Diversifying Your Way Out of Crisis: Strategic Diversification for Textile Service SMEs as a Response to the COVID-19 Pandemic

A Master's Thesis submitted for the degree of “Master of Science”

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Vienna, 02.03.2021
I, LUKA POPOVIC, hereby declare

1. that I am the sole author of the present Master’s Thesis, “DIVERSIFYING YOUR WAY OUT OF CRISIS: STRATEGIC DIVERSIFICATION FOR TEXTILE SERVICE SMES AS A RESPONSE TO THE COVID-19 PANDEMIC”, 89 pages, bound, and that I have not used any source or tool other than those referenced or any other illicit aid or tool, and

2. that I have not prior to this date submitted the topic of this Master’s Thesis or parts of it in any form for assessment as an examination paper, either in Austria or abroad.

Vienna, 02.03.2021

_______________________
Signature
I would like to thank my supervisor Professor Peter Kopacek who has helped me to write my thesis from the early start until the very end. With his help and useful remarks, I have managed to finish my work and in that way successfully conclude very interesting chapter of my life - Engineering Management MSc Program.

Also, I have to express my thankfulness to the whole Krokoteks team and especially their CEO who gave me great support and valuable insights into their company and also in the whole industry.

Finally, I would like to express my gratefulness to my whole family and my girlfriend who provided me with continuous support and encouragement throughout my whole education at TU Wien.
Abstract

The global COVID-19 pandemic has brought about difficult challenges for the business of most companies. Especially affected are those that still require the presence of workers in an operations facility, as is the case with the textile service industry. The industry is even more affected by the loss of a significant number of clients, since it mostly provides products and services to healthcare, hospitality and other industrial sectors, all of which have been shaken by the pandemic. Because of such difficult market conditions, the survival of textile service companies has been brought into question and this paper aims to identify a strategy that can help such companies survive in times of crisis and build a more stable foundation for the unpredictable future market developments. The objective of this paper is to overcome this issue by finding a way to increase the revenue from existing clients and attract new clients, while keeping additional costs and investments to a minimum, which can be achieved through the implementation of a diversification strategy. Through a case study of a Croatian textile service small to medium enterprise (SME), in-depth analysis of the company and the Croatian textile service market, as well as the review of literature on diversification, this paper determines the problematic areas, identifies the solutions to each through horizontal diversification, and finally proposes a diversification strategy designed to allow such companies to overcome the crisis and stabilize their business for the post-pandemic future. The main hypothesis of the paper is that a carefully planned and executed horizontal diversification strategy, based on the diversification of products/services, clients and sectors, can rectify the business trouble caused by the COVID-19 pandemic for a typical textile service SMEs. Even though diversification strategies in business are widely discussed and often a subject of dispute, in the situation of a pandemic, they represent a powerful tool for recovering from the crisis caused by the novel virus, but only if carefully planned and executed, in order to create a perfect fit with the existing company culture, brand and budget.

Key words: textile service, textile rental, diversification, horizontal diversification, pandemic, COVID-19.
Table of Contents

1. INTRODUCTION ........................................................................................................... 1

2. TEXTILE SERVICE INDUSTRY .................................................................................. 3
   2.1 About textile service industry .................................................................................. 3
   2.2 Advantages of textile rental services ...................................................................... 5
   2.3 Market analysis of the textile service industry in Croatia ...................................... 8

3. IMPACT OF COVID-19 ON TEXTILE SERVICE INDUSTRY .............................. 11
   3.1 Global economic consequences of COVID-19 and the impact on textile service industry ................................................................................................................................................ 11

4. CASE STUDY: IMPACT OF AND RESPONSE TO COVID-19 CRISIS IN KROKOTEKS .......................................................................................................................... 14
   4.1 About Krokoteks ...................................................................................................... 14
   4.2 Analysis of Krokoteks’ products and clients .............................................................. 16
   4.3 Impact of COVID-19 on operations and processes .................................................. 19
   4.4 Impact of COVID-19 on business performance ...................................................... 22
   4.5 The company’s response to the pandemic .............................................................. 25
      4.5.1 Anti-virus overalls .............................................................................................. 26
      4.5.2 Disinfection floor mats ...................................................................................... 28
      4.5.3 IPS - Infection Prevention System (IPS) ............................................................ 29
   4.6 Results of analysis: problematic areas and offered solutions ................................... 31

5. DIVERSIFICATION STRATEGIES AS A RESPONSE TO TIMES OF CRISES .......................................................................................................................... 36
   5.1 Diversification as a key to success and growth ....................................................... 36
   5.2 Advantages and disadvantages of diversification .................................................... 37
   5.3 Types of diversification ............................................................................................ 40
      5.3.1 Horizontal diversification .................................................................................. 41
      5.3.2 Concentric diversification ................................................................................ 41

III
5.3.3 Conglomerate diversification ........................................... 42
5.3.4 Vertical diversification ....................................................... 43

5.4 Approaches to diversification in various business areas .............. 44
5.5 Diversification and financial performance ................................ 47

6. DIVERSIFICATION STRATEGY IN TEXTILE SERVICE SMEs IN TIMES OF CRISIS ................................................................. 51

6.1 Exploring the applicability of diversification strategies for textile service SMEs during the pandemic .................................................. 51

6.2 Krokoteks: diversification as a means of surviving in pandemic times ..... 56
   6.2.1 Analysis and recommendations: implementation of diversification in Krokoteks ................................................................. 56
   6.2.2 Diversified optimization for future stability and growth .............. 60

6.3 Recommendations for textile service SMEs during and after pandemic ... 65
   6.3.1 Diversification as a means to overcoming a pandemic-caused crisis in textile service SMEs ....................................................... 65
   6.3.2 Recommended types of diversification for textile service SMEs ........ 67
   6.3.3 Recommended strategy for the implementation of diversification in textile service SMEs ....................................................... 70

7. SUMMARY AND OUTLOOK .............................................................. 75

REFERENCES ..................................................................................... 78

LIST OF FIGURES ............................................................................. 82

LIST OF TABLES ............................................................................... 83
1. INTRODUCTION

Strategic optimization and manufacturing strategies determine a company's market success at any time. Creating a carefully planned strategy suitable for the market demands is crucial for a company to grow and persist in today's global marketplace. And while these factors are always important for business advancement, in times of crisis they represent the only pathway to survival. Crises bring about the most difficult challenges for companies to survive and, in order to do so, make them reconsider each part of their business process with the goal of creating the most efficient and effective strategy to overcome the troublesome market conditions. Companies need to employ various extraordinary measures to best adapt to the business context and successfully welcome the return to normal.

The recent and currently still ongoing pandemic of the new virus, COVID-19, has created a challenging new crisis in the world of business in which no one has been left untouched. Due to the restrictions in movement of goods and people, very few industries have been affected positively by this crisis, and they are mostly limited to the field of information technologies, as a significant part of global business has been completely transferred online. On the other hand, most manufacturing companies, as well as any type of business which requires workers to be present in a certain operations facility, have suffered grave consequences. Add to that the butchered performance of the tourism industry which makes up the bulk of the demand for many other service industries, and the consequences for many industries are proving to be unsurmountable.

The same has proven to be true of the textile service industry, which is highly dependent on employee labor in operations facilities, as it is on providing services to the tourism industry. Therefore, the impact of the pandemic on the textile service industry has been grave and in order for companies to survive, they had to implement significant changes to their processes. In this paper I will provide an analysis of how the COVID-19 crisis struck the industry and what problems it caused for the management, facility and business strategy. The analysis will be exemplified in the study of a Croatian textile service group Krokoteks, which was on its way to the expansion and development of its business model prior to the pandemic and it was gravely affected by its consequences. Moreover, I will offer an optimization strategy
for textile service companies based on a diversification model. A proposed diversification strategy will again be exemplified in the case of Krokoteks to present the short- and long-term benefits of employing a certain model of business diversification.

The described diversification strategies exemplify the use of horizontal diversification in terms of product, client and sector diversification in textile service small to medium enterprises (SME) through a case study of Krokoteks’ business processes. In that way, it represents a specific diversification model which can help companies like this survive times of extreme crises, in this case a global pandemic, with minimum investment and maximum use of existing resources. By applying this model, textile service SMEs can overcome a crisis period while retaining a profitable business model, improving stability and preparing the company for future expansion and growth upon return to regular market conditions.
2. TEXTILE SERVICE INDUSTRY

2.1 About textile service industry

Textile rental or textile service industry deals with supplying, cleaning and maintaining textile for different sectors of the economy. While some may differentiate between textile rental and textile service sectors, there is in general little difference between the two. Companies providing the service of textile rental supply different kinds of textile to clients from various sectors who prefer to outsource the acquisition and maintenance of the textile that they use in their business. Such textile includes: linen, workwear, protective clothing etc. (Textile Services, 2020). Moreover, textile services usually include a 360 service for the clients, i.e. selection and management of textile, cleaning and maintenance, hygienically certified processes, repair and replacement of damaged textile, as well as pick-up and delivery services (CINET, 2020). Among the clients of such companies, there are five most common sectors that textile rental companies service, including: service sector, hotels and restaurants, manufacturing industry, healthcare and construction (Nauwelaerts, 2009-2010: 4).

Considering the most common clients served and products and services offered, the textile services sector is focused on supplying, renting, cleaning and maintenance of textiles, among which most commonly flat linens for hospitals, restaurants and hotels, protective and branded workwear for various industries and services, as well as mats, towels and washroom services for a range of sectors. This considered, the service provided by this sector can be considered as crucial for the successful operation of numerous other sectors vital for the economy (Regeneris, 2017: 6-7).

Considering its main areas of doing business and clients, the textile service sector can be divided into three most important divisions: hospitality, healthcare and workwear (Regeneris, 2017: 8-9), with revenue shares as represented in Fig. 1 below. The data derives from the analysis of the UK market, but can be considered relevant for the evaluation of the total European market.
Depending on the country and individual company, this focus is shifted to adjust to the market needs, local culture and habits and client demands, but most of the companies are focused precisely around these three areas. A better insight into the state of textile rental market in Europe is provided below in Deloitte's report from 2014, prepared at the request of the European Textile Services Association. In 2012, flat linen made up 42% of the market in Europe, while workwear made up 33% (Deloitte, 2014). Hygienic products made up 12%, while mats (see under Dust Control) and cleanrooms garments made up the rest.
Similar divisions and market shares can be encountered on the Croatian market, which is considered to be most relevant for the analysis in this paper. A more detailed analysis of the Croatian market can be found in Chapter 2.3.

2.2 Advantages of textile rental services

In today’s world, the mindset focused on reaching the best quality, providing the best service, establishing a leading position on the market and, with all that, being able to offer the best price is crucial for success. The main goal of any company is to organize its system in a way that all the resources are being used as efficiently as possible. Therefore, it is imperative for any successful business to constantly invest an effort into analyzing each of its processes and try to make certain improvements wherever possible. Often, it can be very efficient and effective to redirect some segments of business operations which are not part of the core business model, but they are a vital part of the system, to outsourced experts. Outsourcing is a wide-spread model of doing business with its advantages and disadvantages, but in textile servicing, the benefits of outsourcing the service to a specialized textile rental company are certainly more dominant. The following chapter explains the importance of textile rental services for many different industries and the benefits of its implementation. Professional industrial textile cleaning can have significant benefits over in-house washing. Before opting for outsourced textile cleaning, it is always necessary for a company to conduct a thorough and detailed analysis of its textile maintenance operations in order to decide whether or not an outsourced model is suitable for them. In the majority of the cases, professional textile service companies will conduct a free analysis of the client’s current model and offer the best possible solution. The general process of textile servicing through a common model is represented in Fig. 3 below. It is always up to the clients to decide which option is better and more lucrative for them. Therefore, this chapter explains how outsourcing textile services can help companies (the ones suitable for that) to gain benefits and become more efficient.
For this purpose, the benefits of textile rental services are divided into seven different categories: time and cost efficiency, wide range of products, textile longevity and quality, branding, hygiene and safety, adjustable quantity and sustainability. Each category has strong benefits which are certainly attractive to the potential clients and always presented to them when textile services companies conduct a detailed analysis. Some groups of benefits can be more related to industrial companies, while others can be more relevant for healthcare or hospitality. But it is safe to say that each client considering outsourcing textile management system would look for the solution which would provide time and cost efficiency, safety features and high-quality textile. These are the most important benefits for each potential customer, while the other advantages are just an addition in order to create an even more attractive model. One that is certainly very important in today’s world, is sustainability. Professional textile service companies are based on sustainability principles and thus augment the ecological aspect of this industry. In the table below, each group is described in more details, with specifically explained advantages.
<table>
<thead>
<tr>
<th><strong>ADVANTAGES OF TEXTILE RENTAL SERVICES</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Time and cost efficiency</strong></td>
</tr>
<tr>
<td>- maintenance and delivery of textile are fixed in time as a result of arranged conditions, but can still be adapted to highs and lows in demand</td>
</tr>
<tr>
<td>- no initial investments</td>
</tr>
<tr>
<td>- no energy consumption and no additional staff for textile management system</td>
</tr>
<tr>
<td>- no additional cleaning and storing spaces inside the facility</td>
</tr>
<tr>
<td>- it is easier for a client to plan budgets if fixed monthly rate is agreed</td>
</tr>
<tr>
<td>- textile company ensures the right amount of textile at the right place due to professional logistics systems designed for this purpose only</td>
</tr>
<tr>
<td>- more physical space to use for different purposes in accordance to core business (i.e. rooms in hotels, patient beds in hospitals)</td>
</tr>
<tr>
<td>- there is no distraction from core business operations, all employees can focus on income-generating tasks</td>
</tr>
<tr>
<td><strong>Wide range of products</strong></td>
</tr>
<tr>
<td>- wide portfolio of workwear or flat linen for clients to choose from</td>
</tr>
<tr>
<td>- textile companies buy textile based on clients’ wishes and requests</td>
</tr>
<tr>
<td><strong>Textile longevity and quality</strong></td>
</tr>
<tr>
<td>- guaranteed long-term usage of rented textile due to professional processing and maintenance, quality is always on the same level</td>
</tr>
<tr>
<td>- experts perform regular quality control checks after every cleaning process</td>
</tr>
<tr>
<td>- textile is replaced when necessary based on the assessment of experts (it is possible to replace only parts of the batch)</td>
</tr>
<tr>
<td>- repairs are done by the textile rental company</td>
</tr>
<tr>
<td><strong>Branding</strong></td>
</tr>
<tr>
<td>- augmented brand image through different textile styles for different occasions</td>
</tr>
<tr>
<td><strong>Hygiene and safety</strong></td>
</tr>
<tr>
<td>- high hygienic standards with each cleaning, handling and delivery process</td>
</tr>
<tr>
<td><strong>Adjustable quantity</strong></td>
</tr>
<tr>
<td>- textile output for professional companies is not limited or impacted by machine maintenance or limited hours (this is often the case with in-house washrooms, textile companies have contingency plans)</td>
</tr>
<tr>
<td><strong>Sustainability</strong></td>
</tr>
<tr>
<td>- sustainability is part of the textile rental company policy, energy consumption and carbon footprint with regards to the ecological aspect</td>
</tr>
<tr>
<td>- ecological discarding of textile</td>
</tr>
</tbody>
</table>

Table 1: Advantages of textile rental services
2.3 Market analysis of the textile service industry in Croatia

The Croatian textile services market is oriented mainly around the hospitality and healthcare sectors, as well as workwear for other specialized industrial sectors, which make up the rest of the target group. The products and services offered depend on the market focus that each company has in this industry, but they are mainly centered on reusable linen and workwear in hospitals, hotels and other types of businesses that require these or similar types of textile.

On the Croatian market, there are several competitor companies specialized in textile rental services for the healthcare and hospitality industry, as well as workwear and mats rental for other industries. Together, these companies offer the full textile rental service across a range of industries. They can cover all of the mentioned sectors or most of them, but each is more focused around the area most profitable for its business, which differs from one company to another. Besides Krokoteks, which is the case study for textile service small to medium enterprises (SME) in Croatia in this paper, there are three main competitor companies that make up the largest part of the market in Croatia: Salesianer, Lindström and CWS, all international companies which have extended their services to the Croatian market. Krokoteks, on the other hand, is the biggest domestic competitor and the only one with a significant market share. Each of these companies has a specific focus and market approach.

Salesianer, an Austrian company with 30 different laundry facilities across Europe and approximately 3000 employees is the market leader in Croatia when it comes to portfolio scope. It offers a variety of different products, textile or non-textile. Its products include: linen and workwear for healthcare and hospitality industry, specialized industry workwear, clean room workwear, floor mats and different hygienic products (Salesianer, 2021). Such a great scope certainly gives this traditional Austrian company a certain advantage on the market. The Swedish Lindström operates in Europe and Asia, across 24 different countries with approximately 4600 employees (Lindström, 2021). Its portfolio is very extensive, but with reference to the Croatian market they have made some reductions which are shown in Table 2 below. Lindström offers workwear for hospitality and healthcare sectors, as well as for specialized industries. In addition to that, clients can also use the service of floor mats rental (Lindström HR, 2021). Finally, the German company CWS is another important
competitor on the market. CWS is a big international corporation with approximately 10600 employees and famous for its innovative cotton towel dispenser used in washrooms around the globe (CWS, 2021). Alongside its non-textile product portfolio, it also includes textile rental business. It is important to point out, however, that on the Croatian market CWS does not work with hospitality and healthcare sectors and offers only specialized industry workwear, linen excluded. In addition to workwear, floor mats and different hygienic products can also be found in the company's portfolio (CWS HR, 2021) A categorization of products in different companies' portfolios is shown in Table 2 below.

Finally, with its 56 employees, Krokoteks is the only significant Croatian competitor on the market. Since the company was founded in 2011, it has mostly focused on clients from the healthcare and hospitality sectors. The healthcare sector in this area of business includes mostly hospitals with only occasional cooperation with clients like health clinics and nursing homes, and in this sector the company provides services for both linen and workwear. The second largest sector is the hospitality sector, where hotels make up the biggest portion of the business, which also use Krokoteks's textile services for linen and workwear. As of recently, before the start of the pandemic, Krokoteks made some attempts to expand into other industries to enhance its client network, but they were mostly unsuccessful and have not resulted in any greater changes to the existing business model. The focus was on the offer of workwear services, but also the expansion to other categories, such as floor mats. The company's market approach is described in detail in the case study.

Besides these, it is still possible to find smaller competitors and also family-owned garage washhouses which have smaller capacities and in most cases, provide only the service of textile washing and cleaning, minus the rental system. Those companies do not directly endanger other, bigger companies available on the market. It is also important to mention that some of the institutions from the healthcare and hospitality sector still have their own in-house non-industrial washrooms for satisfying individual textile service needs. Despite this fact, the number of such projects reduces every year due to their highly inefficient model regarding energy consumption, low financial efficiency and the fact hotels and hospitals have to employ additional workforce for performing the type of work which does not fit into the core business and represents a distraction from the business focus.
<table>
<thead>
<tr>
<th>Products</th>
<th>KROKOTEX</th>
<th>SALESIANER</th>
<th>LINDSTRÖM</th>
<th>CWS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hotel linen</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Hotel workwear</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Healthcare linen</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Healthcare workwear</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Specialized industry workwear</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Cleanrooms workwear</td>
<td>x</td>
<td>✓</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Floor mats</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Hygienic products</td>
<td>✓</td>
<td>✓</td>
<td>x</td>
<td>✓</td>
</tr>
</tbody>
</table>

Table 2: Product portfolios of textile service companies in Croatia
3. IMPACT OF COVID-19 ON TEXTILE SERVICE INDUSTRY

3.1 Global economic consequences of COVID-19 and the impact on textile service industry

The global COVID-19 pandemic has left no business untouched. Only a small fragment of business sectors increased their profits thanks to the pandemic situation, but most businesses around the world were negatively affected to a various degree. Many of them have had to forcefully adjust to the newly encountered working and market conditions in order to keep their companies afloat. While some companies are agile enough to adjust, others, especially SMEs, have had a hard time adapting to these unexpected changes and uncertainties. The pandemic has, almost overnight, forced a transformation of the way companies do business across the world, particularly in terms of new operation, production, and service processes (Asare et al., 2020: 2072), as well as the changes to their workforce. Especially in times of crisis, but also in general in today’s globalizing and ever-changing market, in order to ensure stability and growth, companies need to maintain quick and cost-effective responsiveness, as well as increase the ability to change across all levels, in order to ensure the agility, adaptability and high performance of the business (ElMaraghy, 2009: vii).

The same is the case with the textile service industry. In fact, particularly those businesses that often make up the client base for textile services were among those that experienced the gravest consequences of the pandemic, such as the whole hospitality sector, which has greatly changed the balance of demand and supply in the textile services market, in addition to the changing working conditions. TRSA’s survey from March 2020 indicates that the consequences of the pandemic were felt already in spring, with the F&B and hospitality sector service providers (in the USA) already reporting loss of revenue and experiencing difficulties such as lay-offs, cutting hours, eliminating and reducing routes and even closing down plants. The similar is the case with the uniform rental services, which were also expected to reduce below expectations in the following months, while the healthcare sector continued to bring in expected revenues (TRSA, 2020). In April, the result was already visible with 65.3%
of textile rental facilities experiencing significant reductions in poundage, and 18.4% experiencing some reductions (see Fig. 4). While this is the case in the US, the crisis is reflected globally and countries all over the world are encountering a similar situation. The textile rental service market in Europe was expected to fall 12.3% by the end of 2020, and even though it is predicted that it may recover up to 6% in 2021, only in 2023 should it be expected that the textile rental businesses in Europe are back at the pre-crisis level. The declines are expected to be the largest in Southern Europe and Great Britain, i.e. in countries which rely mostly on the hospitality and F&B sectors, whereas those relying above all on healthcare may face only a moderate decline, e.g. DACH region and CEE countries (Barla, 2020).

Andrew Wittmann, a research analyst of linen, uniform and facility services industry, made an analysis of the most likely factors to negatively impact the industry. He predicted rising unemployment rates at client businesses, mainly due to forced closures (in e.g. hospitality), as well as the reduction of economic activities in the sectors where textile services clients belongs, which would certainly have a negative impact on textile rental industry and even cause the permanent closure of some smaller facilities (TRSA, 2020). In fact, the consequences for the textile service industry (in

Fig. 4: Effects of COVID-19 pandemic on textile rental facilities (Poe, 2020)
the US) due to these reasons were already seen in April 2020, when 31% of laundry and linen services businesses reported lay-offs (Poe, 2020).

Not only has the pandemic had significant negative economic consequences for these businesses, but it has also brought demanding changes and challenges to the processes, especially with the new health requirements. The crisis caused by the global pandemic has, almost overnight, changed the way of working for most manufacturing and operations businesses, creating extreme pressure on business leaders and employees (Agrawal et al., 2020). This is especially true for the textile service industry and the way of handling the textile through pick-up and delivery, cleaning and washing and other processes concerning the handling of textile. To ensure that the linens are clean and virus-free, the providers of textile rental services implemented improvements in washing chemistry, daily deep cleaning and disinfecting of the facilities and vehicles, double checking cleaned textile, sanitizing their equipment, employee work equipment (e.g. masks and gloves) and regular temperature taking, minimizing the number of employees in the facility, requiring new certifications etc. (Poe, 2020), all of which presented new challenges and requirements for the businesses. However, despite the pressure of the initial challenges posed by the new operational and market demands, COVID-19 has forced business leaders across various industries to question their usual ways of operating and create new strategies which would be more responsive to crises like this and allow an easier adaptation process to unexpected and ever-changing market conditions, perhaps more profitable in the long term.
4. CASE STUDY: IMPACT OF AND RESPONSE TO COVID-19 CRISIS IN KROKOTEKS

This chapter represents a case study of an SME on the Croatian textile services market in order to analyze the usual way of operating of such a company and identify the weaknesses that such a business has when facing a disruption such as a global pandemic. This analysis serves as an example of the pre-COVID-19 perspective on doing business in the textile service industry and as a basis for the creation of a new strategy presented in Chapter 6, which would allow such businesses to remain more resistant to unpredictable market changes and conditions. By finding the right strategy for managing a disruption (such as the novel virus), companies need to be prepared to devise and carry out specific strategies aimed at managing disruptions (Chowdhury et al., 2020).

4.1 About Krokoteks

The Krokoteks group is a family-owned textile rental service company focused on providing textile services mostly to the healthcare and hospitality sectors, as well as, to some degree, workwear and mats rental for different industries. Krokoteks group is divided into two units, Krokoteks d.o.o. and Krokoteks hoteli d.o.o., the first being the business unit in charge of textile used in healthcare, industrial workwear and mats rental, while Krokoteks hoteli d.o.o. is focused around textile rental for the hospitality sector. In this paper, I will not differentiate between those two entities, but will mostly be referring Krokoteks as a group, since in reality it functions as a unified company. For its clients, the company acts as an outsourced entity with a mission to provide them complete, high-quality and hygienically secured service of supporting and preserving their textile. Established in 2011, Krokoteks is the first Croatian company to offer such a novel model of textile rental on the Croatian market. For the last 10 years, Croatian companies and institutions, especially the ones in hospitality sector, have begun to recognize how important, efficient and financially lucrative it is for them to outsource their textile management systems. The service is provided on a full basis, when offered through all-in-one packages including purchase, washing, cleaning, delivery and stock.
control of textile, or partially, in which case the company takes care of washing and cleaning client’s own textile (Krokoteks, 2020-2021).

Krokoteks’ core business is taking full care of their clients’ textile from their plant located near Zagreb, Croatia. The plant is the hearth of the system because it consists of a production floor, where all the machines are located, as well as of their own warehouse facility used for storing the textile stock for clients in order to allow them total security even during high season and as a consequence, seasonality of demands. Additionally, Krokoteks’ city office is located in the center of Zagreb. Since Krokoteks is currently focusing its business around consumers from Zagreb and the surrounding area, with a few exceptions, the office was strategically positioned in Zagreb, as the city with the greatest number of hospitals and consequently the biggest hospitals in the country. Therefore, it represents the ideal location to firmly establish a strong and permanent client base in a relatively small area. Moreover, considering tourism is the most important element in creating and affecting Croatian economy, the Zagreb area is on a relatively high level during the whole year with a great number of hotels and other hospitality communities (Krokoteks, 2020-2021).

Fig. 5: Organizational chart for Krokoteks group (adapted from: Krokoteks, 2020-2021)
Krokoteks can today be classified as an SME. It counts around 56 employees divided into different groups and categories, some of which are employed in Krokoteks d.o.o. and others in Krokoteks hoteli d.o.o. The number of employees is subject to fluctuation due to demand changes throughout the year, since the business is dependent on tourism and affected by the high seasonality of tourism in Croatia. The situation with COVID-19 brought about crucial changes for the company which resulted in a relatively small number of employees in total, due to lay-offs (Krokoteks, 2020-2021). The organization chart in Fig. 5 provides a more detailed insight into the hierarchy of employees and their roles in the Krokoteks group.

4.2 Analysis of Krokoteks’ products and clients

When talking about textile rental services market, each company has its own customized portfolio in which they offer various products and services to different industries. Those products or services do not have to necessarily be connected with textile per se, but can also be represented by other sanitation products, e.g. the equipment for washroom hygiene. The range of products and services is presented in the portfolio analysis above (see Table 2). Krokoteks is currently focusing on clients from the hospitality and healthcare sectors, but with a tendency to expand its portfolio to reach out to other industries in which companies use rental services to equip employees and facilities. Krokoteks’ portfolio can be roughly divided into two main groups of products, flat linen textile and workwear. Lately, however, the company has been trying to implement certain new products. In the later chapters, an analysis of the introduction projects for new products and services and future plans for the expansion of the portfolio will be presented.

Flat linen represents a group of fabric products made for industrial washing, cleaning and processing. These are mostly flat products which can be divided into several categories: bed linen (e.g. sheets, pillowcases, covers, duvets), bath linen (towels, bathrobes, washgloves) and table linen (e.g. tablecloths, napkins). On the other hand, workwear is a very wide textile category and is used in many different industries and sectors. It can be described as clothing worn for work and it can either be protective or simply a regular uniform. In Krokoteks’ current situation, the majority of workwear is serviced for the healthcare sector and includes merchandise such as
tunics, trousers, shirts and scrubs worn by the healthcare personnel during the working day, as well as surgical protective garment. The rest of Krokoteks’ workwear is divided between workwear for the hospitality sector and workwear for other industries. The workwear for the hospitality sector includes products like jackets and aprons for cooking staff and maids. The workwear for other industries takes up a very small portion of the business, with approximately 1% of the overall textile poundage. This type of workwear is processed separately from all other textile goods mentioned above and it will be explained in detail in later chapters (Krokoteks, 2020-2021).

When defining its main groups of clients and the sectors from which they derive, Krokoteks initially focused its business on mainly two sectors, healthcare and hospitality, while it is currently exploring another segment of business which will be analyzed later in the text. The healthcare sector was the initial and primary business segment for Krokoteks, while the hospitality sector was included only a year later. Throughout the years, Krokoteks has been gradually increasing the number of clients within these sectors while proportionally increasing their work capacities. The clients from the healthcare sector include a number of different hospitals, all but one located in Zagreb. While it is true that Krokoteks is focusing on the clients from Zagreb, it is open to making exceptions and finding clients within a 200 km radius to which it can profitably provide its services. Still, such cases are fairly rare. An interesting fact is that most of the hospitals in Zagreb who are Krokoteks’ clients operate under the same holding group, KBC Zagreb. Therefore, a single contract is valid for all the hospitals at the same time, and winning this bid brought the business of five different hospitals to Krokoteks (Krokoteks, 2020-2021). Besides KBC Zagreb, Krokoteks has a few additional smaller and individually operated hospitals and clinics in its client base (see Table 3).

When considering the hospitality sector, the situation is very similar. Six hotels which use Krokoteks’ services are all part of the same hospitality group called HUP Zagreb. Besides the mentioned group, there are several independent hotels in Krokoteks’ client base (see Table 3). Outside of the hospitality and healthcare sectors, there are only a few clients, coming from different industries, such as a packaging company and the University of Agriculture. These clients are using Krokoteks’ service of workwear rental for employee clothing, as well as the service of mats rental. This part of the business is currently very modest when compared to the other two groups
of clients because it is relatively new and still in the process of development, as can be seen from Fig. 6 below, which illustrates the distribution of capacity among different client sectors (Krokoteks, 2020-2021).

![Business workload distribution among clients' sectors](image)

**Fig. 6: Distribution of business among different clients' sectors (adapted from: Krokoteks, 2020-2021)**

To provide more insight into the size of the company and clients' sectors, the list of the current clients (at the moment of writing, in October 2020) is shown in the Table 3 below.

<table>
<thead>
<tr>
<th>Krokoteks' clients</th>
<th>Healthcare: Krokoteks</th>
<th>Hospitality: Krokoteks hotels</th>
<th>Other: Krokoteks</th>
</tr>
</thead>
<tbody>
<tr>
<td>KBC Zagreb (5 locations) - flat linen/workwear</td>
<td>HUP Zagreb (6 hotels) - flat linen/workwear</td>
<td>Bomark - workwear</td>
<td></td>
</tr>
<tr>
<td>KB Sv. Duh - flat linen/workwear</td>
<td>Zagreb City Hotels (3 Hiltons) - flat linen</td>
<td>Agriculture University - mats</td>
<td></td>
</tr>
<tr>
<td>Poliklinika Sv. Duh II - flat linen/workwear</td>
<td>Salve Regina - flat linen</td>
<td></td>
<td></td>
</tr>
<tr>
<td>OB Virovitica - flat linen/workwear</td>
<td>Hotel Kaj - flat linen</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Emergency Ambulance Zagreb - workwear</td>
<td>Madison - flat linen</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Novena promet - flat linen</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Table 3: Krokoteks’ client list (adapted from: Krokoteks, 2020-2021)**

When it comes to revenue and performance, a detailed insight in Krokoteks’ business performance can be found in Fig. 7 below, which illustrates total revenue in years 2017-2019. It is divided into two main groups, since there are two internal
business units in the Krokoteks group, Krokteks d.o.o. and Krokteks hoteli d.o.o., which corresponds to the division of revenue between the two main client sectors. From the presented data, it is clear that the revenue from the healthcare sector was greater and more stable in the last three years. The reason for that is the fact that healthcare clients on average have larger textile capacities. Moreover, customer relationships are not as dynamic as with the clients from the hospitality sector, since there are more hospitality institutions in the Croatian market than there are hospitals and clinics. The part of Krokoteks’ business focused on hospitality was established only a year later than healthcare, but its growth has been considerably slower. Only in 2019, the revenue from the hospitality increased considerably and was similar to the revenue from healthcare. Before the pandemic, in 2019, Krokteks d.o.o. made up the 57.5% of the total Krokoteks group revenue, while Krokteks hoteli d.o.o. contributed the remaining 42.5%. It is important to mention that the business segment focused on workwear and mats rental is under Krokteks d.o.o., but the impact of this segment on total revenue is not very significant (see Table 3).

![Revenue in milions - Croatian kuna (HRK)](image)

Fig. 7: Revenue for Krokoteks group for the period 2017-2019 (adapted from: Krokteks, 2020-2021)

4.3 Impact of COVID-19 on operations and processes

The COVID-19 crisis forced almost every company in the world to make certain changes in their daily activities or usual business operations. Those changes
can be caused directly by the virus, with regards to personal hygiene and strict hygienic regulations, or indirectly, such as the consequences of the global pandemic situation. Krokoteks was unfortunately forced to make both types of changes. To begin with, Krokoteks had to deal with indirect consequences of the pandemic because of the global crisis across all industries, especially relevant for the hospitality sector, which obviously required certain adjustments to be implemented in order to adapt to these consequences. Before the pandemic, the plant for the washing and processing of textile used to work six days a week in a single eight-hour shift, meaning every day except for Sunday. The eight-hour shift was enough to cover the processing of approximately 15 tons of textile per day. With the new pandemic situation and decreases in textile use, mainly due to the disastrous situation in the hospitality sector, Krokoteks’ management was forced to introduce certain changes to plant working hours, beginning with the reduction of working hours in March 2020, which is still in place today. The plant is currently working only 4 days a week (33% reduction). Since COVID-19 crisis affected every segment of business in Krokoteks, other reductions had to be made, such as employee lay-offs. From March to September, a total of 20 staff members were laid off, all of them plant workers. This hard decision was a direct consequence of the decreased demand for textile rental due to crisis. As already mentioned, before the crisis, 15 tons of textile were processed in the plant every day. Now, with reductions in weekly working hours, the number of employees and textile poundage, Krokoteks is processing only 10 tons of textile every working day.

As far as the direct consequences of the pandemic are concerned, many other changes to daily activities and business operations were implemented, mainly related to the personal hygiene of the employees, hygienic regulations inside workspaces and other additional measures for preventing the spread of the virus. To fight the new pandemic situation, the government and local disease control centers imposed a number of recommendations and safety measures in order to achieve the highest safety levels in working environments. The measures were mostly related to social distancing, use of personal safety equipment, as well as frequent or continuous disinfection of surfaces and tools. Numerous industries and companies found these regulations problematic, because they required multiple changes to operation processes and the additional safety procedures were challenging to implement. Luckily, due to strict hygienic industry regulations for textile service companies,
Krokoteks did not have to implement any drastic and radical new rules or principles, but still, certain changes had to be made and incorporated into daily business operations. One factor that helped Krokoteks to be within new safety regulations and measures, was a special industry-associated certificate that they obtained in 2019, the Risk Analysis Bio-contamination Control (RABC) EN 14065 certificate, which incorporates strict measures and regulations needed for processing textile from healthcare, food-processing, pharmaceutical and similar industries with high hygienic standards, in order to prevent microbiological contamination and demonstration of microbiological quality and safety of products and employees, and it is compulsory for companies which process textile from the listed industries (Cleaning Consultancy Delft BV, 2020). There are 7 principles of the RABC system which correspond to the steps to follow during washing and processing textile to ensure microbiological correctness: list of microbiological risks and preventative measures, determination of check points, planned levels and admissible deviations, supervision system, corrective actions, procedure for checking the system and documentation system (TÜV Rheinland, 2020). With all the measures included within this certificate, Krokoteks ensured the majority of the government's safety recommendations and therefore it was easier to implement new safety regulations into existing procedures.

Still, certain safety measures, the ones which are not covered by the certificate, had to be incorporated into daily operations in order to ensure the safety of employees and their working environment. For example, each plant worker who has physical contact with the textile, regardless of whether it is dirty or clean, has to wear a mask, since the plant is a closed facility. Also, certain work positions were rearranged to ensure social distance as much as possible. Moreover, some of the staff members were (and still are) also required to wear additional protective equipment, e.g. employees who are in contact with dirty and used textile, like those working at the textile entry corridor or the sorting conveyor. They are required to wear masks, gloves and light overalls for their own protection, because of physical contact with possibly contaminated textile. In addition to plant workers, drivers picking up dirty textile are also required to wear the same protective equipment; masks, gloves and overalls. Each of these changes was introduced in order to set up the highest protective safety measures to stop the possible spread of the virus from the textile or textile picking points to staff members. An additional safety measure was introduced and especially established for the virus-
contaminated textile coming directly from the hospitals. Since the beginning of the pandemic, hospitals have been required to separate the textile used for treating COVID-19 patients from other used textile, and this textile needs to be placed into bags with special labels to emphasize the contamination. Therefore, in order to reduce the risk of contagion, Krokoteks introduced a special procedure for the delivery of this kind of textile from the picking point to the plant. When delivered to the plant location, contaminated textile is left outside the plant in closed bags and on trolleys, in a specially formed area, for the next three days. Only after three days, the textile can be transferred through the entry corridor into the plant in order to start the regular washing and processing procedures. The new measures and regulations established in Krokoteks in order to fight the new epidemic situation have so far proven successful in stopping the breach of COVID-19 into the plant.

4.4 Impact of COVID-19 on business performance

The COVID-19 crisis has also significantly impacted Krokoteks’ performance. As elaborated above, the textile service industry has not necessarily suffered the gravest consequences of the pandemic, but the impact of the pandemic was dependent on how reliant a business is on one or more client sectors. For example, textile service companies mostly focused on the healthcare sector and various industrial workwear have felt the consequences to a lesser degree in comparison to those focused around the hospitality sector. The reason for this is the fact that the hospitality sector was among those hit the hardest with forced closures and new measures, and it is predicted to be the slowest to recover in comparison to other sectors that make up the textile rental services client base (Fitch Ratings, 2020). Considering Krokoteks' division of business almost equally between the hospitality and healthcare sector as described above, as well as its dependence on few large clients, the company has during the first lockdown in Croatia immediately experienced a decline of over 30% in its business in March 2020, while the decline increased during the following two months. Moreover, most hospitality institutions were closed for business and there has been a downfall in the textile use in hospitals, because COVID-19 limited the normal textile flow in healthcare. The gravest decline was experienced from March to May, when both hotels and hospitals experienced significant reduction in business. This was, so far, the period
of the gravest impact of COVID-19 crisis in Croatia, with the whole country in lockdown or under strict business restrictions across all industries. The following tables represent the impact of the crisis on Krokoteks’ performance, with revenue comparisons between twelve months of 2019 and 2020 for the healthcare (Fig. 8) and hospitality sectors (Fig. 9).

**Revenue (HRK) comparison for healthcare sector - 2019/2020**

<table>
<thead>
<tr>
<th>year/month</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>1,058,544.86</td>
<td>1,028,152.92</td>
<td>1,139,427.53</td>
<td>1,088,665.87</td>
<td>1,115,488.20</td>
<td>1,014,266.90</td>
</tr>
<tr>
<td>2020</td>
<td>1,081,318.75</td>
<td>1,060,244.85</td>
<td>1,034,373.21</td>
<td>755,172.77</td>
<td>858,234.64</td>
<td>1,534,837.26</td>
</tr>
<tr>
<td>Difference (%)</td>
<td>+2.15</td>
<td>+3.12</td>
<td>-0.22</td>
<td>-30.63</td>
<td>-26.02</td>
<td>+51.32</td>
</tr>
</tbody>
</table>

Fig. 8: Revenue overview for the healthcare sector for 2019 and 2020 (adapted from: Krokoteks, 2020-2021)

**Revenue (HRK) comparison for hospitality sector - 2019/2020**

<table>
<thead>
<tr>
<th>year/month</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>1,091,524.12</td>
<td>941,083.98</td>
<td>1,021,970.13</td>
<td>1,173,742.08</td>
<td>1,109,336.03</td>
<td>1,307,434.76</td>
</tr>
<tr>
<td>2020</td>
<td>1,206,308.08</td>
<td>1,010,234.12</td>
<td>1,189,646.52</td>
<td>1,208,643.03</td>
<td>1,228,925.58</td>
<td>1,355,561.46</td>
</tr>
<tr>
<td>Difference (%)</td>
<td>+9.97</td>
<td>+8.54</td>
<td>+16.41</td>
<td>+2.97</td>
<td>+16.78</td>
<td>+3.08</td>
</tr>
</tbody>
</table>

Fig. 9: Revenue overview for the hospitality sector for 2019 and 2020 (adapted from: Krokoteks, 2020-2021)

Fig. 8 shows that the decline of revenue in the healthcare sector was only visible from March to May, as a direct consequence of COVID-19. In March, the decline was only 9.22%, while the following two months saw a more significant decline of 30.63% (April) and 26.02% (May). Soon after, in June, there was a surge in business in Croatian hospitals due to the reduction of pandemic restrictions and the hospitals were allowed to return to normal business processes, with the usual examinations and surgeries which were initially postponed. This return to business was an indication for Krokoteks that the healthcare sector was beginning to stabilize,
with the revenues similar to last year’s, as was the case in the following six months. The increase compared to 2019 in the period from July to December was not huge, but they have witnessed a firm increase of textile consumption and an indication of the healthcare sector’s recovery. It is also interesting to note that the first two months of 2020, before COVID-19 was present in Croatia, witnessed a surge in business. The data confirms that Krokoteks was heading for a yearly increase in business in healthcare.

As far as the hospitality sector is concerned, however, the situation is completely different. At the very beginning of the year, Krokoteks’ performance was improved also in hospitality, and Krokoteks’ revenue increased for 20-30% due to growing business demand for Krokoteks’ services. A significant decline began in March and continues until this day. In March, a decline of 55.96% was noted, which was only an indication of what was about to follow. Hotels were still open at that point with limited business, but there was still not complete lockdown and closure, as indicated by the analysis. However, already in April and May, there was an almost 100% decline in business in regard to hotel textiles. With a decline of 97.84% in April and 97.13% in May, Krokoteks’ business was significantly changed and impacted as a direct result of hotel closures during lockdown. The situation improved to some degree in June, with a slightly smaller decline, of 63.44%. With the end of lockdown, hotels and other institutions were allowed to reopen and implement a new way of working, with certain limitations. Nevertheless, despite the hotels reopening, there were few guests due to the pandemic situation across all of Europe, where the movement of people across country borders was still limited. The same trend continued in the following months as well, with July and August, despite usually being the most profitable months of the year for Croatia as a primarily tourism-oriented country, witnesses a decline even greater than the one in June. Precisely, there was a 78.87% decline in July and 71.39% in August in comparison to last year. It is also important to note that while there was some tourism in Croatia during these summer months, it was mostly concentrated on the coast, where Krokoteks is not present, while tourism in Zagreb was reduced to a minimum. The same trend is still present. Hotels and other hospitality institutions are working at significantly reduced capacities and the same trend is expected to continue at least until the summer of 2021. However, it is difficult to make any predictions and analysis for the future because the situation
with COVID-19 has proven to be quite unpredictable and it cannot be claimed that the current situation will be continued throughout 2021 as well. This considered, Krokoteks had no other option but to start thinking in a different direction, while taking into consideration the current situation and needs.

Considering all the factors that caused changes in the business of both sectors, following the COVID-19 pandemic, it can be concluded that March, April and May took the worst hit in regard to Krokoteks’ business. In March, Krokoteks worked at 67.42% of its last year’s capacities, which can be considered acceptable in grave circumstances such as these. However, during April, Krokoteks worked at only 35.77% of its last year’s capacities, which is a disastrous result and clearly shows Krokoteks’ dependence on certain sectors. The similar result was seen in May, when it functioned at 38.43% of its last year’s performance. These deterrent results explain how badly Krokoteks was impacted during the worst months of the pandemic in Croatia. Luckily, the situation is beginning to stabilize due to the stabilization of the healthcare sector. Krokoteks has managed to reach 93.04% of its last year’s capacities in June thanks to an increase in business with hospitals. However, during July and August, this surge was reduced to around 65%. The same is the case today, with the healthcare sector working in similar capacities, sometimes even slightly higher than last year’s, while the hospitality sector manages to retain its business at about 25-35% of the usual capacities. As already mentioned, Krokoteks’ management is expecting a similar distribution of business at least until the fall of 2021, at around 65% of performance in 2019. It can be expected that Krokoteks will have to pull through more challenges and implement certain changes in regard to the business strategy and development plans.

4.5 The company's response to the pandemic

The COVID-19 crisis seriously affected Krokoteks’ business performance and put in danger the overall concept of textile service due to a hard hit from the hospitality sector. Consequently, during the first months of the pandemic, the management tried to adapt to the new situation after it became clear that the performance of the company would be poor for a certain time period, especially until the end of 2020. The only thing that currently allows Krokoteks to perform on a somewhat tolerable level is the
healthcare sector, but it alone is not enough for the company to maintain stability during these unpredictable and dynamic times. Therefore, Krokoteks’ focus has been redirected towards exploring new ideas and the management came up with three new products as a response to the pandemic. Some of them were transformed from idea to reality in a matter of weeks, while others took several months of theoretical brainstorming before going into prototype production. The interesting thing about these new products is that they are only partially correlated to the textile service industry, but they were developed as a result of the current global situation and represent a possible good direction for future development. When thinking about some novel ideas, Krokoteks wanted to develop new products which would be used for the protection from the virus, as well as to increase the hygienic standards for the customer (Krokoteks, 2020-2021). This chapter presents an overview of Krokoteks’ new products and explains how these new portfolio segments can be incorporated into the company’s strategy and business domain.

4.5.1 Anti-virus overalls

Anti-virus overalls are mostly used in healthcare. Healthcare workers have to wear safety overalls every time they are in contact with COVID-19 patients or potential COVID-19 patients. For example, employees wear anti-virus overalls when testing people for COVID-19 in order to fully protect themselves from the spread of the virus. The idea for developing this product was born at the beginning of the lockdown in Croatia, in March 2020. Krokoteks performed a quick study about what kinds of overalls are used in most Croatian hospitals and they found that most of them were disposable, which motivated the idea for developing washable overalls which could be used multiple times. It is not a novelty on a global level, but similar products in Croatia are hard to find, especially during the pandemic. This type of a product belongs to the category of healthcare workwear which is well-known to the company and therefore is incorporated well into the business domain. With a product like that, Krokoteks could use the existing plant for washing and maintenance, as well as offer the new product to its already existing clients from the healthcare sector. Anti-virus overalls are also currently at a very high demand due to the strict measures and regulations when it comes to treating the COVID-19 virus in healthcare institutions. It
is important to mention that these overalls are practically manufactured in-house, using the manufacturing plant of another company, Kroko, which is owned by the same family as Krokoteks and whose core business is the manufacturing of military and law enforcement equipment. Therefore, its plant is already adapted for manufacturing different textile products like clothing, vests, belts and backpacks, and it could equally be used to produce anti-virus overalls (Krokoteks, 2020-2021). Moreover, some of the employees from Kroko’s research and development (R&D) department were included into the development and testing phase of the new overalls, so it can be said that it was a joint project of the two sister companies, Kroko and Krokoteks. The first batch of approximately 30 anti-virus overalls was produced during September in order to perform the testing phase in real-life conditions. Therefore, all of the so-far produced overalls were distributed among different hospitals in Zagreb and some of their employees are currently using them. Krokoteks opted to distribute free overalls to their existing clients in order to receive feedback from the employees in terms of comfort and usability, as well as to compare the product to disposable overalls or those made by other manufacturers, while related promotional activities are still in the planning phase before the beginning of the sales phase. Furthermore, Krokoteks wanted to demonstrate to the existing clients that overalls can be a simple addition to the already existing textile load services by the company on a daily basis (Krokoteks, 2020-2021).

Fig. 10: Anti-virus overall
4.5.2 *Disinfection floor mats*

The idea for developing disinfection floor mats appeared shortly after the idea about anti-virus overalls, at the early beginning of April. Mats like this are also not a completely new product on the market, since similar mats already exist, but Krokoteks wanted to develop them because they recognized an opportunity on the Croatian market. Back in April, none of the competitors had anything similar to disinfection floor mats and the demand for any kind of safety anti-virus product has been very high since the beginning of the COVID-19 pandemic. Krokoteks began the production of disinfection floor mats because it fits well into the company’s portfolio and especially into the already existing segment of dust control floor mats. Again, Kroko’s production plant was used to develop and produce some segments of disinfection mats, while only one segment was outsourced. Disinfection floor mats are composed of three different segments; absorbing mat, stainless steel housing and regular dust control mat. The absorbing mat is fitted into a five-centimeter-deep stainless steel housing and a regular dust control mat is connected with these segments. A disinfection fluid is poured into the housing for the mat inside to absorb it, so that it can be used for the disinfection of the shoes. A person using the mat would first stand on the disinfection mat, which uses fluid to disinfect one’s shoes, and then use the regular dust control mat in order to remove the excess fluid from the shoes. It is a simple product but very useful during these COVID-19 times and is very attractive to different institutions where it is important for a visitor not only to disinfect hands, but also not to spread the virus inside the building by shoes (Krokoteks, 2020-2021).

![Disinfection floor mat](image-url)

*Fig. 11: Disinfection floor mat*
4.5.3 IPS - Infection Prevention System (IPS)

Infection Prevention System (IPS) is the most complex new product that Krokoteks has produced since March 2020. The idea for developing it resulted from the management’s idea to use disinfection floor mats to develop a more complex product which would incorporate the disinfection of hands and shoes together with a body temperature measurement system. The idea stemmed from the current situation in which many institutions use some kind of an improvised system for ensuring hygienic safety at the entrance to a building. Krokoteks conducted a quick study and came to the conclusion that most building entrances contain some kind of disinfection stations where it is possible to disinfect hands and there is always a security guard or a receptionist who measures the visitors’ body temperature with an infrared thermometer gun. As this requires multiple components, Krokoteks wanted to develop an integrated system which would allow a fully automatic safety check and disinfection of hands and shoes for a visitor, as well as eliminate the need for a staff member to measure body temperature and for physical contact with the visitor. The idea was born in May, and perfected during the summer months, with the first prototype produced at the beginning of September (Krokoteks, 2020-2021).

IPS is composed of several different elements, each with a specific safety feature. The main part of the system is the metal housing into which several different subunits are integrated. The first is a high-precision thermal camera placed on the top of the housing and connected to a display placed beneath, used for measuring the visitor’s body temperature, as well as detecting whether or not the visitor is wearing a safety mask. The thermal camera is an advanced solution for measuring body temperature, at over 9000 different spots on the body and is resistant to outside conditions. For the development of the system, Krokoteks once again consulted Kroko’s R&D department, which resulted in the development and procurement of a thermal camera which uses microchips from the military industry and gives a significantly more precise result in measuring body temperature compared to the usual infrared thermometers. When the visitor’s temperature is measured and the face scanning process is finished, the system displays the information about body temperature and an audio message regarding the mask. The visitor then steps onto the disinfection mat, which is integrated as a part of the IPS, to disinfect their shoes on the
mat and their hands by using a disinfection fluid dispenser, activated by pressing a lever at the bottom of the housing by foot. As an additional feature, IPS can also contain a face mask dispenser from which the visitors can take a face mask if they have arrived without one. Next, the visitor moves to the side and uses a normal dust control floor mat for removing the excess fluid from the shoes and they can enter the building. In case the visitor has an inadmissible body temperature (higher than 37°C) or does not wear a mask, the system will flash a red visual signal and an audio signal, in order to warn the receptionist or an employee at the entrance of a potentially infected visitor. As an additional safety feature, Krokoteks offers the possibility to connect IPS to electronic door locks which would automatically lock to ban the visitor from entering, if they do not meet the two criteria (body temperature and face mask) (Krokoteks, 2020-2021).

Compared to the other two products, anti-virus overalls and disinfection floor mats, IPS is a product for which Krokoteks, as well as Kroko, do not have a manufacturing facility they could use. Therefore, the majority of IPS components are manufactured in various companies specialized in different fields. Since disinfection floor mats are Krokoteks’ product, this component in manufactured in-house, but the rest is outsourced.

Fig. 12: IPS - Infection Prevention System (Krokoteks, 2020-2021)
4.6 Results of analysis: problematic areas and offered solutions

The in-depth analysis of Krokoteks’s performance and strategies reveals various strengths, weaknesses, opportunities and threats, as shown in Table 4 below. The main strengths of the company in dealing with the pandemic situation are focused around the resources the company already has. To begin with, its operations facility is underused in the sense that it has a larger capacity than currently used. In that sense, the company has enough means to take on the additional business that could arise from the new products and clients while it opts to launch new products and services adapted to the pandemic times. Moreover, its machines and technology can be used for the maintenance of the new products offered and there are already established networks of logistics and distribution which can be used for the supply and distribution of new products and services. Because of this, in addition to having a workforce skilled in cleaning and disinfection procedures, Krokoteks has a great ability to adapt to the pandemic market demand and offer high quality products and services. Moreover, it has the advantage of using its sister company’s R&D department to create and produce new products. In its existing portfolio, it offers high quality service certified by RABC, which is an advantage on the new market which puts a clear emphasis on cleanliness.

When it comes to weaknesses, Krokoteks’ greatest weakness is its low number of clients and their distribution across only two sectors. Since these two sectors have been negatively affected by the ongoing health crisis, and one of them almost completely shut down, Krokoteks is losing a great portion of its business. Moreover, its operation is dependent on manual labor, which has proved to be a weakness in the pandemic because of two reasons: mandatory social distancing regulations and self-isolation for workers with symptoms and contact of the infected, resulting in higher absence rates. Finally, due to the pandemic, cash flow is low and it cannot be expected for Krokoteks to implement many changes that require additional investments.

Concerning opportunities, it is important to point out the changing market demand, which has, thanks to the pandemic, shifted towards all matters concerning hygiene and cleanliness. While textile is not in primary demand in the form that Krokoteks services, many similar products related to such products and services are suddenly in high demand, such as protective masks, disinfectants, and related products and services. Moreover, the emphasis on cleanliness has never been greater, with the
facilities that are still in business being required to carry out the highest level of hygiene without any chance of presence of viruses and bacteria. Furthermore, the emphasis on cost savings in times of crisis represents an opportunity for the growth of consciousness about the savings and efficiency of using professional textile services. This represent an opportunity for Krokoteks to extend its services to existing and new customers.

Finally, when it comes to threats, Krokoteks is affected by the same consequences of the pandemic as most other industries. One of the greatest threats are the restrictive government regulations which have for months been closing down businesses partially or completely and restricting most business activities. Another consequence of these regulations are also the measures such as social distancing, isolation rules and restricted business hours, which significantly limit the possibilities of doing business as per usual.

**SWOT ANALYSIS (2020, COVID-19 pandemic)**

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
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<tbody>
<tr>
<td>- operations facility with high capacity</td>
<td>- low number of clients (loss of a client = loss of big share of business)</td>
</tr>
<tr>
<td>- cooperation with sister company (Kroko), particularly in terms of R&amp;D</td>
<td>- underdeveloped client base for mats and industrial workwear</td>
</tr>
<tr>
<td>- RABC certificate</td>
<td>- dependence on only two business sectors</td>
</tr>
<tr>
<td>- ability to adapt to new products</td>
<td>- dependence on manual labor</td>
</tr>
<tr>
<td>- logistics and distribution network</td>
<td>- low cash flow</td>
</tr>
<tr>
<td>- knowledge of cleaning, washing and other hygienic procedures</td>
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<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
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<tbody>
<tr>
<td>- demand for new hygienic products</td>
<td>- social distancing</td>
</tr>
<tr>
<td>- emphasis on cleanliness and hygiene in client sectors</td>
<td>- hospitality sector closing down</td>
</tr>
<tr>
<td>- clients’ emphasis on cost savings</td>
<td>- other restrictive government regulations about working conditions (e.g. self-isolation)</td>
</tr>
<tr>
<td>- growing consciousness about the benefits of using textile services</td>
<td>- travel restrictions</td>
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Table 4: SWOT analysis of Krokoteks in the context of the COVID-19 pandemic
This overview of the key points represents the conclusion to this chapter, but also serves as an introduction to the next one. After a detailed description of the company, its clients, market position as well as competitors, it is obvious that Krokoteks’ long-term strategy and current performance are not ideal, especially during the times of crisis. The company is currently focusing only on two main client sectors, healthcare and hospitality, which has shown that it is very crisis-sensitive, as perfectly reflected by the COVID-19 epidemic. Since the hospitality sector was seriously affected by the pandemic, Krokoteks’ existence was directly endangered and its stability is still questionable. The problems in the performance of the healthcare sector during the first months of the pandemic in Croatia have additionally worsened the company’s performance, which resulted in its poor results since the beginning of the crisis and forced the management to try to find new directions for a recovery. However, developing new products and trying to adapt to the current COVID-19 situation is not the only solution for ensuring a better future performance. Through a deeper analysis, it can be seen that Krokoteks had problems regarding business strategy even before the crisis. By setting up its large textile processing plant with much bigger capacities than actually needed, Krokoteks should have used this as a market advantage. The company is currently only serving clients from two sectors, while their competitors are serving multiple sectors, based on a specific business focus of each company. The competitors are much more focused on industrial workwear, or in fact any other type of workwear, and not only the workwear for healthcare. Moreover, the competitors have developed the business segment of floor mats to a much larger extent than Krokoteks. This should serve as an indicator of changes in a business model and a motivation for Krokoteks to create a new strategy for future development, especially because they have the existing products to offer.

At the end of 2019, Krokoteks decided to steer its business towards some sectors outside healthcare and hospitality, by introducing workwear and floor mats as part of their portfolio. It is fair to say that the timing, just before the COVID-19 crisis, was not ideal, but there was still not enough determination and a sufficiently structured strategy. The weak determination and loose approach slowed down the business system, but by introducing a few novel ideas and a better mid-to-long-term strategy the company can create a stable base with the affinity to expand. Also, not only is Krokoteks serving the customers from the same sectors, it is also generally serving
only large clients, like hospitals and hotels. Again, this results in over-dependence on those several large clients, while a great number of smaller clients are under-served in Croatia. As the crisis has shown, when big clients from the hospitality sector are forced to close, Krokoteks faces a great struggle to survive. It is precisely these two problems, the dependence on two sectors and only large clients, which are the most obvious and should be changed if the company wants to have a healthy and organic growth rate, as well as good business performance in the future. When talking about the COVID-19 crisis, the conclusions are pretty similar. The crisis has put Krokoteks in a very dangerous situation, but the company reacted quickly and developed three entirely new products in order to stay above the surface for the time period during the crisis. That is why this crisis can be described as a wake-up call for the company. The new situation has revealed the weaknesses of the current strategy and exposed the vulnerability of the company. With the new products, Krokoteks is aiming in the right direction but it must not neglect all the other problems that were present even before the crisis if it plans on successfully introducing these products into the market.

In the following chapters, I will propose new strategies for the recovery from the COVID-19 crisis, as well as certain improvements for a long-term business strategy for the future. The fundamental principle on which the propositions will be based is a diversification strategy. Krokoteks needs to implement different diversification models, especially the ones regarding diversification of business sectors and clients. Of course, a diversification of products is also necessary to help achieve that, but Krokoteks has begun to lean in that direction as of lately. All diversification models require certain changes and improvements to the company and its processes. Therefore, in this paper I will present a thorough analysis of the current practices, with some suggestions about which segments need significant improvements. Product diversification is already on its way with the three new products which, if well marketed, will consequently open different gates towards new sectors and clients. Since anti-virus overalls belong to the category of workwear, and disinfection mats to the category of floor mats, it is now the right moment for Krokoteks to try to spread out their business across different industries and implement the much needed diversification of sectors, as well as clients. Krokoteks now has the opportunity to compete more aggressively in the market and approach smaller clients which are often neglected by their competitors. IPS represents an additional advantage
which can open up an entirely new sphere for the company, since it is not a classic example of a product from the textile service industry, but it still is something which is expected to be successful during these “new normal” times and which can push the clients towards more Krokoteks’ products. With IPS, Krokoteks can diversify its business into new industries and business domains, which presents a great advantage over its competitors, as it opens up the opportunity to attract new clients to its core business, textile rental service.
5. DIVERSIFICATION STRATEGIES AS A RESPONSE TO TIMES OF CRISES

5.1 Diversification as a key to success and growth

Diversification strategy is a corporate strategy used for the purpose of achieving growth of business, as well as to reduce or minimize the risks and potential dangers during industry downturns. Diversification can be defined as a company's distinct departure from the operations that are already in use by acquiring or internally establishing different and separate businesses, which can provide synergy with the company's existing business (Pearce and Robinson, 2000, cited by Jibril and Yunusa, 2018: 283). There are various reasons that can prompt a company to implement a diversification strategy. The main motivation is to facilitate growth in business operations in order to achieve better profitability. Moreover, diversification can also provide a certain safety margin when the economy or consumption inside a certain market is relatively low or decreased, while other non-related markets are stable. One of the most common reasons for creating and implementing diversification strategies is the expansion of the market share and entrance into new market segments, which companies most often do by expanding their market share in the already existing market or by developing a market presence in a totally new market (Gordon, 2020). This is most commonly achieved by developing new products or services and offering them to targeted new market segments or customers to gain more revenue and yield profit. By adding new products or services to the existing portfolio and offering them on the new markets, a company can increase its appeal to customers, which results in both strengthening the brand image and creating new revenue streams.

Depending on the motivation behind the implementation of a diversification strategy, there are two main types of diversification, defensive and offensive. Defensive diversification is usually referred to as the expansion inside of an existing market (Gordon, 2020). A company can turn to this diversification strategy if the competition is creating a lot of pressure inside certain market segments, the sales of currently existing products are in decline or the current market situation does not provide any more opportunities for growth, so diversification becomes the necessary
means to staying competitive and creating opportunities for future growth. On the other hand, offensive diversification seeks to generate an additional market share on new markets, which can be done through products similar to the current ones, or even with new, non-related products or services (Gordon, 2020). As its name might suggest, the offensive diversification strategy can be described as an aggressive approach of a company which is seeking growth of market share, as well as profit, by entering new markets and attracting new customers. To conclude, the difference between the two strategies is in the development stage of the company and the goals that it is trying to achieve, i.e. defensive diversification is a tool which can enable the company to remain competitive in its own business sector, while the offensive approach is a tool used by highly motivated and thriving companies to grow faster and stronger.

As any other business strategy, diversification has its faults and advantages. If employed correctly, it can help businesses aiming to grow to expand their market share, increase revenue or widen the product and client portfolios. However, there are also many obstacles and risks in employing such a strategy. If not planned well and strategically incorporated, in the right context and at the right moment, it can have a negative impact on the overall performance of the company or even lead to its downfall when poorly executed.

5.2 Advantages and disadvantages of diversification

Diversification can be an effective strategy for growth of business, increase of revenue, expansion of the company’s market, gain of competitive advantage and as a way of countering the competitors (Kurniati Bachtiar, 2020: 30). If a diversification strategy is correctly executed, the main advantage of implementing it is the increase in the company’s revenue and the growth of the business per se. It is often the case that a business occupies the biggest fragment of a certain market and therefore it is difficult to further increase profitability due to the lack of new clients. By introducing new products or services on the same or even new markets, companies can create an opportunity for higher revenue and therefore increased profitability. The process is simpler if the company can leverage the existing resources, capabilities, brand recognition, as well as its customer base (Parker, 2020). Companies should try to leverage the resources towards those market where such resources can provide added
value and competitive advantage (Collis and Montgomery, 1995). Moreover, if the company focuses all its efforts towards a single product or a single market, such an approach comes with a lot of risks and potential unexpected surprises. Through diversification, it is easier to tackle those surprises because the company’s risks are lowered, since there are multiple sources of revenue and, therefore, a certain crisis in a single segment does not necessarily affect the entire business to a significant degree. Similar to that, some businesses often rely only on one or few big clients, which creates great vulnerability for the business if one or more of those clients leave. Therefore, diversification does not necessarily need to significantly improve profitability, but can also be very helpful in ensuring a safety margin in situations of crisis, when one or more big clients are lost, because the business can still survive without them and its continuity is not endangered. Similar to the previous explanation, a diversification strategy can help companies remain profitable and successful during industry downturns. Periods of decline in sales, demand, profitability and productivity can be used for restructuring and refocusing towards market segments which prove to be more profitable in such market conditions (Bamiatzi, 2014: 195-196). An additional point to emphasize here is that, in some companies, the available resources are somehow underutilized and a diversification strategy can help such companies determine the direction of diversification and maximize the use of such resources (Farjoun, 1994: 188) in order to achieve better overall performance. This can be very helpful in the situations where the company reaches a certain point in its evolution where there is no further margin to grow by maintaining the same business model, but with the implementation of diversification, the company can expand its business and grow in more directions.

While diversification can have multiple advantages and create opportunities for growth and stability for many companies, there are also certain disadvantages to implementing such a strategy. There are a lot of obstacles, potential risks and dangers of this approach. When it comes to obstacles, the main obstacle to diversifying is, of course, the need for investment. In order for any type of diversification to be performed, the company has to invest money, time and effort or knowledge to create such a strategy and successfully carry it out. To begin with, if the company wants to expand into non-related markets or industries, there is a need for human resources expansion, as well as additional financial investments into new products, new
technologies, new equipment, new knowledge and skills, regardless of the type of diversification. In order to offer anything new on the market, the company has to invest in the R&D, as well as the production and marketing of new products. Another obstacle to implementing a diversification strategy can be the lack of skills and knowledge for the creation and production of new products and services, i.e. the fact that it demands a new set of skills when diversifying into new directions, market segments or even industries. If the company engages in a diversification process, they usually rely on the existing expertise, i.e. skills and knowledge (Neffke & Henning, 2009: 313). In case of the opposite, that can be a great setback for the whole business since a lot of time and effort, as well as money, can be invested into a business and go to waste if such a model does not bring enough profit. All of these required investments can also have a significant effect on the allocation of those resources with regards to the core business operations of the company.

Along with the obstacles to implementing a diversification strategy, there are also certain risks in its implementation which companies should avoid. A risk of diversification is the risk of not being familiar with the new market segments that a company is trying to conquer. Not only is the lack of knowledge a potential disadvantage, but also the potential lack of planning. It is difficult to rush the process when a company is expanding into a completely new area of doing business. The necessary new or expanded knowledge and skills do not only concern the creation of products, but also their sales and marketing, which again require potential investments in the training of the personnel. This considered, another disadvantage is the fact that the company’s resources have to be redistributed and processes altered. In other words, some of the staff and technology would probably be redirected towards the new products and/or services, meaning that the existing processes would have to change, which brings the risk of potentially negatively affecting the existing lines of business. Other disadvantages include loss of focus, inconsistencies in business, reduced organizational fit and lower profitability (Rijamampianina et al., 2003: 365).

The obstacles and disadvantages of diversification strategies can be avoided if certain things are taken into account before certain the company opts for implementation. The first step in the process should be a detailed analysis of all the potential benefits as well as risks to make sure that this strategy does not turn out to be a very costly and dangerous mistake for the business. A diversification strategy can
pay off for the company and ensure competitive advantage only if it is well thought out and if the right type of diversification is chosen. But if some segments are overlooked or neglected, the whole idea can have a disastrous impact on the business. For example, if the diversification process is mismanaged or there is excessive ambition, the company can end up over-expanding into too many new directions simultaneously. In that case, all old as well as new segments of business could be negatively affected due to an insufficient amount of resources and lack of necessary attention dedicated to each segment. Also, if the company is widely diversified, there will be limitations with regards to the speed of responding to market changes. Diversification requires the constant monitoring of various aspects of the market and groups of consumers, which requires a lot of effort and smaller changes may not be caught in time. Moreover, each new product or service requires a certain kind of knowledge, technology and processes. If it advances or changes, the company has to react by re-skilling or educating their employees, renewing or upgrading the technology and adjusting the processes accordingly, which can be more easily achieved if a company is more focused on a single product or group of products, but with diversification, it takes more time, money and effort to keep up the pace with various products and services in the portfolio.

5.3 Types of diversification

Another advantage of a detailed risk and benefit analysis is to decide the type of diversification that is appropriate for a certain company and can be implemented with the least risks. First of all, when opting for diversification, companies need to decide whether they want to perform diversification by expanding into a related or unrelated business segment compared to the current one. Also, they need to decide whether they want to develop their own new business concept or acquire a certain existing business model and try to implement it into their current concept (UKEssays, 2018). Therefore, literature provide us with different types of diversification strategies which can be categorized according to the mentioned factors, largely based on new product relations as well as targeted markets. There are four different types of diversification strategies: horizontal, vertical, concentric and conglomerate (Dhir & Dhir, 2015: 570). Certainly, the types of diversification are defined and described
differently by different authors, and even more types are mentioned in the literature, but for the purposes of this study, these four basic types of diversification will be described in detail. Horizontal and vertical diversification are two opposite strategies, as explained in detail below, whereas concentric and conglomerate diversification can be considered as two subtypes of horizontal diversification.

5.3.1 Horizontal diversification

When a certain company opts for horizontal diversification, it means that it is adding new products or services to its current portfolio with the goal of expanding its market share. In horizontal diversification, companies remain in the same economic environment (Dhir & Dhir, 2015: 570), but such an expansion can be performed by entering new markets or simply new market segments, as well as inside of the company’s current market. This type of diversification can include new products or services which are related to the existing ones, or those unrelated to the existing portfolio. As mentioned earlier, new products can be developed individually, in-house, or be purchased or acquired from another company. Through the expansion to new market segments or markets the company expands its offer and can therefore become more attractive to new customers and expands its client base. What is more, it offers new products or services to the existing client base, which can lead to greater purchases by the existing clients. Horizontal diversification is based on resource endowment (Dhir & Dhir, 2015: 580), i.e. some of the already existing technical, marketing or financial and other expertise can be applied to new products or services to maximize their usefulness and minimize investments. Horizontal diversification is divided into two subtypes of diversification, the concentric diversification strategy and the conglomerate diversification strategy.

5.3.2 Concentric diversification

Concentric diversification can be considered as a subdivision of horizontal diversification. This strategy entails the introduction of new products or services to the company’s portfolio, which are closely related to the already existing products or services. That means that the new additions are similar to the current portfolio with
regard to how they are produced, what purpose they serve or how they accommodate its users. Companies which opt to offer multiple related products aim to provide their consumers with a certain variety, build competitive pressure and maximize their market share (Khan, 2012: 18). In that case, the company is expanding its market share within the market it already operates in. The concentric approach to diversification allows the company to leverage the existing customer base, brand recognition, customer loyalty, industry experience, resources, technological know-how, as well as the existing distribution channels. The main goal is market penetration, which aims to generate more sales from current customers while simultaneously attracting new customers who will be more influenced by the newly introduced products or services (Ansoff, 1957: 114). Concentric diversification can be financially efficient as a strategy since the company can benefit from potential synergies with regards to similar development and distribution processes of the current and new products or services. A simple example of concentric diversification would be a manual wrist watch manufacturer which introduces new smart watches for fitness in order to attract new customers, but also to interest its existing customers.

5.3.3 Conglomerate diversification

Conglomerate diversification can also be considered as a subdivision of horizontal diversification. Based on the concept of conglomerate business, conglomerate diversification is based on introducing new products or services to a company’s portfolio which are unrelated to its core business (Corporate Finance Institute, n.d.b). In other words, the new portfolio of the company then includes different products or services which are not related to each other with regards to production method, overall purpose or even the way they are marketed and distributed. Therefore, not only are they technologically different but also commercially. The reason for a company to opt for the conglomerate approach is often because the business opportunities in its current line of business are limited and, therefore, a new source for additional revenue has to be found (UKEssays, 2018). In addition to that, the survival of the business can also be considered as one of the main motivations for implementing a conglomerate diversification strategy, because that can be one of the last options left for a business that is struggling greatly in the current sector. The main
intention of conglomerate diversification is to target completely new markets in which the company has not yet operated and attract new customers who have not been interested in the company’s previous products or services. While this may result in large growth of business, it is also a risky strategy with higher R&D and advertising costs and with a greater probability of failure (Corporate Finance Institute, n.d.b). One example of conglomerate diversification would be a shoe manufacturer introducing home furniture products to its portfolio in order to tackle a completely new market and attract new customers with an entirely new type of product.

5.3.4 Vertical diversification

Vertical diversification or vertical integration is a strategy which enables the company to move up or down its production and/or supply chain, i.e. goes back to the previous phase or forward to the subsequent phase (Babenko, 2014: 129). This new stage can be any segment inside of a supply chain, from raw material to the distribution and sale of finished products. Since the movement within a supply chain can be in two different directions, there are two types of vertical diversification, backward integration and forward integration (Corporate Finance Institute, n.d.c). Backward integration requires moving backwards, to the previous step in the supply chain. The company should in that case take over all of the tasks formerly performed by another entity at that previous stage. This approach allows the company to have more control over the supplies which are purchased to produce a certain product and to have a more dependable source of all needed materials (UKEssays, 2018). The main motivation for backward integration is the reduction of cost, improved efficiency of the whole process, and strengthening of the supply chain. An example of backward integration would be a luxury office furniture manufacturer investing in its own woodland to have control over the supply of raw material. Forward integration is the opposite approach, which requires moving forwards in the supply chain in order to have more control over the following stages. The company in that case performs additional business activities that are ahead in a certain supply chain. It allows the company to have better control over how its products are distributed and sold (UKEssays, 2018). The main motivation for forward integration is again reducing costs (generally various transaction and transportation costs are eliminated), increasing control over distribution channels and
gaining competitive advantage (Corporate Finance Institute, n.d.a). An example of forward integration would be a private vegetable grower which starts to sell its own products directly through its own private webshop and with that, eliminates former partners (physical stores, retailers) in order to have more control and reduce costs.

5.4 Approaches to diversification in various business areas

When talking about a diversification strategy for different businesses, it is important to consider different scopes of diversification strategies, the motivation behind the choice of diversification type, possible risks and different implementation strategies depending on a variety of business strategies, as already described above. On the other hand, it is also possible to explain a bit more into the detail what a business can actually do in order to perform diversification strategy without directly taking into account a strict categorization like vertical, horizontal, concentric as well as conglomerate but instead to grow a business further, achieve better financial performance or minimize risks in case of economic or a different kind of crisis. An interesting study in this regard is a study of diversification strategies called “Diversify, Diversify, Diversify…” by the Business Development Bank of Canada (2015). The study was conducted on nearly 1000 Alberta, Canada businesses in order to determine whether or not there is a relationship between diversification and financial performance among small and mid-sized businesses (from 5 to 499 employees). While this study might not directly concern businesses across Europe and especially in Croatia, it is a useful tool to demonstrate the benefits of diversification strategy which will later in the paper be applied to Croatian textile rental service companies or textile rental service industry in general. According to the study, there are five most popular types of diversification strategies for small and mid-sized businesses coming from different sectors and industries. Some companies are diversified widely, in all five different directions (sometimes even more), while some are diversified in only one or two directions. A diversification strategy can be based and measured according to the number or different clients, number of sectors in which a company operates in, number of different product or service lines as well as the geographic position of customers and geographic position of the company’s plant or office. Therefore, based on those factors, it is possible to define five different types of diversification strategies: client
diversification, sector diversification, product or service diversification, geographic diversification with regards to the clients’ location and geographic diversification with regards to the physical business location (Business Development Bank of Canada, 2015).

Client diversification is a strategy where certain company has a number of different clients, bigger or smaller, which use its products or services and, in that way, contribute to the overall revenue. When client diversification is performed well, the company’s revenue source is diversified sufficiently and therefore there is no danger or threat for the company to be affected significantly even in the case of loss of its biggest client. In the opposite case, when company is not diversified enough with regards to its client base, it can be said that company is very much dependent on a single customer or revenue source which can leave extreme repercussions to the entire business concept if a crucial customer is lost. For that reason, when a company is client-diversified, that means that the business is dispersed among a number of clients which minimizes the previously mentioned risks (Business Development Bank of Canada, 2015).

When talking about sector diversification, the explanation is pretty similar as for the last notion but only with business sectors instead of clients or customers. For example, when a company is offering its products or service to the clients from just one business sector, there are growth constraints and limited opportunities for the company due to a closed portion of clients tied to that one sector. Also, if there is only one business sector for cooperation, the company is directly exposed to all potential risks that can affect that sector, like a slow and long-term decline in the sector’s business activity or maybe some sudden shrinkage of that same activity. That is the reason why sector diversified companies operate in at least two different sectors which reduces the mentioned risks and allows more freedom and also more opportunities (Business Development Bank of Canada, 2015).

The next type of diversification is product or service diversification. When a certain company is product or service diversified, that means it has at least two major product or service lines in its offer for customers to acquire. This approach is very important because it reduces a lot of risks in situations in which the company’s products or services are no longer attractive to its customers because of changes in taste, demand or even technology. With more than one major service or product line,
the company can protect itself during market downturns or different disruptions and avoid negative effects on the business due to more than one revenue streams. It is often the case that a certain product line is in extreme demand on the market for a certain time and the company is concentrating only on that. With an approach like that one, the business concept becomes extremely vulnerable to any kind of demand decline and can result with catastrophic consequences. Therefore, product or service diversification is crucial factor for any business type. Also, if there is such diversification, not all of the available resources are concentrated on only one target, which provides certain safety margin if some product or service is no longer marketable. In simple words, by investing and streamlining resources towards different objectives which follow separate directions, the company can protect itself against all the risk associated with losing one major business focus (product or service line) (Business Development Bank of Canada, 2015).

Now, when first three types of diversification are explained, it is obvious that any type of small and mid-sized business should at least consider the implementation of those strategies. It does not matter if the company’s goal is pure survival among competition or just a simple growth of business, but the so-far explained diversification strategies can help in both scenarios and therefore represent a crucial segment of any sound business concept. Still, according to the BDC’s survey, there are two more diversification strategies that, although they could not be described as crucial for each business type, are still very useful tools. Both strategies require the company to consider geographic locations as one of the pivotal segments for further growth and enhancement of financial performance. The first of the two strategies is client-geographic diversification. If a company is diversified in that direction, that means that its clients are not located only in a single city or town or area, but dispersed among several geographic locations. The main point of this approach is to avoid having geographically limited markets, which results in overdependence on local business activity. Companies with such overdependence will be able to operate in the long term only as good as the area to which they are constrained. Therefore, if that area is deemed as non-prospective in the long run, client-geographic diversification becomes very important. Similarly, there is an option for companies to implement business-geographic diversification. It is possible to have only one physical location for offices, factories or plants in one single area and serve all the customers (no matter where they
are located) from that location. In that scenario, companies are heavily dependent on just one single physical location with the skilled workforce located there, which can slow down the business concept and set different constrains to business development. Therefore, the companies which implement business-geographic diversification operate in at least two different cities, towns or areas and are less exposed to the mentioned risks and have more opportunity for much simpler development (Business Development Bank of Canada, 2015).

5.5 Diversification and financial performance

BDC’s study also aims to demonstrate and validate the connection between diversification and stronger financial performance. In general, the results of the study show that even humbly diversified businesses, regardless of their size, outperform their less diversified competitors with regards to the financial performance and annual business growth. Additionally, businesses that are fully diversified in all five directions are often market leaders when it comes to the improvement of revenue and profits. Also, another important conclusion of the study is the fact that there is no strong statistical evidence which proves that diversification is related to the age of certain business; younger companies are as likely to be diversified as older ones, which is an encouraging fact for virgin companies around the globe. The first evidence of success of this kind of business strategy is certainly the discovery that small companies (from 5 to 99 employees) which have implemented at least two diversification directions (e.g. business with different sectors as well as few various product or service lines) have a much stronger financial performance when compared to their undiversified counterparts (Business Development Bank of Canada, 2015). To demonstrate the results, Fig. 13 below illustrates the proportion of the sample which achieved a 10% or higher average annual revenue growth in the three years prior to the study (2012-2014). Also, Fig. 14 illustrates that not a single mid-sized company (from 100 to 499 employees) which is diversified in fewer than two directions achieved the average annual revenue growth higher than 10% in the three years prior to the study (2012-2014).
Fig. 13: Evidence of correlation between diversification and financial performance in small companies (adapted from: Business Development Bank of Canada, 2015)

Fig. 14: All mid-sized companies with high annual revenue growth are diversified (adapted from: Business Development Bank of Canada, 2015)

When it comes to the connection between the level of diversification and the accomplishment of a better financial performance, the study shows that there is a huge difference in financial performance between the most and least diversified companies. Fig. 15 and Fig. 16 illustrate that the most diversified businesses (diversified in five directions) are top performers among all the other businesses which have implemented some types of diversification strategy. Almost 70% of completely diversified companies achieved a 10% or higher average annual growth of revenue in the three years prior to the study (2012-2014), while less than 20% managed to achieve growth with no diversification at all (Business Development Bank of Canada, 2015).
Fig. 15: Extent of diversification is positively related to the growth of revenue (adapted from: Business Development Bank of Canada, 2015)

Fig. 16: Extent of diversification is positively related to the growth of profit (adapted from: Business Development Bank of Canada, 2015)

Fig. 16 also shows that it is not always the case that the highest level of diversification ensures the best financial performance. It always has to be individually assessed for each company which degree of diversification is optimal and in which directions. The details about how to carefully perform diversification strategy will be
explained later in the text. Finally, if we consider the results of the study concerning the age of diversified companies, there is no statistically convincing factor that age is related to the degree of diversification to which the companies are diversified. It can be said that young businesses diversify roughly as much as the old ones. Still, some conclusions can be emphasized. For example, the companies from the sample that are 5 years old or younger are in general diversified to some degree, but not fully. Furthermore, the biggest portion of the sample regarding full diversification belongs to the companies which are between 6 and 10 years old. When looking at companies which are diversified in three directions, the biggest portion of the sample belongs to the companies between 6 and 10 years old. Other comparisons and results from the BDC’s study can be seen in Fig. 17 where business age-diversification relation is illustrated.

Fig. 17: Relation between degree of diversification and business age (adapted from: Business Development Bank of Canada, 2015)
6. DIVERSIFICATION STRATEGY IN TEXTILE SERVICE SMEs IN TIMES OF CRISIS

6.1 Exploring the applicability of diversification strategies for textile service SMEs during the pandemic

The report on the economic value of textile service industry in the UK identified certain opportunities for growth, as well as barriers for the development of this industry. As one of the key opportunities, it recognizes the growing market demand (Regeneris, 2017: 23). However, since in times of crisis the demand decreases, and especially in a pandemic crisis such as this one, this factor is not relevant for this analysis. Nevertheless, the three remaining key factors in growth can serve a basis for ensuring the survival of the business and these are the growth of the customer base, innovation and changes to regulation (Regeneris, 2017: 24). While there has been a decrease in demand as a consequence of a health crisis with the standard clients, the best way of maintaining a satisfactory level of business is for the companies to attract new clients. Particularly in pandemic times, this can be achieved in combination with the second factor, innovation. By innovating and creating new products and services that respond well to the changed market demands in terms of cleanliness and hygiene (not only in textiles), companies can attract new clients. Moreover, the changes to regulation which have emerged as a consequence of the new virus have made the hygienic requirements from sectors such as healthcare and hospitality significantly stricter. Companies specialized in textile cleaning can use this opportunity to offer this service to new clients and expand the offer to special anti-virus services and products to the existing client base.

On the other hand, the growth of textile rental services is, in times of regular business, constrained by the following factors: recruitment difficulties and cost pressures (Regeneris, 2017: 24). Considering the pandemic, some of the aspects of these factors have been removed or changed. For example, due to significant layoffs across different industries across the globe, it is no longer difficult to find workforce. However, investments into new employees should be held off at this point and the company should consider redirecting the efforts of its existing workforce towards new skills and knowledge to ensure that they can adapt to the changing products and
services offered (Asare et al., 2020: 2077-2078). While the increasing cost of labor is no longer a problem, significant cost savings have to be made in order to ensure financial stability in times of crisis. Therefore, companies have to be careful with investments when it comes to changing strategies and attempt to find low-cost solutions by using existing resources to generate new revenue streams.

Textile service industry is specific for its market context and client demand. The companies that make up this sector are diversified in multiple directions, which is an indicator that this specific industry requires such an approach for a company to maintain good business. It offers both security in terms of stability, as well as the opportunity for growth. More importantly, in times of crisis, diversification can offer a strategy for battling the decrease in demand and the challenging conditions of doing business, all of which have resulted from the ongoing pandemic and consequent crisis. For a company to overcome the challenges of crisis, it is necessary to begin with the analysis of the three primary types of diversification: client, product and sector diversification. Such an analysis can show the vulnerabilities in the current state of business and the impact that the crisis can have on regular business processes. In that way, a company can recognize the space for the implementation of various types of diversification which could lead to a business model more resistant to crises. BDC distinguishes between five types of diversification: client, sector, product or service, client location and business geographic diversification (Business Development Bank of Canada, 2015). The applicability of each to the business model of textile service SMEs is explored below.

When it comes to textile service SMEs, the analysis should focus on who the clients are and what their size is. In other words, each company is more focused either on small or on big clients and directs its strategy towards a certain preferred group of clients. If a company is doing business exclusively with smaller clients (e.g. private small companies, smaller hotels/motels or private hospitals/clinics/nursing homes), the number of clients has to be fairly large in order to achieve significant profitability, since a large number of clients requires large logistics costs. On the other hand, companies focused only on bigger clients (e.g. on the main hospitals in the area, big hotels, big industrial companies) usually operate with a very limited number of clients. Big clients allow a significant contribution to the company’s revenue, while smaller clients are easier to find and attract to help build up the client base. Therefore, a
detailed analysis is required to consider the consequences of losing one or more such clients. When it comes to bigger clients or a client groups, an SME can only serve a limited number of such clients, which means that the risk of losing one is an important factor in this analysis. Once the contract is up, the client or group has the chance to reconsider the offers on the market and if it opts for another provider, the company loses a significant portion of its business practically overnight. Also, the current global pandemic has shown that one or more big clients can be easily lost without notice or their demands lowered to, as seen from the current state of business, 50% or even less, with some businesses completely shutting down. This considered, a diversification of clients seems to be important for textile service SMEs precisely because it represents the most resistant business model in times of crisis. The combination of both smaller and bigger clients leads to the optimal situation. Each company has to create a choice of clients which allows it to maintain its business if a significant client is lost. A proposed solution in line with a diversification strategy would be to add smaller clients to the client base only when logistically justified. In other words, some examples may be including only those clients who are close to or on the route towards bigger clients like hotels and hospitals or grouping smaller clients geographically and time-wise, in that the company can provide the service to a group of smaller clients located in the same area in the same day, logistically justifying the costs. Without any huge investment, but with a more aggressive marketing/sales approach, the company can in that way offer its products or services to a wider range of clients and spread client base significantly, while simultaneously maintaining the focus and profitability of the larger ones.

Another important aspect of client diversification is diversification towards different sectors of clients. As seen from the analysis in Chapter 2, many textile service SMEs have focused their business around a limited number of sectors (e.g. healthcare or hospitality in most cases). This has so far been a successful strategy because of the reliability of the two sectors. Especially in healthcare, the workload is more or less constant and independent of other sectors and changes in economy. As far as hospitality is concerned, in tourism-oriented countries, it is a sector that can be counted on to generate business. However, this unique crisis has demonstrated that there is always a possibility of a sudden crash of a whole sector, even in sectors as stable as healthcare and hospitality. The companies dependent on the business of these sectors
suffered the same crash, including textile service SMEs. This crisis has shown what a risk it is to focus on exclusively a single sector, or even just two in some cases. Diversification into multiple sectors could have significantly reduced the severity of losing all clients from a sector, as was the case with hospitality, for example. The advantage of textile service industry is that it is generally easy to diversify towards multiple client sectors without huge investments. As far as technology is concerned, it requires almost the same types of machines and processes regardless of the type of textile, i.e. different types of textiles are washed in a relatively similar way. Many of these companies have machines which can wash multiple types of textile, above all flat linen and workwear, both of which can derive from multiple sectors and number of different industries.

This leads to product diversification. Most companies in the industry are already to some degree diversified when it comes to their product portfolio. Nevertheless, this diversification is mostly limited to related products, i.e. to some sort of textile product like flat linen, workwear, mats etc. Most companies are limited to two or three types of textile, but this crisis has shown that such an approach may not be enough. The product portfolio determines the type of clients, meaning that such a limited portfolio can attract only clients from a similar sector with similar needs. Therefore, the product portfolio needs to be more diversified in order to attract various types of clients and ensure that a loss of a whole sector of clients does not result in the loss of the totality of the business. It is crucial for textile service SMEs to offer different types of textile which can be used in different industries. Besides flat linen, the types of products that can attract clients from different sectors and be used in different industries are, for example, workwear and mats. Workwear can either be specialized, such as those used in the pharmaceutic or chemical industry with high hygienic standards, or simple universal workwear which are used in a variety of different and unrelated industries. Furthermore, mats, in different types and shapes, are also used in almost every industry, and they are low-cost, easy to maintain and have a relatively high profit margin. Whereas this represents a diversification towards related products, this may sometimes not be enough. In times of crisis, it is necessary to recognize new market needs and diversify even towards unrelated types of products, as long as the existing technology or other resources can be used to offer such products. However, a textile service company is not only as good as its technology, but has to
turn to its total know-how and processes to see if there is space for unrelated product diversification. In other words, it can look at its marketing and sales teams, logistics networks and distribution channels to recognize the opportunities to offer new products while using existing resources and processes. As long as these can be used for products which are in high demand and could be interesting to the existing clients in the new market context, the company can make the step towards offering untypical products in this industry and satisfying the needs of its existing clients, as well as attracting new ones. The new products can be created in-house or bought from suppliers and distributed to clients, or even maintained by the company as a new service. In the current health crisis, SMEs from textile service industry are in a good position to diversify because they have access to a large number of clients to whom hygiene is of great importance and the resources and knowledge to expand into products related to this industry but not to their core product portfolio.

Geographic diversification of clients is expected to result from the diversification of clients and sectors, in a scope acceptable to and appropriate for the current state of business. However, the geographic diversification of the business itself is not expected in times of crisis as it usually requires larger investments.

Considering the suggested types of diversification described above, these correspond to horizontal diversification strategy. As a subtype of horizontal diversification, concentric diversification seems to be relevant in the context of product diversification in that it allows the companies which have enough resources, qualities and knowledge to expand into the existing market with an offer of products related to the products already in their portfolio. While such a strategy may help in expanding the product portfolio and, consequently, the client base in times of a pandemic, it may not provide a complete way out of a crisis situation. It can bring additional revenue when the right product is offered to the right clients, but when the demand and supply are interrupted as in the times of a pandemic, remaining in the domain of related products can bring the risk of losing the demand for all of them at once. On the other hand, conglomerate diversification can create additional sources of revenue in times like these. If possible, textile service SMEs should aim at creating a synergy between the old and new products, or between the new products and the existing resources like technology, supply chain, skills and knowledge etc.
6.2 Krokoteks: diversification as a means of surviving in pandemic times

When the pandemic and the following crisis first began, Krokoteks already had certain issues with its business. Only by overcoming those issues could it survive the crisis and continue its development. Several issues have proven crucial to resolve. First, the crisis showed that the company was relying on only two sectors of clients and mostly big clients. Moreover, the portfolio which was in place before the pandemic was lagging behind the competition in the sense that the competitors were offering, marketing and selling a wider range of textile products and, therefore, had access to a wider range of clients and client industries. The pandemic has proven to be a wake-up call for the company, forcing the management to restructure the overall approach and set up a new direction of development. The new, two-part strategy described below, with its first part directed at surviving the crisis and the second part at establishing a new direction for future development, can help the company address all of these issues and create a stable basis for future growth.

6.2.1 Analysis and recommendations: implementation of diversification in Krokoteks

In any kind of business crisis, including this one, caused by a pandemic, the first step for companies should be to make a quick but thorough analysis of the state of the market in order to identify the source of the main problems for the business. By performing a detailed scanning of the business and detecting which part of the business is causing issues, the company can start to build the right strategy to surpass the crisis. The possible causes could be identified through the following questions:

- Does the company have an insufficient number of clients?
- Do the company’s clients derive from an insufficient number of sectors?
- Are there clients from sectors not affected by the ongoing crisis?
- Does the company offer too few products in its portfolio?
- Does the company offer products which are currently not in demand on the market?
- Is this crisis only an external issue which will be resolved by itself in a short period of time?
By finding the answers to these questions, the company can identify main obstacles for growth and stability and create a strategy for the future.

Krokoteks carried out such an analysis in March 2020, at the beginning of the pandemic. The analysis showed that the crisis hit the hospitality sector the most, but the consequences of the pandemic were felt in healthcare as well (e.g. decrease in the use of textile). Since 95% of Krokoteks’ revenue comes from these two sectors, the company was gravely hit and identified as one of the main goals of the new strategy the expansion of the client base to other sectors and industries (particularly those less affected by the current pandemic). The analysis has also led to the conclusion that the hospitality sector cannot be counted on for some time, which leaves Krokoteks with the existing healthcare clients and the search for new clients in this and other sectors. Consequently, Krokoteks’ next step should be to create a plan for a diversification strategy based on client diversification (focused around finding clients from various sectors), the goal of which is to create new revenue streams from sectors which are more resistant to and less affected by the pandemic, or quicker to recover from it.

Once the need for a client and sector diversification has been identified, it is necessary to find the best way to realize such a strategy. In order to be able to attract new clients, it is necessary to introduce new products into the existing portfolio to attract clients which have not considered doing business with Krokoteks before. This is achieved through product diversification. In this case it becomes obvious that one type of diversification usually brings other types, which is the principle that serves as a basis of such a concept for growth and development while simultaneously diminishing risks in crisis situations. In order to achieve the desired portfolio expansion, it is important to conduct another analysis. This analysis should focus on the current market demands (in times of COVID-19 crisis) to make the best estimate of what kinds of products could be introduced successfully. In this analysis, it is not only important to determine which products are in high demand in the current market (e.g. masks, gloves, disinfectants…), but also to contextualize this type of information. In other words, it is important to aim to create a synergy between new products and the existing resources and values available in the company. The existing segments have to be considered and included in the analysis to identify the ways in which they can be further employed. In Krokoteks, features such as the existing distribution and logistics network, marketing and sales systems, textile and other industry know-how.
focused around high hygienic demands, partner relationships, knowledge of the rules and regulations concerning various types of cleaning, existing portfolio, technology, human resources etc.

After the completion of the analysis and the determination of the products and services which have the potential to create synergy, it is necessary to start the R&D phase for the products, or otherwise find those products with external partners and incorporate them into the product offer. Krokoteks performed this stage of the new strategy very successfully. It developed the new product, disinfection mats, which is in high demand at the time, and began the R&D phase for anti-virus overalls, which are in high demand in the healthcare sector. These two new products, which exhibit a high degree of synergy with the existing values in the company, represent an important step in Krokoteks’ strategy. Disinfection mats are a product very similar to the regular mats which had been offered by Krokoteks for a while (although with little success), meaning that it already had the necessary technology and additional processes and activities in place. Anti-virus overalls can be classified as a type of workwear, which means that the company had everything necessary for its production and maintenance already in place, as well. Thanks to its cooperation with the sister company Kroko, Krokoteks did not have to look for external partners, lowering the costs of R&D and created synergy, which is crucial in a crisis situation with limited resources. While it may not be easy to adapt to the creation, production and/or distribution of an entirely new product, it is important to consider the existing resources in such a situation and use what a company already has, as this is not time for significant investments due to decreased cash flow. Krokoteks has developed a new product for such a market, but also turned to the portfolio of the competitors and considered including the products that they have into its offer (e.g. as Krokoteks has done with mats). Considering the types of diversification presented in Chapter 5.3, these two products could be considered as part of a concentric diversification strategy.

Soon after, the company also began the R&D processes for IPS systems, which required another cooperation with Kroko, as well as the engagement of some other, external partners. In doing so, Krokoteks managed to add three completely new products to its portfolio, making a great step towards product diversification as part of its crisis strategy. In this regard, product diversification towards IPS is somewhat different than the previous two products. Krokoteks does not have the infrastructure to
produce this product in-house, but it has a network of manufacturers and suppliers who can deliver this product to Krokoteks in an almost ready-to-use state. In this way, Krokoteks still creates a certain synergy between the existing resources and the new product, because it allows the use of the existing distribution, logistics and sales channels, as well as the existing network of clients and part of the production processes (e.g. disinfection mats are a core part of the IPS). However, the addition of IPS cannot exactly be described as a regular example of concentric diversification, but neither as a typical example of conglomerate diversification, which would normally stand out from the core business of the company. It could be described as a hybrid concept, or a modified version of concentric diversification (semi-related product area).

With the three new products, Krokoteks implemented the necessary product diversification strategy which serves as the basis of the strategy for overcoming the crisis. Without focusing merely on its existing portfolio, and turning instead towards the needs of the “pandemic” market, it has begun to think out of the box and attempted to adjust to what their clients, as well as new clients, may demand in this specific situation. Table 5 shows the way new products can expand the reach towards new potential clients. New products, in comparison to the existing linen and workwear, attract a much wider client base because they are not specific of few industries as previous textile products. As shown by the pandemic already, the situation in the healthcare sector is relatively stable and similar to the pre-pandemic level, while hospitality is still in a grave crisis and the incoming revenue from this sector is significantly below the usual. This goes to show that the company made the right move by introducing three new products to create new revenue streams which allow the company to survive the troubling times or at least to strive towards a financially positive outcome.

<table>
<thead>
<tr>
<th>New product</th>
<th>Potential new sectors/industries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disinfection mats</td>
<td>Almost any kind of sector/industry (any building that has regular mats at the main entrance or inside)</td>
</tr>
<tr>
<td>Anti-virus overalls</td>
<td>Healthcare, emergency services, food-processing…</td>
</tr>
<tr>
<td>IPS system</td>
<td>Almost any kind of sector/industry (any building receiving visitors or with a fluctuation of employees)</td>
</tr>
</tbody>
</table>

Table 5: Market reach of new products
Moreover, it is important to mention that this is only the first stage of diversification, the one which will help Kroko
teks with the current crisis. Since Kroko
teks had certain problematic areas when it comes to its product offer and client base, the introduction of new products as the first stage of diversification also contributes to resolving the primary issue identified in the first analysis, which is the number of clients and sectors which they come from, which is too low.

6.2.2 Diversified optimization for future stability and growth

Once Kroko
teks has achieved enough stability to live through the pandemic times with strategic diversification, it can enter the second phase of strategic diversification, which is aimed at maintaining stability and resilience to crisis even in post-pandemic times, as well as further development and growth of its product portfolio and client base, to ensure the situation caused by COVID-19 is never repeated again. Having found a way to survive through the pandemic, the company should focus on resolving the issues which were present before the crisis and which caused it to be endangered in the first place, i.e. a portfolio which was too narrow in terms of the types of textile offered for rental; the company’s narrow perspective of the business concept; too focused around few opportunities while ignoring the rest of the market; an underdeveloped client base which proved to be a point of weakness and vulnerability for the company. The second phase of strategic diversification for Kroko
teks includes the additional optimization of the product, client and sector portfolios, which means additional expansions and the creation of a planned client base. The company has four important goals for the future:

- Optimize the client base to achieve the optimal ratio of bigger and smaller clients, as well as a variety of client sectors
- Improve and speed up the process of introducing workwear and dust mats (continuation of a pre-pandemic project)
- Incorporate and stabilize three new products in its product portfolio
- Continuously analyze new market opportunities.

When it comes to the optimization of the client base, additional diversification and optimization of the client base and client sectors is crucial because the analyses of the pre-pandemic state of the company showed various issues with the client base,
including the reliance of few big clients and only two client sectors. These issues cost the company dearly once the pandemic hit and eliminated around a half of its clients. Moreover, even though the new products have expanded the client base, it was only a part of a strategy to overcome the crisis, whereas it needs to become the basis of Krokoteks’ future strategy.

With every new client contract the company considers for any of its products and services, it has to take into account the size of the clients as well. Surely big clients have played a crucial role in Krokoteks’ early years, but it also has to focus on smaller clients, since the loss of a big client has a grave effect on the company’s business. Krokoteks should start finding new clients among smaller privately-owned companies to whom it will provide the same services. In this way, it can eventually create a large base of small clients, often ignored by the competition. The result of this strategy would be additional security and stability of business as a preventative measure against potential future crises. By creating a more numerous client base, the company will have multiple sources of revenue and no longer be dependent on a few big clients or one to two client sectors, meaning that a loss of a client or a sector would not have such a grave effect. When constructing the client base, it is necessary to consider the cost-effectiveness of incorporating smaller clients, e.g. by finding small clients who fit ideally into the existing logistics system constructed around more profitable and bigger clients or grouped in geographic clusters to reduce costs, as well as maintaining an optimal ratio of bigger and smaller clients considering profitability and the potential for the loss of clients. Therefore, one of Krokoteks’ main goals for future development should be the optimization of the number, size and type of clients. Since these are dependent on the products and services offered, with the introduction of new products this obstacle has been surpassed and Krokoteks should be able to find a variety of new clients and ensure their optimization.

Another important aspect is to stabilize the offer of typical textile service products offered by the competition, i.e. industrial workwear and dust mats. These products should make up a much larger portion of the offer than they do now in order to stay competitive. It is necessary to incorporate these products into the existing offer for healthcare and hospitality industries, along with linen and workwear. This can be done by employing a more aggressive marketing and sales approach when it comes to finding new client for this type of textiles, whether small or big. Marketing and sales
are crucial parts of the system, because they are another tool for the growth and expansion of business. Considering that the necessary technology, suppliers, distribution and logistics system are already developed and in place, the only task left for the full implementation of this diversification strategy is to find new clients for this type of products. Since the process of introducing this type of textile began already before the pandemic, it is now important to continue it, but also to take into account the factors which have proven useful during the pandemic. For example, workwear for any type of industry should be offered to all clients no matter their size or sector. The company should no longer wait for big contracts from certain targeted sectors (e.g. food, metal or construction industry) where they could offer 300+ pieces of workwear to a single client, but instead focus on smaller privately owned businesses as well, even if they have only a few employees who could be using workwear (e.g. car workshops, warehouses, retail stores etc.). If a client requires as few as, for example, 15 pieces of workwear, but it is located on a logistically worthwhile location (e.g. on the way to a bigger client), Krokoteks should engage in such a business relationship and start building its client base in this way. The same strategy should be applied to dust mats. If the company aims to develop these two segments to an equal or similar level to the textile for healthcare and hospitality sectors, it can significantly open up to the market, because such products are in a constantly high demand across a range of industries. If this part of the portfolio were to surpass the revenues from the textile for healthcare and hospitality, this would represent a strong portfolio for Krokoteks which would be able to compete with larger, foreign companies such as Salesianer, Lindström and others in the business segments it is aiming at.

On the other hand, it is at the same time important for the company to continue developing its business concept around the three new, non-standard products aimed at pandemic times and include them into its standard offer. It has to continue the production, marketing and sales of disinfection mats, anti-virus overalls and IPSs in order to maintain the revenue coming in from those products and attract new clients. Such products, which can be used in a variety of industries, represent the ideal tool for opening up the way towards potential new clients. Relying on supplying these new products from their suppliers instead of creating new products in house, the investments can be kept to a minimum. The IPS is an excellent example, as a new product currently attractive to a variety of clients from different industries, which also
allows the company to expand its client base, as well as create synergy between various products and services in its offer. In that way, the company can follow a service-dominant logic to increase the total value proposition for its clients (Ten Bhömer et al., 2012: 53) and creating a meaningful whole. By attracting new clients during the pandemic, Krokomeks is raising awareness of its brand and textile services in general, which will allow its growth in that the clients could eventually opt to require other Krokomeks’ products and services, thus penetrating into new markets and ensuring a diversity of sectors in its client base. By doing so, Krokomeks can overcome its biggest pre-pandemic issue, i.e. being focused on specific sectors of clients and limiting its offer to their specific needs. If the implementation of the three new products is continued and the sales rise, the company would significantly surpass its pre-pandemic product offer and expand its client base, especially if followed by the implementation of industrial workwear and dust mats, as previously described. In this way, Krokomeks would have a competitive portfolio with three completely new products that also give it a market advantage in the industry. In other words, in addition to the typical textile service portfolio, Krokomeks would offer atypical products which would attribute clients not typical of this industry. Following this development strategy, Krokomeks has a good chance of becoming the textile services market leader in Croatia, as well as approach other industrial branches in its business. In this way, Krokomeks can approach the goal of such a multi-structural strategy, which is to create a company whose wide product and service portfolio can attract different needs of various types of clients.

Furthermore, it is crucial for the company to continue conducting analyses and detecting the needs of new clients in the context of textile, but also cleaning and hygiene in general, in order to recognize the opportunities for the introduction of new products and services. A successful corporate strategy is based on continually reassessing the scope of the business (Collis and Montgomery, 1995). This should be the most important lesson the company has learned from the business crisis caused by the pandemic: establishing the mentality of continuous development and innovation with the goal of creating market advantage, beyond the conventional sense of the textile services concept. Although it may seem as an aggressive and financially demanding strategy at first, considering the implementation and market analyses presented above, it is cost-effective and suitable for an SME like Krokomeks. The company has a large capacity for textile services (cleaning and maintenance), a major
part of which is not being used, while additional work force is easily and quickly attainable, which Krokoteks can use to its advantage.

Alongside the typical textile services concept, Krokoteks could offer its client different and innovative services in cleaning, maintenance and hygiene. With the new products, the company is well on its way because it offers different and new products to its existing customers, but these can also attract new clients on their own. It can therefore create synergy by offering a variety of products and services to its clients, some of which they did not even know they needed, thus building its brand image and strengthening clients’ loyalty. With these changes, Krokoteks is aiming for a kind of facility management in terms of offering multiple products and services to clients to ensure full and high-quality provision of different kinds of textile and maintenance services. The next steps should lead Krokoteks towards a strategy focused on cleaning and maintenance of spaces. For example, as a next step Krokoteks should consider introducing office/facility cleaning services, which can complement a client’s portfolio already including workwear, IPSs, dust and disinfection mats very well. Such a synergy is also simpler for the client, who can rely on a single provider of all services related to cleaning and hygiene.

All strategic changes conducted in Krokoteks as a response to the pandemic are planned to also be useful as a stepping stone for the post-pandemic strategy and future growth. The expansion of the portfolio with new products, relationships with new clients and, most importantly, new revenue streams coming from outside healthcare and hospitality all represent an excellent basis for more stability and future growth. These actions have resulted in a new and improved base of clients, whose needs should be the foundation for future development plans in Krokoteks. The company should closely monitor the response of its clients to its own portfolio as well as the market changes and continue to look for new market opportunities which would satisfy the new types of clients. The whole process should now be significantly easier than it would have been before the pandemic, because the company now has a new network of clients, attracted by new kinds of products, and it can offer these clients any new related products and services that it considers to have a chance of success, in that they would upgrade the customer experience. This can be done with offering existing textile products and services to new clients (e.g. flat linen) or introducing new ones to Krokoteks’ portfolio (e.g. offering workwear and dust mats to clients attracted
by IPSs). Furthermore, thanks to the variety in the types of clients won over by the unconventional products during the pandemic, the company now has a significant advantage to expand the portfolio in the direction different from but complementary to the standard textile services portfolio (e.g. various other cleaning and maintenance services not related to textile).

The changes to Krokoteks’ strategy have allowed a significant restructuring of the business concept, which was necessary already before the pandemic. Ideally, if the pandemic were to end soon and the management follow the guidelines suggested by this diversification strategy, the company should be able to restore its pre-pandemic workload (related to textile services and focused on healthcare and hospitality), while at the same time growing in new directions focused around the new products and services, which also leave space for further growth and development once their own market is stabilized. In this way, from a standard textile rental service company with a narrow portfolio and difficulties in competing with larger competitors, Krokoteks is likely to become a multi-service company with the platform for growth thanks to its concentric diversification strategy (with a tendency to expand to conglomerate diversification through its offer).

6.3 Recommendations for textile service SMEs during and after pandemic

6.3.1 Diversification as a means to overcoming a pandemic-caused crisis in textile service SMEs

Strategic diversification is a useful tool for SMEs in this industry as a way of overcoming crises such as the one caused by the COVID-19 pandemic. Most SMEs in this industry are focused around the concept of textile rental, with an emphasis on flat linen and workwear. With an offer like that, most such companies attract clients from a limited number of sectors, most often healthcare and hospitality, as well as a limited number of industrial clients for workwear, e.g. food, metal and construction industry. While such a business concept may be profitable in times of regular business because there are plenty of clients on the market, disruptions such as the ongoing pandemic prove the reliance of such companies to few sectors and their vulnerability in times of crises. Strictly sticking to a core business means a dependence on a certain type of
product for a certain type of client. This pandemic has taught us that, at any moment, a whole sector of clients can be shut down and the demand for a certain product/service completely disappear. Therefore, textile service SMEs should use this crisis to diversify their product and service portfolio to be able to offer a wider range of products and services when the market demand changes rapidly, as is the case now. While workwear and flat linen may create the most revenue in pre-crisis times, in times of a pandemic, it is important to be able to switch towards products more focused on the hygiene and anti-virus products, as well as change the service processes to ensure the highest level of hygiene. Moreover, because of the ongoing crisis it is now clear that it is possible to lose a whole sector of clients at once, such as hotels and restaurant, which means that it is important for SMEs to wisely choose who their clients are and make sure to include clients from differing industries. By resorting to diversification, a textile service company can ensure that it always has a part of its segment running and in demand, which can most easily be achieved by ensuring that the management and the workers are prepared for agile change, as well as by focusing on the technologies and machines already in the facility in order to be able to avoid additional investments in times of hardship. It is key that any strategy that changes the operations process to satisfy the market need for variations and customization, minimizes the resulting variations in the manufacturing costs, as well as other related costs (ElMaraghy, 2009: v). Such an approach requires quick responsiveness, or agility, which proves to be crucial in market conditions characterized by volatility and unpredictability of supply and demand (Rapaccini et al., 2020: 227). If such a strategy is implemented, even though it requires significant diversification, the investments are minimal, as the existing technology, workforce, logistics, vehicles and knowledge are used.

Precisely for these reasons, it is crucial for all textile service SMEs to implement a certain kind of diversification strategy during the pandemic for the company to survive the crisis and reduce the risk of future crisis to a minimum. A diversification strategy can make the companies more resilient by strengthening their most vulnerable aspects of business: introducing new revenue streams from new products, temporarily distancing the company from the sectors that have been shut down partially or completely, using the previously unused capacities of the company, expanding client and client sector base, broadening horizons and detecting new market needs, as well
as identifying the weaknesses and risks of the current business concept. These advantages can be the result of a carefully implemented diversification strategy, with the most important being the possibility of overcoming the crisis with minimal investments. All of the listed advantages also represent a stable basis for future growth and reduction of future risks on the post-pandemic market.

6.3.2 Recommended types of diversification for textile service SMEs

Any textile service SME encountered the same problem at the beginning of the pandemic, reduced business load because of the reduction of clients’ business or even complete shut-down of some clients. As already mentioned, the impact was felt the most in the hospitality sector, while the healthcare sector experienced certain fluctuations in business. The textile service companies focused solely or mostly on healthcare felt the consequences far less than those focused on hospitality. Moreover, there are textile service companies focused mostly on workwear for different industries, whose business was much less affected. Nevertheless, the main cause of problems during this crisis for any textile service SME has been the fact that some or most of their clients’ business was reduced and consequently was the demand for textile service. This considered, each textile service SME faced the challenge of finding new revenue streams from other clients, i.e. those clients or sectors which did not experience grave consequences from the pandemic. Therefore, a certain diversification of clients and client sectors is necessary for any textile service SME. At the same time, their goal is to diversify products and services to satisfy the new needs of their existing clients, but also to attract new clients. These two types of diversification are interconnected because the implementation of one increases the success of the other and vice versa, especially considering that the new products serve as a magnet for attracting new types of clients.

Product and service diversification should be based on the principle of horizontal expansion. As already mentioned, there are two types of horizontal integration: concentric (expansion to related products) and conglomerate (expansion to unrelated products). This paper also introduced a subtype of concentric diversification, i.e. concentric diversification towards semi-related products/services. Successful concentric diversification is focused around a strong core business present
in the company, diversification into similar or close adjacencies to the core business and leveraging the existing skills and values of the core business. In this way, the company can create new business built on the values of the existing one (e.g. market, technologies, know-how etc.), by improving on the existing strengths and reducing the familiar weaknesses through a synergic relationship to the core business (Rijamampianina et al., 2003: 366). In this example, this would mean the introduction of products/services under the domain of cleaning, maintenance and anything else necessary for maintaining high hygienic standards in certain industries which are not directly a standard part of the offer of companies specialized in textile rental and maintenance. Krokoteks managed to do so through its innovative IPS system, but companies can do so through, for example, offering cleaning and maintenance services for inner and outer spaces or for any kind of spatial segment in their facilities (e.g. disinfection of furniture, window cleaning etc.). Each example of diversification should aim to achieve the greatest possible level of synergy of the new products/services with the existing products, values and processes.

This considered, the process of analyzing new market needs has to be focused around the domain of related and semi-related products/services because they offer the greatest possibility of synergy and achievement of development with limited resources. The goal of the analysis is to determine whether a company’s portfolio is missing one of the related products currently in demand on the market (any kind of textile which is rented/maintained), as well as to determine which semi-related product/service (e.g. IPS, cleaning and maintenance etc.) the company could offer with the available resources or through cooperation with external partners, acting as a distributor or rental provider. For a market analysis in relation to semi-related products, the company should think beyond its previous frame of thinking and consider all possible needs of clients in the context of cleaning and hygiene that could possibly be introduced. Of course, each textile service SME would have different results depending on the existing resources, company policies and culture. The companies should use the technologies it is currently using, the existing partnerships (e.g. suppliers of products needed for mechanical cleaning of textile, which produce different types of cleaning chemicals as well), the know-how of the industry with high hygienic standards and educated workforce, all of which could be an advantage in the market when developing new products and services. This represents the most
demanding part of the diversification strategy because it requires the quickest possible response to the market changes, while still evaluating the existing resources to find synergy and save on investments.

Finally, the main goal is to implement product/service diversification based on the first- (related) and second-level (semi-related) concentric diversification. By introducing concentric diversification, companies can offer a variety of related products to their clients, in this way satisfying their individual preferences and, at the same time, creating competitor pressure. In doing so, they can increase their market share and, consequently, become more profitable (Khan, 2012:18). Moreover, concentric diversification has proven to be the type of diversification with the highest success rate in comparison to other types (Rijamampianina et al., 2003: 366). There is also a possibility of conducting a conglomerate diversification strategy (unrelated expansion), which bring higher risk because there are not as many resources and knowledge to support the expansion in an unfamiliar direction. Since resources are scarce during crisis times, there is little chance of creating successful synergy and profitable expansions in such conditions. Following the product/service diversification, the diversification of clients or client sectors is to be expected as a result, thus achieving the goals mentioned above.

In addition to increasing revenue from existing clients by providing related services, it is also easier to approach new clients with such a package of services. Finding new clients with a limited offer of products is difficult, because a client may be reluctant to add one more provider to its list and will more often opt for an existing supplier to supply additional products. However, approaching new clients with a range of cleaning related products and services, with the option of choosing the extent of cooperation across a wide range of products and services, allows the client to limit its number of suppliers and customize the range of solutions necessary for its own particular business needs. In this way, a company can build its brand image and customer loyalty, as well as ensure synergy and repeated revenue, especially through servicing and maintenance.

Considering there is no single diversification strategy which could be applied to all textile service SMEs, but instead only a set of universal guidelines which should lead the company to create the strategy most appropriate for its own business, we can expect each diversification strategy to provide different results. Some companies may
create products and services which require further client diversification, e.g. geographical. It could also be that some companies are required to implement further geographical diversification in terms of opening up another office/facility in a different strategic location, focused on the production of the new product only, or as a complementary facility to the original one. Such results can hardly be universally predicted and they are beyond the scope of this paper. However, what is important is that SMEs are directed to react swiftly during the pandemic to ensure they are diversifying in the right way and in the right direction for further future challenges. In conclusion, it is important to note that the companies in this industry are relatively well positioned during the pandemic because, even though its clients took a hard hit, the industry itself easily opens up to new opportunities and can diversify in multiple directions. While not all directions should be used by every company, there are variety of opportunities for companies to look for to generate revenue in related, semi-related or unrelated areas. Little changes and steps can lead to significant market results considering the width of the industry, and these steps can create significant market advantage. The main goal is to expand the company’s offer so that its core business, the rental and maintenance of textile, makes up its base, while additional products and services make up the bonus part of the offer, which allows the company to offer its clients a wide range of offers and build the image of multi-service provider that satisfies their many needs through a single source.

6.3.3 Recommended strategy for the implementation of diversification in textile service SMEs

Table 6 below elaborates each step in the suggested diversification strategy for textile service SMEs, in the context of which issue it aims to resolve, what is the goal of each step and which results the company can expect from implementing it. Depending on the state of a company’s business in pandemic times, the strategy recommends diversification into either related products and services, or semi-related products and services, each linking to a certain type of diversification of clients and sectors. When recommending related products and services, the strategy is focused around all products and services in the conventional offer of a typical textile service SME: all types of flat linen, various types of workwear for different industries, classic
dust control mats, diapers for healthcare, textile used for cleaning (cloths, mops…), whereas the semi-related category includes products and services belonging to the domain of cleaning, hygiene maintenance or anti-virus tools: IPS, washroom products, special anti-virus products, maintenance and disinfection of inner/outer space, disinfection of various elements in a facility etc.

<table>
<thead>
<tr>
<th>Step</th>
<th>Issue(s)</th>
<th>Goal</th>
<th>Expected results</th>
</tr>
</thead>
<tbody>
<tr>
<td>1)</td>
<td>with the new state of the market (pandemic, crisis), the previous strategy is no longer efficient</td>
<td>analyze the portion of clients affected by the crisis and the number of current products/services which are at the moment unattractive on the market</td>
<td>Detect the main problem in order to be able to form a recovery strategy. The result should illustrate whether the company is gravely affected by the crisis, as well as why it is or is not.</td>
</tr>
<tr>
<td></td>
<td>the company is losing revenue and clients</td>
<td></td>
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</table>

Depending on the analysis of the state there are two possible states, each of which requires a different diversification strategy:

a) The clients are not gravely affected by the crisis. The business is slightly down, which means that the consequences of the crisis are not grave. However, this does not mean that the business would survive the crisis without difficulties. Even though the business is doing well, a diversification strategy is needed but not urgently.

b) The clients are gravely affected by the crisis. The company is facing difficult consequences and a serious decrease in business. Without forming a diversification strategy, the company is not likely to survive the crisis. It is necessary to urgently implement a diversification strategy of the clients/client sectors through product diversification.

<table>
<thead>
<tr>
<th>Step</th>
<th>Issue(s)</th>
<th>Goal</th>
<th>Expected results</th>
</tr>
</thead>
<tbody>
<tr>
<td>2)</td>
<td>marketed products and services are no longer as attractive on the market</td>
<td>identify new opportunities for the creation of new revenue streams</td>
<td>Identification of new market needs:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>a) analyzing the existing related business segment and optimizing the portfolio if needed; finding new opportunities in semi-related business</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>b) finding the options for business expansion into related and semi-related markets to survive the crisis.</td>
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### 3) decision on the direction of diversification

<table>
<thead>
<tr>
<th>Reason</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>• unclear idea of the appropriate diversification strategy</td>
<td>• decide in which direction the company wants to diversify</td>
</tr>
</tbody>
</table>

#### a) semi-related diversification (possible related diversification after the crisis)

#### b) related and semi-related diversification

### 4) diversification planning

<table>
<thead>
<tr>
<th>Reason</th>
<th>Action</th>
</tr>
</thead>
</table>
| • previous plans and strategies cannot be applied to diversification strategy in changed market conditions | a) estimate if there are enough resources to implement the strategy during the pandemic or wait for a more stable period (Nevertheless, it is advised to start as soon as the resources are available because of the unpredictability of crises and the possibility of their expansion to other sectors.)

#### b) after identifying market opportunities, immediately prepare a plan for the implementation of diversification; despite limited resources, introduce new products and services by creating a synergy with the existing values, in the shortest possible time frame |

#### a) decision on when diversification will start and in which way it will develop, as well as whether it will use only in-house resources or collaborate with external partners for production |

#### b) decision on the direction of product/service diversification, as well as the reliance on in-house production or external partners |

### 5) implementation of diversification

<table>
<thead>
<tr>
<th>Reason</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>/</td>
<td>a) introduction of new semi-related products/service which are in demand on the current market and will stay so even after the crisis</td>
</tr>
</tbody>
</table>

#### b) introduction of related products/services to expand the core business portfolio, as well as semi-related products/services which are and will remain in demand on the market |

#### Expansion of portfolio into new products and services |
**Table 6: Step-by-step model of conducting diversification strategy**

| 6) further development of the new business concept | • what happens to diversified portfolio after the pandemic | a) maintain new products and services in the offer; if needed, develop and adjust to market needs; increase total profit by adding a new source of revenue and expand the core business towards semi-related domains to expand client base and decrease risk of crisis. | a) growth and development based on semi-related product/service diversification (growth in related diversification after market stabilization) |
| | | b) dynamic progression on the development, sales and distribution of new products/services; if needed, develop and adjust to market needs; reinstate business stability through new sources of revenue; intensive engagement in restabilizing the parts of business affected negatively by the crisis | b) overcoming the crisis thanks to related and semi-related products/service diversification |
| | | | If performed correctly, the company should recover from the crisis and continue to develop and grow post-crisis. |

By following these guidelines for implementing strategic diversification, textile service SMEs will be able to overcome the crisis, but also gain new knowledge, perspectives and basis for the company’s future development and growth in the process. In addition to creating new revenue stream crucial for the times of crisis through diversification of products/services, the changed market conditions will create unforeseen opportunities (e.g. in the domain of anti-virus products) which some companies will be able to use to their own advantage and thus exit the crisis stronger. Moreover, since such times force businesses to think out of the box, the most insightful of them will be able to spot market opportunities outside of their conventional way of thinking and doing business, especially in the domain of semi-related and non-related products/services.

The diversification strategy described above will help companies understand how to use their existing values in the best way, with limited resources, by creating synergy. Through diversification, textile service SMEs can venture into the market of related and semi-related products which will ultimately nudge the client to rely on a single provider for multiple products and services that a company needs. Not only will such a strategy bring over new clients from various industries, but it will also allow
textile service SMEs to market themselves as the unified providers of services related to cleaning and hygiene. The pandemic has opened up a market for launching new products that are not usually part of their portfolio, but provide the possibility of building a brand towards the clients and creating a network that can be built upon in the future by offering packages of products and services, as well as, equally important, the maintenance of such products. While it can be expected that the pandemic will end in a few months or years, the network of clients will already be familiar with the brand name and portfolio, opening up the way for such companies to replace the pandemic-related products with other new products and services corresponding to the new market needs. The most important aspect of this approach is to constantly monitor market demand as the situation changes and recognize the needs of the existing clients. Innovation and analysis play the key roles in such a strategy.

Moreover, it is important to note that a crisis such as this one serves as a wake-up call for companies who were relying on the stability of the market. By implementing such a strategy, they can create greater stability for the future, ensuring that they are prepared not only for growth and development, but also for harder times, by reducing fatal risks to a minimum. Readiness for change, agility and focus on the ever-changing market can prepare a company for almost any unpredictable situation in the future. By ensuring that the business is diversified enough in terms of clients will build resilience even in unstable times. Once the pandemic is over, companies should consider the elements of the new approach which are desirable for their market strategy and continue creating diversity to the degree to which it ensures that no future catastrophic event can bring its existence into question.
7. SUMMARY AND OUTLOOK

This paper represents an analysis of the possible diversification strategies for textile service SMEs. The motivation for this thesis is the newly encountered situation with the novel coronavirus which has shaken to the core many industries, including textile services. Many textile service SMEs have been caught unprepared by the crisis caused by the sudden pandemic and are still struggling to find their way out of crisis in the ongoing challenge. The lack of clear directive or courage to change their, so-far-reliable strategies, which are, however, no longer profitable in a pandemic context, is a problem that I believe the diversification strategy proposed in this paper can offer solutions to. By exploring the case of the Croatian company Krokoteks, I have conducted an analysis of precisely such an SME in the context of the ongoing COVID-19 pandemic. The case study on Krokoteks represents a great example of a textile service SME, since the company recognized its weaknesses in terms of lack of diversification already before the pandemic struck the world and employed many of the suggestions exemplified in this paper already early on in the pandemic. Through this example, one can follow the step-by-step implementation of a diversification strategies, identifying both obstacles and advantages. The analysis presented in the case study represent the type of analysis that any struggling textile rental SME should conduct in a time of crisis. The approach to the analysis of market, products and clients can serve as a template for assessing the ideal context and approach to implementing the right diversification strategy, as exemplified in the final chapter of the thesis. Moreover, even though not without its faults, Krokoteks’ approach to diversification in times of crisis can serve as an motivation in terms of innovation, planning and use of existing resources to many other companies.

The case study of Krokoteks and review of professional literature have shown that the pandemic has caused a great crisis in the textile service industry because it has left a great impact on the majority of its clients, namely those in the healthcare and hospitality sector, one of which is at the epicenter of the pandemic and the other almost completely shut down. This crisis has demonstrated that without proper diversification, textile service SMEs are vulnerable to such situations, mostly because of their limited focus on bigger clients, few sectors and few products. The analysis has shown that by implementing a well thought-out diversification strategy, these SMEs
can not only survive the ongoing crisis, but also become more resilient to such unpredictable situations in the future. Most of the risks and disadvantages of introducing a diversification strategy (e.g. big investments, lack of knowledge, redistribution of processes etc.) can be avoided altogether or reduced to a minimum if a company carefully plans such a strategy and adjusts it to the current state of the market in crisis and its own existing resources. On the other hand, a carefully planned and strategically implemented diversification can bring both stability and growth.

In this paper, the motivation for diversification stems from the current pandemic which has cost the companies a great deal of business. In such cases, the proposed diversification strategy is not aimed directly at increasing profitability, even though it is expected to eventually have a positive impact on revenue and profit, but instead to ensure a safety margin in situations of crisis. I described several types of diversification in this paper, but the one most suitable for textile service SMEs during a pandemic is horizontal diversification. By combining two types of horizontal diversification strategies, concentric and conglomerate, companies enter new markets through related and semi-related products/services and thus expand and strengthen their client base. The domain of related and semi-related products and services can offer the best opportunity for creating synergy with the existent portfolio and brand image, through the use of few or limited resources, as it is built upon the values that already exist in the company. It is necessary for such enterprises to be horizontally diversified in their client-base composition (e.g. combining smaller and bigger clients), client sectors (e.g. healthcare, hospitality, but also food industry, mechanical industry etc.), and finally product portfolio (e.g. in addition to flat linen and workwear, textile service SMEs can offer mats and other hygienic products). These three types of recommended diversification, product, sector and client, are inter-related and contribute to each other. Ultimately, the company will through diversification achieve the development of three out of four key growth factors in textile service: growth of customer base, innovation and changes to regulation. All of these can be used for the company’s advantage during the pandemic. On the other hand, the strategy suggested in this paper avoids or brings to a minimum additional cost pressures that can usually constrain the growth of textile service enterprises.

Finally, it is important to note that each of the strategic proposals described above is aimed at not only surviving the pandemic and the consequent crisis, but also
at creating a more stable future on the post-pandemic market. The company’s approach can be expected to ensure resilience and support growth through the expansion of portfolio, client network, client relationships and new revenue streams from a variety of sources.

In conclusion, we can now observe Krokoteks’ results a few months after they began to employ certain diversification strategies and after the analysis in this thesis was conducted. Before the pandemic, Krokoteks had around 25 clients in total, as well as a pretty narrowly developed portfolio in comparison to its competitors. After implementing certain changes and improvements, especially in terms of its portfolio, a year after the start of the pandemic they have managed to increase their number of clients to 115 in total (with around 90 more clients in a single year). The approach to marketing mats to their clients was made more aggressive and they have attracted around 10 new clients (with 5-30 mats per client). The business with workwear has also taken off. The establishment of a single-person sales team along with the training of existing employees has resulted in the addition of 20 new clients since October (with 15-150 pieces of workwear per client). These clients can be expected to remain Krokoteks’ customers even after the end of the pandemic, as the demand for these products is not conditioned solely by the ongoing pandemic. The most innovative product, the IPS, is what attracted the most new clients to Krokoteks, thanks to its wide applicability in the current situation. Over 60 new clients have purchased 1-6 IPSs each (around 110 IPSs in total). Despite initial difficulties, with the unpredictable developments of the pandemic and crisis, the company has managed to establish a strong base for its new products and services and develop in a positive direction with everyday improvements. Nevertheless, the financial impact of the implemented strategies is still not fully felt, primarily because of the hard losses suffered because of the pandemic. New revenue streams have been established and are expected to bring in significant new revenue to bring the business back to normal. After the pandemic, it is expected to bring added value and profit increase in comparison to the pre-pandemic state of business (Krokoteks, 2020-2021). This considered, it can be concluded that a pandemic should not be an obstacle to implementing diversification strategies, i.e. restructuring and upgrading the existing business concept. In fact, it can offer not only a way out, but a strong foundation for growing the business further and making it more resilient, no matter the challenges of the future.
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LIST OF FIGURES

Fig. 1: Share of revenue across the textile services divisions (Regeneris, 2017: 8) .... 4
Fig. 2: Revenue share in European textile rental market by product (Deloitte, 2014) 4
Fig. 3: Textile services process (Regeneris, 2017: 6) ............................................ 6
Fig. 4: Effects of COVID-19 pandemic on textile rental facilities (Poe, 2020)........ 12
Fig. 5: Organizational chart for Krokoteks group (adapted from: Krokoteks, 2020-2021) ........................................................................................................ 15
Fig. 6: Distribution of business among different clients' sectors (adapted from: Krokoteks, 2020-2021) ........................................................................................................ 18
Fig. 7: Revenue for Krokoteks group for the period 2017-2019 (adapted from: Krokoteks, 2020-2021) ........................................................................................................ 19
Fig. 8: Revenue overview for the healthcare sector for 2019 and 2020 (adapted from: Krokoteks, 2020-2021) ........................................................................................................ 23
Fig. 9: Revenue overview for the hospitality sector for 2019 and 2020 (adapted from: Krokoteks, 2020-2021) ........................................................................................................ 23
Fig. 10: Anti-virus overall ......................................................................................... 27
Fig. 11: Disinfection floor mat ................................................................................ 28
Fig. 12: IPS - Infection Prevention System (Krokoteks, 2020-2021) .................... 30
Fig. 13: Evidence of correlation between diversification and financial performance in small companies (adapted from: Business Development Bank of Canada, 2015) .... 48
Fig. 14: All mid-sized companies with high annual revenue growth are diversified (adapted from: Business Development Bank of Canada, 2015) ....................... 48
Fig. 15: Extent of diversification is positively related to the growth of revenue (adapted from: Business Development Bank of Canada, 2015) ........................................ 49
Fig. 16: Extent of diversification is positively related to the growth of profit (adapted from: Business Development Bank of Canada, 2015) ........................................ 49
Fig. 17: Relation between degree of diversification and business age (adapted from: Business Development Bank of Canada, 2015) ........................................ 50
LIST OF TABLES

Table 1: Advantages of textile rental services .................................................................7
Table 2: Product portfolios of textile service companies in Croatia .........................10
Table 3: Krokoteks’ client list (adapted from: Krokoteks, 2020-2021) ...............18
Table 4: SWOT analysis of Krokoteks in the context of the COVID-19 pandemic ..32
Table 5: Market reach of new products.................................................................59
Table 6: Step-by-step model of conducting diversification strategy .................73