classification

M30, M31

INTRODUCTION

The military conflict, which first began in some territories of Donetsk and Luhansk regions in 2014 and escalated into a full-scale war on February 24, 2022, led to heavy human losses and a humanitarian crisis, worsening financial instability, slowing economic growth, accelerating inflation, eliminating investment in sustainable development, re-configuration of the global supply chain, rising prices for food, fuel, etc.

Ukraine's daily spending from the state budget related to the full-fledged war with Russia is about UAH 2 billion, while the total daily losses associated with the destruction of infrastructure and loss of economic potential amount to almost USD 4 billion (according to the Prime Minister Denys Shmyhal) (Ukrinform, 2022).

The shutdown of enterprises due to active hostilities in most cities, owing to the damage or destruction of entire factories and infrastructure, has created a massive deficit in the Ukrainian budget. However, small and medium business has always been, is, and will be the locomotive of the economy and one of the key sources of budget replenishment, so maintaining and rebuilding business in all possible forms during the war years is now a priority for Ukraine. Obviously, this is complicated by the break in production and logistics chains, and forced internal migration.

In March-May 2022, Ukraine was virtually closed to trade and business, and only the most necessary goods entered the country through the Polish border. Now Ukrainian business is under challenging conditions. The Ukrainian Business Index (UBI) among SMEs reached its lowest level since December 2020 and at the beginning of May 2022, it was 34 (out of 100 possible). The worst expectations in microbusiness are 23. The best, 43, is in business with a pre-war annual turnover of UAH 50-500 million. The average expected sales volume in 2022 compared to 2021 is 54%. However, Ukrainian business is gradually returning to life. Hundreds of enterprises are resuming work, and the state is contributing to this. The Ministry of Economy of Ukraine is already helping stabilize the Ukrainian market situation (for example, it is launching a digital interaction platform to help businesses relocate).

However, as with any conflict, uncertainty is high. It is unclear how the military environment, political processes, and countermeasures around the world will develop in the short or long term. Business representatives face a number of issues (changing market segments, launching new products, changing target audiences, changing consumer needs, finding opportunities to enter foreign markets, reducing costs, reducing staff, etc.). In wartime, their actions must be balanced, so marketing is one of the critical conditions for business recovery and further development.

The paper aims to define the state and prospects for developing business and its marketing component during wartime in Ukraine.

1. LITERATURE REVIEW AND RESEARCH ANALYSIS

Obviously, in a crisis, the first line of budget cuts of companies is marketing. However, the crisis caused by the COVID-19 pandemic has shown the opposite: how important it is to use marketing tools to retain existing and conquer new audiences. Business in Ukraine needs to maintain a customer base and restore previous levels of profit more than ever. For this, it is necessary to rebuild relationships with consumers. Obviously, long-term strategic planning is complicated now; the situation is changing every day. Even if a company is not in a zone of active hostilities, it experiences all the consequences of the war: destabilization of the country's economy, disruption of supply chains, decreased purchasing power, rising inflation, etc. In other words, operational-tactical decisions come to the fore. It is important to note that the costs of companies to take measures to restore their activities are always risky investments that may not give the desired return. The likelihood of this risk should be determined in the framework of marketing.

At the same time, research on the impact of war (due to armed conflict) is multidisciplinary, as it covers "impact" in terms of economics, finance, environment, health, and sociology (Lim et al.,

2022). War has devastating effects on humanity, especially in terms of life and livelihood.

The consequences of Russian aggression against Ukraine are felt almost all over the world, which arose the interest of scientists in studying topical issues related to the war and its devastating effects. Several recent studies have focused on the global implications of the military conflict in Ukraine. For example, studying the global socio-economic effects of the Russian-Ukrainian war, Chaliuk (2022) notes that due to the Russian invasion of Ukraine, global economic growth will fall from 4.1% to 3.2% in 2022. Countries will face stagflation (stagnation in production will coincide with inflation), rising energy prices, and disruption of supply chains. Tank and Ospanova (2022) assessed the economic impact of the Russian-Ukrainian war using the Global Econometric Model (NiGEM). The authors focus on the projected decline in Russia's real GDP by 2026, comparing the obtained values with the forecast indicators for the United States, Japan, and global GDP. A minor drawback of this analysis is the lack of such calculations in Ukraine (although this can be explained by the state of uncertainty in the country).

Numerous studies have been devoted to the impact of sanctions, which assess not only Russia's losses as a result of their introduction, but also

the losses of those who impose these sanctions (at the level of a country, company, or brand). For example, Lim et al. (2022) analyze retailer closures in Russia due to the sanctions. The authors note that some retail brands have announced their decision to close stores and stop online sales, denouncing Russian violence. Others cited security concerns as the reason for the temporary suspension of sales in the country. As the war progresses, some retailers are also warning of the impact these conditions have on their profits. Analysts note that the suspension of sales and the closure of outlets in Russia can affect retailers' short-term sales.

Several studies have focused on the impact of sanctions in some areas. For example, Calboli and Sevastianova (2022) evaluate the impact of the war on the work of fashion houses that were forced to leave the Russian market. Among the reasons for leaving Russia, the authors note logistical problems caused by sanctions, which greatly hampered the import of luxury goods into Russia; in addition, fashion houses are dependent on foreign currency payments that have been blocked due to the sanctions.

The Russian-Ukrainian war affects the world economy, geopolitics, and food security, but for Ukraine itself, it is destructive in all areas. Sak et al. (2022) have studied the economic and environmental devastating effects of the Russian invasion. According to them, the war has a terrible effect on the country where the hostilities occur. Restoration of Ukraine's ecological and economic security in all its components will be long-term since the scale of the destruction itself is catastrophic.

Symonenko (2022) analyzes the disruption of logistics flows due to the war, highlighting the criticality of the situation and the need for rapid adaptation of the Ukrainian fuel market.

In the complicated economic situation in Ukraine caused by hostilities, the revitalization of entrepreneurial activity is a key factor in strengthening the state's economic stability, and hence the ability to effectively resist the aggressor. Analysis and assessment of the impact of the war in Ukraine remain a rare phenomenon in business studies.

As Zhuravka et al. (2019) rightly point out, the "backbone of the Ukrainian economy" consists of entrepreneurs and businesses that can operate sustainably in a war. The guarantee that the state budget will be filled and the population will remain solvent is the creation of national business. However, the study considers only the features of the tax system in Ukraine during martial law. Existing research on war and business is mainly focused on the economic situation in the country as a whole, the outflow of labor, the analysis of legislation to support business in wartime, etc. The lack of clear data on business losses can be explained by a lack of data since active hostilities complicate gathering reliable information.

It should be noted that some organizations, such as the European Business Association, the Retail Association of Ukraine (RAU), etc., try to conduct regular studies in the form of surveys (among the members of the association) about business activity in Ukraine. In fact, nowadays, these surveys and their analysis are an effective tool for determining the general trend of changes a business has undergone.

Despite a rather significant amount of scientific research (considering the duration of the war), theoretical and applied problems remain unresolved, primarily in assessing the impact of the war on business and its marketing activities in Ukraine. Nevertheless, such research can provide effective advice for marketers, which they should use in their activities in the event of terrorist acts or the outbreak of the war (through the prism of the war in Ukraine).

To achieve the set goal, analysis and generalization were used to study the state of business and marketing activities in Ukraine since the Russian invasion of Ukraine (February 24, 2022), as well as to highlight the effects of the war on the activities of business representatives in Ukraine. In addition, these methods allowed highlighting the challenges of the war and development prospects for business and its marketing activities in Ukraine on the way to their recovery. The information basis of the study is the results of surveys conducted by Advanter Group, the Retail Association of Ukraine (RAU), and the European Business Association, as well as articles by Ukrainian and foreign scientists.

Source: Developed by the authors using Chaika (2022).

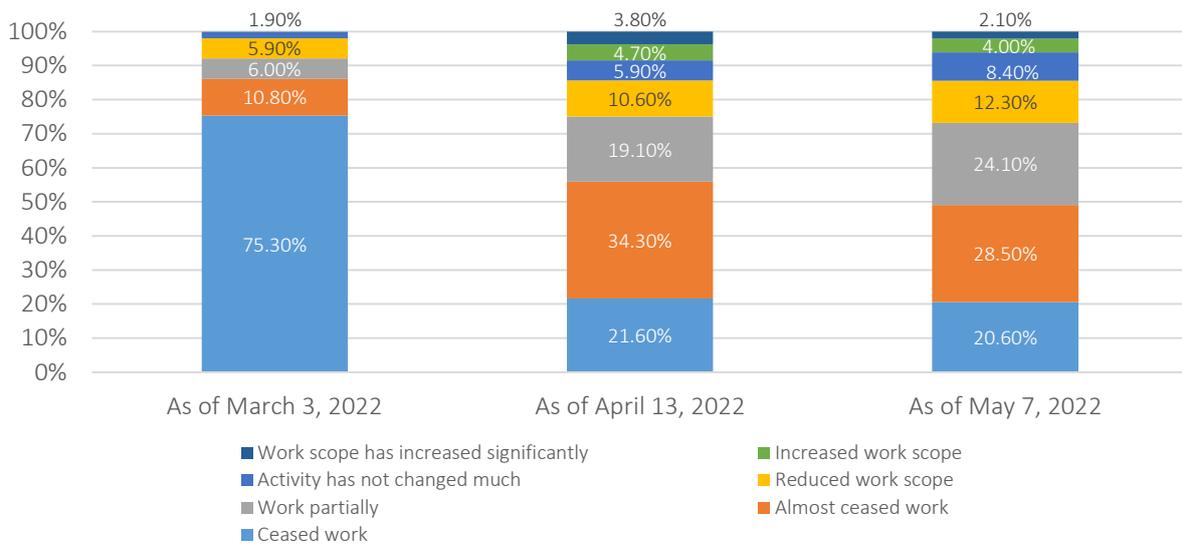


Figure 1. The state of business activity in Ukraine (in relation to February 24)

Since the beginning of hostilities, almost every business representative in Ukraine has suffered losses, i.e., almost 49% of companies closed completely or partially at the beginning of May (compared to February 24). At the same time, 6% indicate that they have found an opportunity to increase turnover over the past three months (Figure 1).

In April-May, one can talk about the gradual resumption of business in Ukraine, which has experienced the first shock since the beginning of a full-scale invasion. Indeed, at the end of March, the percentage of companies that completely or partially stopped working was 75.3%.

The Government of Ukraine has taken a number of decisions to support the national economy in general and small and medium-sized businesses in particular. An important step was to reduce the tax burden, and in March, the Verkhovna Rada of Ukraine introduced additional tax incentives to support the business during the war.

Losses (i.e., lost resources, goods, fixed assets, forced overpayments, relocation costs, excluding lost profits) of small and medium-sized businesses are estimated at USD 64-85 billion at the beginning of May.

It should be noted that in order to accelerate the recovery of Ukraine's economy, the Government ap-

proved and implemented a Program for the temporary relocation of enterprises from war-torn regions. Under this program, Ukrainian enterprises in the zone of active hostilities can receive state assistance in moving their facilities to the western regions of Ukraine. However, analytical data show that 71% of companies did not relocate and do not plan to do so, 20% relocated inside Ukraine, and 4.4% mostly abroad. The most popular countries for relocation abroad are Poland (87%), Germany (62%), the Czech Republic (48%), Slovakia (35%), Italy (31%), Romania (28%), Spain and Hungary (27%), and Moldova (17%). More than 50% of IT companies changed their location (13% moved abroad). Industries to which more than a quarter of companies are relocated include the financial sector, professional services, healthcare, transportation and warehousing, and food production. About 15% of vehicle repair and mechanical engineering companies are planning to relocate soon.

It should be noted that the relocation procedure requires not only competent management, but also active marketing activities since relocation, especially in times of crisis, involves a re-assessment of a company's strategy, including selecting the target segment, attracting new customers, using digital marketing, etc. According to a study conducted by Google (Nguyen, 2022), the fall in commercial demand in Ukraine is estimated at 25%, although most businesses felt it, probably 80-90%, especially in early March. Demand has declined,

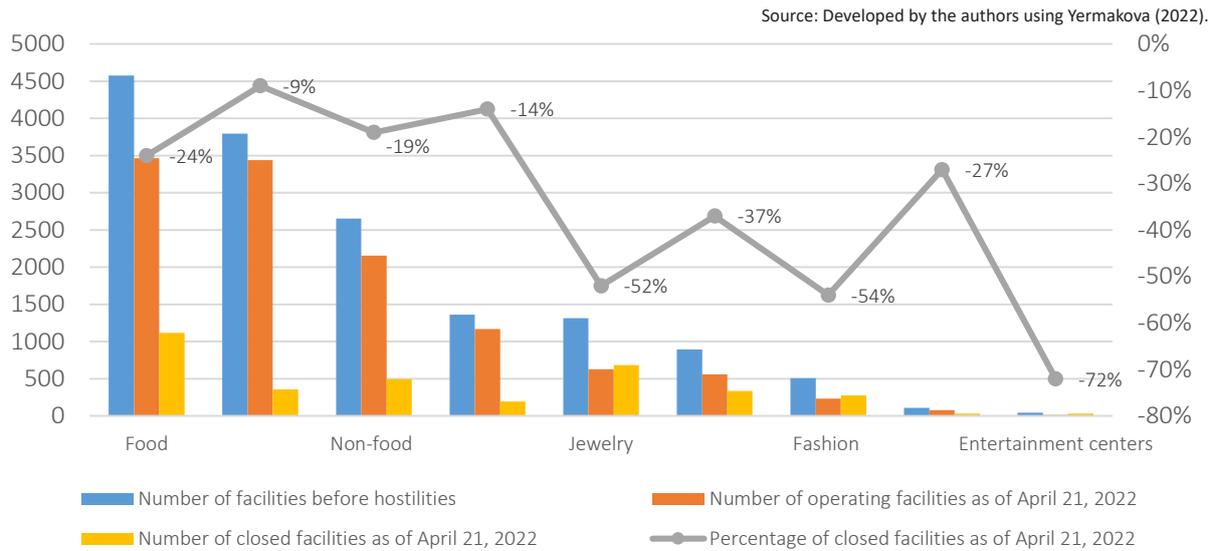


Figure 2. Estimating existing/closed retail facilities as of April 21, 2022

but not everywhere, not in all niches. Some regions and markets even showed growth. For example, according to the same Google study (Nguyen, 2022), western regions such as Lviv, Ternopil, and Ivano-Frankivsk became exceptions. The demand for goods such as animal feed, baby food, diapers, etc., has increased (in particular, one of the reasons for this growth is the internal migration of the population from areas where active hostilities are taking place).

An industry assessment of the losses suffered, in general in Ukraine, is currently quite difficult since hostilities are still ongoing and the situation in some areas is unpredictable.

Briefly evaluating some areas of business, it should be noted:

- Agricultural enterprises found themselves in almost the most demanding conditions. Their business is tied to a specific area, and work in the field or farm cannot be delayed, the market is suffering from a shortage of labor, fuel, fertilizers, and working capital;
- As expected, the IT industry turned out to be the most stable; COVID-19 prepared companies well for remote work (online work);
- The metallurgical market is in a difficult position due to its dependence on exports by sea. Most of the industry's enterprises are concen-

trated in the southeastern part of Ukraine, where active hostilities continue;

- The logistics market has suffered significant losses because many territories have been and are cut off from connections;
- The insurance market is going through difficult times. About 60% of companies have problems and failures but continue to work.

In addition, some associations try to conduct regular research within their competence. For example, a survey conducted in April by the RAU among its members showed that approximately 23% of retail outlets/stores were closed for one reason or another (Figure 2). According to the organization itself, since this survey was conducted only among the RAU members, the figures given can only indicate a general trend and do not accurately reflect the loss of all Ukrainian retail.

As Figure 2 shows, as of April 2022, 11,744 stores out of 15,263 were open at the time of the full-scale aggression. That is 23% less (3,521 closed outlets). Compared to March, the situation is improving, as the relative retail loss was 29.4% (4,481 stores) (Yermakova, 2022).

Regarding grocery retail, it should be noted that the number of closed mini-markets, supermarkets, and hypermarkets increased compared to March (from 978 outlets in March to 1,117 in

April). The growth in the share of closed stores can be explained, firstly, by the need to leave only those outlets in operation where it is possible to form a full range, organize timely replenishment of stocks and have the appropriate consumer demand, and secondly, the inability to pay rent. Some landlords refuse to reduce rents, citing that grocery retailers are open and everyday goods are in demand, so chains, unable to pay the rent, close some stores. Thus, despite the resumption of some stores, the overall result shows a decline. For example, the largest grocery store chain ATB currently has only 79% of stores open, compared to 85% in March. However, there are those who are increasing the number of operating stores, such as the Varus chain, which already employs 86% of the pre-war number of outlets. In addition, for example, the Rukavychka chain, which operates mainly in the west of the country, has even grown by one outlet during this time.

Survey data shows that other retail sectors are gradually reopening. The best pace of recovery is observed in the jewelry sector, which was mostly affected by the war (in particular, 85% of the stores of these chains were closed in March). For example, the Sribnyi Vik brand reduced its share of non-operating stores from 95% in March to 17% in April.

The home appliances and electronics sector is roughly in the middle: more than half of the stores are open and gradually increasing (63% in April against 56% in March). And this is despite the loss of warehouses and shops in the zone of active hostilities.

One of the most difficult situations is entertainment. Entertainment centers are currently reopening; the percentage of closed facilities in this area was 72% at the end of April (compared to 87% in March).

Another sector suffering significantly from the war is the retail trade in clothing and footwear. In April, the fashion segment doubled the number of outlets that resumed their work (in absolute terms, this looks like 234 open stores in April against 276 closed ones (Yermakova, 2022)). However, different brands do things differently.

Thus, it can be concluded that the business is showing cautiously optimistic forecasts for the recovery of commercial activity to pre-war levels.

It is impossible to imagine a successful commercial enterprise that would develop without marketing principles, tools, and concepts. Marketing is called the “philosophy of business” because just as philosophy is the science of knowledge, the marketing mindset is at the heart of any commercial operation. In times of war, marketing plays a key role since it allows businesses to adapt to the current conditions of a market economy and respond more quickly to changes. Some Ukrainian companies have partially resumed their marketing activities in the months since the war began. Digital marketing shows the most positive changes in the gradual recovery. This applies to all its areas, i.e., those that are used only online (SEO, PPC-advertising, email-marketing, etc.) and those that are available without an Internet connection (TV-marketing, radio promotion, SMS-mailing, etc.).

Source: Developed by the authors using Yermakova (2022).

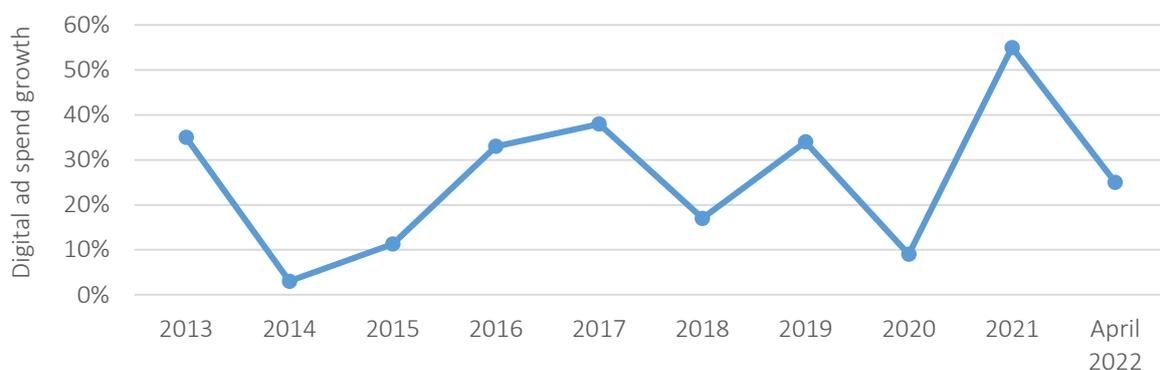


Figure 3. Annual growth rates of digital ads` spending in Ukraine from 2013 to April 2022

It should be noted that in April-May, the share of commercial enterprises' expenditures on marketing and advertising increased. During a crisis, advertising becomes much more important, and the right marketing strategy can keep a business from losing its primary income.

As of April, the growth rate of spending on digital advertising in Ukraine amounted to 25% (for comparison, the value of the same indicator in 2021 was 55%) (Figure 3). However, according to forecasts made at the end of 2021, this figure should have increased in 2022 by almost a quarter.

Online shopping in wartime is a lifeline for everyday shoppers and businesses. More than 11 million Ukrainians bought on the Internet in the pre-war period, now many times less.

Against the background of burned-out warehouses and shops, online shopping is more of a salvation than a profitable business. In the meantime, its mission is to give jobs to people, and to buyers – things necessary for life. Characterizing the SEO market in Ukraine, it should be noted that all online stores sank; commercial enterprises are partially functioning but have reduced marketing budgets; SEO experts started looking for jobs in the West (Links stream, 2022).

2. GENERALIZATION OF THE MAIN STATEMENTS AND DISCUSSION

Thus, the following are the key challenges and consequences of the war for business and its marketing activities in Ukraine.

2.1. Supply chain disruption

The Russian-Ukrainian war conflict and the multiple economic sanctions that come with it are adding pressure to a global supply chain that has not fully recovered from COVID-19. For example, Interos, a US supply chain management company, estimates that more than 300,000 American companies depend on the supply chain in Russia or Ukraine. Since the beginning of the conflict on

February 24, commercial shipping in the port of Odesa, the largest Ukrainian port, has been suspended. Maersk, the world's second-largest container company, has begun rerouting cargo to Port Said in Egypt and the port of Korfez in Turkey. In addition, several shipping giants have also announced the suspension of non-essential vehicle transportation to Russia to comply with the sanctions. This will lead to a sharp increase in freight rates, as well as delivery delays, which affect the trade in goods.

2.2. Shipping surcharge

The same pressures on the supply chain are also pushing gasoline prices in Ukraine and worldwide. As gasoline prices rise, transportation costs rise. Large fleets of container ships, such as Maersk, are already warning companies of looming fuel prices and the "risk of war."

2.3. Consumer demand

Among the reasons that prevent small and medium-sized businesses in Ukraine from recovering is the lack of a sufficient number of solvent customers in the domestic market. This reason was noted by 64% of respondents; another half pointed to the unpredictability of the situation in Ukraine and the domestic market. As a result, prices for food and essentials are rising, the situation in Ukraine is alarming, and people are losing their jobs (in particular, SME owners laid off a third of workers (33%) and sent a third on holiday (34%)). In total, about 1.2 million people were fired.

Despite the gradual recovery of the Ukrainian economy, hostilities and their devastating effects have already led to the devaluation of hryvnia and inflation growth. In April, inflation accelerated to 16.4% year-on-year; according to preliminary estimates of the National Bank of Ukraine, inflation continued to accelerate in May due to disrupted business processes and logistics), which, in turn, led to an increase in costs for companies and consumers. High world energy prices also remain a significant pro-inflationary factor and put pressure on consumer inflation, both directly and indirectly, due to rising production costs. Under such conditions, consumers tend to refuse to do "free shopping." Therefore, e-commerce marketers

need to consider how their products would work if consumers saved more and avoided buying non-essential items.

2.4. Creating stocks of products

The shortage caused by the pandemic and the first month of the war remains a painful memory for many buyers. Crisis in shipping, supply chain and, as a result, supply disruptions can lead to consumer panic. Companies should consider whether their products fall into the “hoarding” category. If so, how will the accumulation affect the company’s operations?

2.5. The state of uncertainty among business representatives

Uncertainty is one of the obstacles to business recovery and marketing in Ukraine. A large proportion (39.8%) of companies are unable to predict the possibility of recovery to pre-war levels or are convinced that the company will not be able to recover at all. As a result, some companies have begun to lose customers, or customers refuse to hire Ukrainian specialists for fear of instability. In addition, the decline in revenues affected enterprises focused on Ukraine’s domestic market. For example, Rozetka, Ukraine’s largest marketplace, has stopped working with most IT professionals (due to the inability to pay salaries). In addition, some foreign companies have begun laying off workers who are physically located in Ukraine. In particular, these are companies focused on the Russian market. Others, by firing out Ukrainians, thus insure their risks in the event of an escalation of hostilities in most of Ukraine.

Having analyzed the consequences and challenges of the war facing businesses in Ukraine, it is advisable to give recommendations on possible ways to adapt marketing and SMM during the war to restore business in Ukraine:

1. Marketing tactics. Conditions are changing too quickly, so long-term strategies will be ineffective in the current environment. That is why it will be appropriate to move with the help of tactical actions. In this case, it is possible to quickly reorient the strategy in a rapidly changing business environment. This requires an understanding of the product and the possibility of its customization.
2. Market changing and target audience selection. In case of termination of a company’s activities in Russia or disruption of activities when targeting other markets, the target segments need to be adjusted. Even if the target audience has remained the same, their needs may have changed and should be analyzed and considered. For example, they may now have critical issues with cybersecurity, product or service delays, or supply chain disruptions. Customer communication is critical.
3. Cost optimization. This is an integral part of a wartime marketing strategy. Funds should be directed to marketing that is clearly aimed at attracting customers. Internet advertising (including influencer marketing) is best suited for this task, which allows you to quickly attract the target audience, which, in turn, directly affects the increase in orders. It is also necessary to closely monitor the geographical settings of the advertising campaign. One should not target those areas where hostilities are taking place or have just taken place, and the product or service cannot be helpful.
4. Changing a content strategy. Changing the content involves: updating essential information about the product (service); coverage of the contribution to the fight: (volunteering, charity); providing the audience with useful information. For example, some companies are taking the opportunity to show the patriotic side of their brands by running ads showing support for the military, families affected by the tragedy, and so on. Such actions are currently effective, but it is important to remember that everything should be in moderation. Brands and marketing are really worthless in the face of the scale of the war. However, when the war is over, the actions of a few companies will be remembered for decades to come.
5. “Have your finger on the pulse of the market.” This rule is always relevant, especially during a crisis. Now it is vital to be as mobile as possible and reproduce the trends at their inception

stage. The ability of a business to be flexible and adapt to the realities of current conditions allows surviving under challenging times. It is important to monitor the movement of war zones and the audience's reaction to the ads. This study recommends pausing the ad campaign as quickly as possible or making adjustments according to people's reactions. The

announcement should not cause dissonance with the mood in society.

These steps will help build an effective marketing strategy in today's realities. All marketing activities must be consistent with the updated go-to-market strategy and its response to supply chain or service delivery issues.

CONCLUSION

The paper aims to define the state and prospects for developing business and its marketing component during wartime in Ukraine.

Staff loss, problems with the delivery of goods, a significant increase in prices, the departure of most customers, and a decrease in the solvency of the remaining ones – this is not a complete list of problems that have fallen like a snowball on business representatives. The main problems for business since the beginning of the full-scale invasion are, first of all, the war itself (the occupation of territories, loss of stores or warehouses) and logistics (non-working warehouses and failures in the work of logistics departments, queues at offices, long delivery times, the need for relocation). There are also problems with marketing: there is a significant reduction in their number and low purchasing power of the population. There is no demand for some goods at all. Sales are critically affected by the unstable situation with orders and people's fear of lack of livelihood. A significant part of Ukrainian companies is convinced that the sectoral transformation of business will be evident in the post-war period.

The analysis of the consequences and challenges of the war in Ukraine, and the recommendations on possible ways to adapt marketing and SMM during the war to restore business in Ukraine were offered. The activities of marketers in wartime should include the following steps: building a scenario plan; strategy change; a shift in emphasis from strategy to tactical action; if necessary, adjusting the target segment and describing a new "portrait" of the target audience; changing content strategy. These steps will provide an effective marketing strategy.

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