



DIVERSIFICATION OVER DIGITALIZATION: A CASE STUDY ON THE BUSINESS SURVIVABILITY STRATEGY OF A FAMILY BUSINESS DURING COVID-19 CRISIS

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Article info

Date of receipt: 21/11/2022
Acceptance date: 14/07/2023

Keywords: Business survivability,
COVID-19 crisis, diversification,
digitalization, family business

doi: 10.14596//pib.3598

Abstract

Purpose. The COVID-19 pandemic has led to a situation of generalised economic uncertainty. Many SMEs faced an unexpected crisis, which forced them to review their strategy. These enterprises implemented the best approach to recover and overcome the crisis. Among the different strategies that the companies realized, digitalization and diversification were among the most practised. Although both are risky and expensive, this paper wants to prove that diversifying can be more challenging and carry long-term results. This is due to now-days attention on digitalization, which is taken for granted and considered an integral part of the business. Despite this, the diversification strategy can play a winning role, evolving the company's portfolio and creating new opportunities.

Design/methodology/approach. This is a qualitative case study focused on a small enterprise, which is a family business located in Southern Italy, and its reaction to the crisis through a diversification strategy.

Findings. The analysed enterprise initially created a different product, which gave the chance to reduce the loss of revenue and maintain the workforce. Then, the management decided to expand the product network and start a new company. As regards digitalization, it brought unexpected results.

Practical and Social implications. The study aims to increase the awareness of SME managers on the possible strategies available for SMEs in critical situations. To do so, company management should evaluate the sector, its competitors, and the availability of resources. Moreover, the case study contributes to the literature on corporate strategies applied during the pandemic period.

Originality of the study. Although digitalization has been the most used approach during the pandemic, this paper shows that sometimes even smart intuitions can make a difference in starting a new trade. The correct allocation of budget and resources and a high level of resilience are crucial for success.

1. Introduction

The COVID-19 pandemic outset in 2020 and its repercussions in the following years stressed businesses in Italy and the whole world, undermining their survivability (Fairlie & Fossen, 2021). The health emergency with its high contagion rate, the impressive number of deaths, and the different containment measures carried out by the governments contributed to making the Italian economy very fragile. In early March 2020, obstacles such as loss of sales and revenue, shortage of supply, and difficulties in securing the workplaces directly affected 72% of the Italian small and medium enterprises (SMEs), which were forced to react in order to face this economic situation (OECD, 2020).

It is worthwhile to consider the 2020-2021 crisis as the result of both internal and external adverse events that have affected companies in a not easily predictable and controllable way, because of the great variety of factors and problems that managers faced. To overcome the critical issues caused by the pandemic, it has been necessary not only to have a clear picture of the moment and the complexities experienced to daily overcome them but also to understand how to behave in the near future.

The size of businesses is one of the aspects that may affect the companies' vulnerability: the smaller the firm, the more vulnerable it is to internal and external events (Lukason & Hoffman, 2015, Klein & Todesco, 2021). In accordance with this, the companies responded in both structural and strategic terms. In a nutshell, the majority of businesses decided to digitally transform their sales and services (Baig, Hall, Jenkins, Lamarre, & McCarthy, 2020; Blackburn, LaBerge, O'Toole, & Schneider, 2020), while a small part of companies focused the efforts in diversification and vertical integration (Robertson, 2020; Oberoi, Gupta, & Ladure, 2020).

Conspicuous studies support the role of the digitalization of SMEs to cope with the difficulties of the period. Indeed, the researches conducted so far show that the most used approach has been digitalization in all its stages, from the creation of e-commerce to the development of specific online services for each target audience, digital planning, and teleworking (Alatovic, Chhaya, Juneja, Smaje, & Sukharevsky, 2020; Lanshina, Barinova, Kondratyev, & Romantsov, 2020; Guo, Yang, Huang, & Guo, 2020; Schilirò, 2020; Sostero, Milasi, Hurley, Fernandez-Macías & Bisello, 2020; Hassankhani, Alidadi, Sharifi, & Azhdari, 2021; Datta & Nwankpa, 2021; Klein & Todesco, 2021). However, the research gap is given by the fact that digitalization is mainly treated as a temporary solution to the difficulties presented by COVID-19 and diversification has been understudied as a strategic response. This is due to the facility and immediateness of the digital transformation, as well as the cost control and the limited risks. The purpose and the reasoning of this study is to highlight that digitalization is

not the only way to react to this crisis and other strategies should be taken into account, such as diversification, which can be successful too, although it is more risky and challenging for the SME. Indeed, SMEs may decide to undertake a strategic path of adjustment, adapting their business model and investing in open innovation, collaboration, dynamic capabilities, and multi-business strategies to survive the critical situation and create new opportunities (Jacobides & Reeves, 2020; Ortega-Argiles, 2020; Peñarroya-Farell & Miralles, 2022). According to Oberoi, Gupta, and Ladure (2020), although it can be tricky in an uncertain period, diversifying across factors, sectors, and geography has historically played a winning role.

Nevertheless, the importance of this strategy, at the current stage, due to the short time since the beginning of the crisis, literature or published papers with regards to companies that undertook diversification strategies are not widespread and still in limited number. However, a deep and comprehensive analysis of the scenario in which the enterprise is set, its sector and its competitors, and the availability of its resources is pivotal in understanding whether a company is capable of rising again or not. This evaluation helps to find the best strategy to relaunch the business, as well as discover new alternative paths in which to grow and develop.

The aim of this study is to investigate, through a qualitative case study of a small family business, the achievement of a diversification strategy rather than digitalization as a reaction to counter the pandemic crisis effects. This paper wants to answer this research question: how and why an SME should consider implementing a diversification strategy over digitalization, and through which resources in times of crisis? The contribution of this research is twofold. At the entrepreneurial level, it provides some useful insights to managers about crisis management. Furthermore, it gives important guidelines to understand whether diversification is the best strategy over digitalization and how to implement it.

To this aim, the paper is structured as follows. Section two, after an introduction about the COVID-19 crisis and its impacts on Italian SMEs, addresses the analysis of the literature related to business strategies, with specific attention to both digitalization and diversification. The third section is focused on the methodology adopted in the study. Section four draws the case analysis. Section five discusses the case and its results. The last section summarizes the main points of the study and put under the spotlight the possible strategies that SMEs can apply or implement in a context of crisis.

2. Background & Literature

The following paragraph is divided into two sub-sections. The first one deals with the Italian national context in which companies have found

themselves in the COVID-19 period; the second one is dedicated to the SMEs' reactions, hence the difference between diversification, meant as a corporate strategy, and digitalization, intended as the digital transformation process of businesses.

2.1 The impact of the COVID-19 pandemic on SMEs

In 2020, the freezing of social and productive assets, caused by the pandemic and public measures, brought plenty of adverse consequences. It led to a reduction in the Italian GDP of 8.8%, making an increase in the national debt by 160%, and a reduction of the employment rate from 68.3% in 2019 to 62.9% in 2020 (ISTAT, 2020; Stirati, 2020; Euler Hermes, 2021). According to Confindustria and Cerved (2020), SMEs in 2020 had a decrease in turnover of 12.8%. If on the one hand, the most affected sectors were those interested by gathering bans and mobility restrictions, such as travel agencies or hotels, on the other hand, sectors such as e-commerce and cleaning products benefited, favoured by the acceleration of the digitalization process and new cleaning habits (Cerved, 2021). In particular, the catering sector had a decrease of 40% (about 3 billion less in turnover), transport registered -74% of revenues, and tourism had 16 million fewer travellers (ISTAT, 2020; Fonditalia, 2020). Even though 85,000 new businesses were opened during the same year, the effect of COVID-19 and the collapse in consumption led to the closure of over 390,000 businesses of non-food trade and services. Of these, 240,000 were exclusively due to the pandemic (Confcommercio, 2020).

In 2021, an improvement in the economic situation has been registered (AGI, 2022). The Italian SMEs system has shown a high degree of resilience: European and government interventions informally known as "ristori", moratoria and guaranteed loans have given liquidity to SMEs, which also benefited from the progressive reopening and the recovery phase that the Italian economy is experiencing (Cerved, 2021). Giving a glance at the numbers, 332,596 new businesses were opened (+14% compared to the previous year) and 246,000 were closed between January and December, representing the lowest value in the last fifteen years, even more contained than the 2020 record. Even though we have not yet returned to the values before the pandemic (Unioncamere, 2022), this data bode well for the economic trend of 2022.

As reported by the World Bank (2020), COVID-19 originated the worst recession after World War II. Despite many crises that have occurred throughout history, such as the 1929 Great Depression (Wheelock, 2020) or the 2008 financial crisis (Strauss-Kahn, 2020) this one caused by the pandemic is different and "singular in many respects", as the World Bank

Prospects Group Director Ayhan Kose reported (Felsenthal, 2020).

First, the pandemic was unpredictable: the enterprises were unprepared and they had insufficient or no plans at all about short time reactions, protection, or mitigation. Second, the sudden shutdown of companies, the difficulty in supplying, and the unemployment have caused unusual changes in the supply and demand system, significantly modifying the world economic trends. Its global impact required the commitment of governments and international institutions, which have set up large-scale rescue packages (even more conspicuous than the ones allocated during the 2008 financial crisis), to ensure the survival of their economies (Roland Berger, 2020). It is also important to notice that the recession is the consequence of the healthcare system collapse, enterprises' internal factors as well as external ones. Among the others, social distancing measures, the ban on gathering, and other restrictions on movements, travel, and activities forced people to deeply modify their shopping and behavioral habits (Moreira & dos Santos Souza, 2020; Swiss Economic Institute, 2021). As a consequence of what has been said, the effects of the pandemic persisted over time and manifested in various fields.

2.2 SMEs' reactions to the COVID-19 crisis

The COVID-19 pandemic has changed the life cycle of businesses of all sizes, bringing out difficult situations and at the same time potential opportunities (Gubitosi, 2021). As pointed out by a Deloitte report (2020), in May 2020, only 25% of businesses managed to seize new opportunities. These arose from the reconversion of production plants for new "essential" products (e.g. devices for individual protection), the adoption of new business initiatives concerning digitalization and sustainability, in addition to the operations in sectors on which COVID-19 has not produced significant impacts. These have been the winning strategies during the COVID-19 crisis.

One year later, in May 2021, it has been easy to classify Italian SMEs for their innovation paths (Bettiol, Capestro, Di Maria, & Micelli, 2021). Analysing this classification, it has been possible to identify 4 clusters of enterprises depending on their actions: the first cluster (10.5% of the sample) is given by the firms that have lowered their prices but have done nothing different from their usual business. The second (27.3% of the sample) and the third cluster (25.3% of the sample) refer to the companies that have reacted in a proactive way, carrying out functional R&D activities for the development of new products / services. Both clusters focused their efforts on the implementation of digitalization to reach respectively the clients and the suppliers. The remaining 37% is represented by the most innovative

and top-performer enterprises that realized a high-level diversification in products and/or services, reviewing their business model and using digitalization as a support to keep in touch with the clients and strengthen the post-pandemic businesses (Bettiol, Capestro, Di Maria, & Micelli, 2021).

Creativity, innovation, and entrepreneurship are some of the drivers used to face the difficult situation that Italian SMEs experienced and, in some cases, are still experiencing (Thukral, 2021). However, as Bettiol et al. (2021) showed, among the other interventions, digitalization and diversification were successful too. In particular, diversification is one of the corporate strategies that a firm can pursue to improve its business activities and reduce its risks. Based on the company's resources and skills, this strategy has to be carefully chosen, because, if done improperly, it can undermine the company's cohesion and focus (Ansoff & McDonnell, 1988; Markides 1997). According to Ansoff (1957), there are four different types of product-market strategies for business growth alternatives. The first one is market penetration, which is aimed at increasing sales without departing from the original business, addressing its present customers, or finding new customers for present products. The second one is the market development strategy in which the firm adapts its present product line to new missions. The third one is the product development strategy, which has the purpose of developing products with new and different characteristics. Lastly, the enterprise can decide to apply a diversification strategy, which means increasing the variety of products offered as well as the markets served. The company decides to expand into markets or with products that maintain ties and affinities with existing businesses (horizontal integration), or rather to diversify by offering products and services that have no relation to existing businesses (vertical integration); moreover, vertical integration can be upstream or downstream. The Ansoff Matrix, also known as the Product/Market Expansion Grid, is the reference model for the interpretation of corporate strategies (Ansoff & McDonnell, 1988). The motivations behind diversification processes can be innumerable. Among the main ones, we mention the exploitation of the economies of scope, for instance, the underutilized resources that it is better to use than dismiss, the skills of the corporate management, the exploitation of internal processes, and finally the increase in market power over competitors, with a greater range of products and profits (Johnson, et al., 2017). Considering the role of diversification in the COVID-19 crisis means that the enterprise lives in a particular situation where it has to decide how to react and evaluate the owned resources, potential opportunities, and threats. In general, in a crisis, the organization can and must consider reviewing its corporate strategy in order to create new market opportunities that improve the production and the positioning in the sector, without forgetting to take into account the cost/income ratio and the financial balance (Tunisini, Pencarelli,

Ferrucci, 2017; Pencarelli, 2013).

On the opposite side, digitalization is defined by the Oxford Dictionary (2023) as “the process of changing data into a digital form”. If we relate this definition to the business world, we can agree with Bloomberg’s (2018) point of view, which sees it as “the use of digital technologies to change a business model and provide new revenue and value-producing opportunities”. A business can be digital in different ways, for instance in terms of value proposition and value demonstration, which means what and how it sells (Ritter & Pedersen, 2020). The application of digital tools and technologies strengthens the competitiveness, efficiency, and performance of the business (Bezrukova et al., 2020), giving the chance to reach consumers all over the world and widening the business environment (Neamțu, Hapenciu, Bejinaru, 2019). Digitalization and digital transformation during COVID-19 have played a crucial role for enterprises helping them to adapt and overcome market difficulties with a mind-bobbling acceleration. Digital platforms were used to connect the stakeholders, while digital marketing was employed to make stronger brand identity and communicate with clients, along with selling products and services (Soto-Acosta, 2020; Schilirò, 2020; Kudyba, 2020; Amankwah-Amoah, Khan, Wood, Knight, 2021). Moreover, workplaces were reinvented and redesigned to allow employees to work remotely and guarantee business continuity (Ancillo, del Val Núñez, Gavriła, 2021; Olokundun, Ibidunni, Ogbari, Falola, Salau, 2021; Mičić, Mastilo, 2022). The rule to stay home, restrictions, and social distancing required the implementation of new ways of business and interaction that could make purchases easier (Winarsih, Indriastuti, & Fuad, 2021). This digital application was translated into a sharp and fast increase in e-commerce creation and online shopping, along with the boost of remote working modalities (Priyono, Moin, & Putri, 2020; Tighe, 2021; Klein & Todesco, 2021). Notwithstanding, in 2022, SMEs cannot consider digital transformation as the only approach to employ to survive in a moment of crisis such as the COVID-19 pandemic (Papadopoulos, Baltas, & Balta, 2020; Winarsih, Indriastuti, & Fuad, 2021). It is pivotal to bear in mind that, in this study, digitalization regards the application of digital tools (today’s indispensable condition) to strengthen and improve the performances due to the pandemic circumstances, rather than a business strategy in the narrow sense. Following this perspective, diversification represents an alternative approach to cope with the crisis. The reason for this lies in the chance to evaluate the firm’s markets and products and in the opportunity to open up new opportunities, improving the company’s strategic positioning too (Pencarelli, 2013). Through diversification, the company decides to offer new products and/or services, which sometimes may not have links or a direct connection with the existing business of the company’s portfolio: this gives birth to backward or forward vertical integrations, hence to new

opportunities. Both diversification and digitalization present strengths and weaknesses. On the one side, diversification can lead to risk reduction and growth opportunities, and it helps minimise the volatility of the portfolio's return. On the other side, it can require high costs for new assets and products, it can be complex to manage and it is risky because the enterprise can compromise the core business to focus on other sectors or activities. Moreover, diversification implies long-term objectives and tangible changes in the investment structure (Ansoff, 1957). Taking into account digitalization, it has its advantages and disadvantages too (Almeida, Santos, Monteiro, 2020). The process is based on innovation, it gives the chance to reach the customers in different locations and provide products and services in a business continuity perspective. During the pandemic, it gave also the opportunity of not losing the job. On the other side, it created technology dependence, increased data security problems, and highlighted the inequalities between people who are keen on using the internet and tech devices and who are not (Almeida, Santos, Monteiro, 2020; Nguyen, Hargittai, Marler, 2021; Klein, Todesco, 2021).

Having a glance at the research and the theoretical basis previously cited in this paper, the majority of the SMEs started a diversification or a digitalization process to survive during the pandemic crisis. Although many studies support one approach or the other (Guo, Yang, Huang, Guo, 2020; Gkeredakis, Lifshitz-Assaf, Barrett, 2021; Lanshina, Barinova, Kondratyev, Romantsov, 2020; Klein, Todesco, 2021; Yaya, et al. 2022; Fruehling, Beyer, Goeddeke, 2023; Moore, Rowe, Stokes, Lichy, Rodgers, Smith, 2022; Pham, Nguyen, Do, Vo, 2023), in this paper we want to focus the attention on diversification as an understudied strategic response, worthy of greater attention. This does not mean that digitalization was poorly beneficial - quite the opposite - because it made services and products accessible to everyone. Notwithstanding this, digital transformation was not enough for already digitalized companies or those that needed a different strategy to cope with the crisis. Since much has been written about digitalization and, on the contrary, little has been researched about diversification during the pandemic period, the aim of this study is to restore attention to those companies that have made strategic changes to revive their business and limit the consequences of the crisis.

3. Methodology

This paper is methodologically based on a qualitative case study focused on a small enterprise in Sicily, Southern Italy, Distilleria F.lli Russo, specialized in spirits and liquors manufacturing.

The Distilleria opened its doors in 1870 and it kept being operational

without interruption until today. At the current time, it is the only business in the alcohol refining and processing field to distil its own original grappa, brandy, and other alcoholic products in the entire Eastern Sicily. During its long period of growth through the years, this small firm remained a family-run company. The pandemic crisis, which hit both the market and the consumption, forced the distillery to find a solution to raise the business again. The key was found in the diversification and the opening of a new company, the Russosan. This launch was made possible thanks to Distilleria Russo's sales manager and her intuition.

This descriptive exploratory case study was made to investigate the real-time situation of the firm, along with the pandemic context and the company's circumstances. The case is impactful as it provides an in-depth understanding of the effects of COVID-19 on a small enterprise and its reactions. The reason for choosing this firm for the study is found in the fact that in March 2020 many Italian distilleries helped the population and hospitals offering their alcohol to produce sanitizer or temporarily produced their hand sanitizer. Between these companies, in Southern Italy, only two distilleries made their hand sanitizer, one in Calabria and one in Sicily. Unlike the one in Calabria, which made and commercialized its hand sanitizer just for a few months, only Distilleria Russo decided to make a new business from its brand-new product. The Sicilian distillery was the only one in the whole nation that created a long-time product and then its new business. It put into practise both digitalization, which was unsuccessful, and diversification, which favoured the survival of the company: this makes this study relevant and worthy of attention.

The data of the study was collected through one-to-one interviews with the company's management, set in different periods to observe performances and evolutions. As regards the participants, these were chosen based on their relevance and decision-making role in the company. The two participants are the distillery's owner and CEO and the sales manager, who is the person that had the idea of starting the diversification (and later became CEO of the new Russosan company). This method of data collection allowed among other things to have a clear and direct interaction with the company. Two interviews were carried out in August 2021 and two in March 2022. The consultations lasted approximately 3 hours. Their answers were recorded upon their permission, transcribed, and then analysed. The first round of interviews consisted of five questions about the business organization before the pandemic, the problems that arose because of the pandemic, and the strategic moves to sort the crisis out. The second round of interviews kept the same amount of questions, this time it was focused on the evaluation of the ongoing strategy and their consideration of diversification and digitalization processes. The methodology of the case study allows for seeing first-hand and understanding how the company made

its strategic choices. Moreover, this approach gave the chance to highlight the criticalities caused by and lived during the COVID-19 period and the company's reactions.

Open-source materials and web pages represented additional data collected for the research. Furthermore, press releases published throughout the years 2020 and 2021 provided extra information about the company's development and the Russosan products. In addition to this, the firm gave access to its own internal reports. All these sources made data triangulation possible.

Data have been analysed following an event-based procedure, emphasizing the issues, the goals, the figures of profits and loss, and the main decisions taken by the management in order to make new market opportunities.

4. Case analysis

Since its opening, Distilleria Russo is a family-owned company, which makes its own alcoholic products, such as liquors, grappa, and spirits. Between December 2019 and January 2020, the firm carried out an original rebranding project, which interested the brand name, turned into "Russo Siciliano", the communication strategy and the target, widening the gaze to the Ho.Re.Ca sector, in addition to the large-scale distribution and private consumers. This would have been a winning move if the COVID-19 pandemic had not broken out a few months later.

March 2020 marked the starting point of Distilleria Russo's transformations and development. Both the CEO and the sales manager affirm that the lockdown, the national measures on social distancing, and the ban on gathering were the greater issues to face. All orders and the sales network, in general, were completely blocked, due to the closure of the restaurants, and the stop of conviviality moments; the crisis in the world of catering translated into unsold alcohol and stockpiling, as well as a fall in productivity, consumption, and revenues. Looking at the figures, in May 2020 the company's turnover registered a decrease of 50%, compared to the Y-1 values in the same month.

In that difficult moment, the management felt the need to find a solution before it was too late. The main strategy was to focus the efforts on the points of sales and grocery shops, stopping the catering and restaurant distribution project. In the meanwhile, the sales manager had a smart intuition in figuring out the solution to use the unsold alcohol and get involved again in the business. She states: *"I thought I had to give a useful answer to the company and also to consumers, avoiding the unemployment benefits for the employees. The idea was to continue producing pure alcohol and create a line of*

sanitizing products absolutely natural, without chemicals, harmless even for children, in short, a real revolution."

Both interviewees agree on the fact that transforming alcohol from the basic material of liqueurs to the basic material of hand sanitizers was a successful move to give a chance to the Distilleria to overcome the crisis. In April 2020 the "Prontigen" hand sanitizer, made by Russo Siciliano, was on the market. The sales manager refers that the use of unsold alcohol and the employment of internal resources gave the chance to amortize costs by 30%. Its sales generated an income of 20%, despite other costs, such as production and packaging.

Prontigen was an innovative product, different from the competitors' ones because it was free of chemicals, suitable for children, and made only of 75% alcohol, water, and menthol crystals. Therefore, thanks to the innovative characteristics of the product and its performance on the market, it gave the possibility for the company to reduce and mitigate the decreasing sales. Indeed, the company had a drop of 50% in the overall revenue; this figure has been reduced by the 20% income gained by the Prontigen sales.

Following the same intuition, after the hand sanitizer release, a multi-surface disinfectant was distributed too. The first items were marketed under the brand "Russo Siciliano", causing strong image damage. Indeed, among the mixology brand ambassadors, some of them raised criticism and disappointment for being linked to a company that produced degreasers. In addition to this, consumers (especially purists) found themselves disoriented, losing the company as a reference point for the production of liqueurs and spirits. Since the goal was to have its own corporate identity, rank in the branch of detergency, and reach schools and families, the management decided to differentiate the brand, creating on May 2020 the new company Russosan S.r.l. This diversification allowed the company and the product to increase its own credibility and reputation. It is worthwhile to notice that the new company organization led both firms to new business: Russosan enhanced its identity as a disinfectant solutions manufacturer and Russo Siciliano increased the sales of pure alcohol, gaining a new partner, which is also the biggest buyer of alcohol. Russo Siciliano's owner is proud of his choice: *"What I want to highlight is that we did not create products that would only respond to the COVID-19 emergency but we wanted to develop a branch of the company, destined to last, which created products for the sanitation of people and things with natural ingredients. So the company has not reconverted, nor distorted"*.

Thanks to the internal collaboration with Russo Siciliano and the synergy with other Sicilian companies, Russosan succeeded in the marketplace, presenting a new product every 2-3 months. In August 2021, a wide range of products was available, among the others, the Prontigen sanitizer for fruit and vegetables, cleaning sanitizer for the air conditioning filters, hand

soap, and floor sanitizer, enriched with grape seed oil. From January to May 2022 the Russosan management broadened the horizons of cleaning by creating the universal degreaser, the brand new insect repellent, and the microfiber cloth. Russosan's CEO told that "the goal is to promote products that are suitable for all, in an inclusive and ethical way".

As regards digitalization, only Russo Siciliano doubled its online sales. Indeed, in the period from March 2020 to May 2021, the firm saw a growth of 2.4% in sales to individuals, facilitated by the fact that the liquor was delivered directly to the home. This growing trend stayed constant also between May 2021 and May 2022. On the contrary, in two years (2020-2022), Russosan online sales did not rise at all. Mr. Russo declared: *"The distillery's e-commerce doubled its sales, while unfortunately, Russosan sold very little, maybe because it was included in the distillery page. Our goal is to create two separate websites and make investments in digital communication, such as sponsored ads, to increase respectively online sales for both brands. Unfortunately, from 2020 to May 2022, no significant improvements on both web pages were carried out because of a shortage of available funding, but we already have plans in mind"*.

It is interesting to point out that both companies did not consider social communication such a big deal for businesses. However, when the online purchases started to rise, the management realised that the website and the e-commerce were poorly performing but they were not able to make new investments, as they put all the efforts into the Prontigen project. In April 2022, both companies won a national call for financing aimed at the digitalization of businesses. The actions to be taken within 6 months included the implementation of Russo Siciliano's e-commerce, the creation of a new site and e-commerce for Russosan, and the improvement of online communication for both brands.

In June 2022, at the time the study was conducted, the CEO of Russo Siciliano indicates a new phase of growth for the distillery. The business still has a great attraction towards the world of hotels and restaurants and they hope to gain ground in it. Moreover, it can be said that 30% of losses were not recovered until January 2022, a period from which they saw an overall increase in sales thanks to the resumption of private events and catering.

With regard to Russosan, comparing the company between May 2020 and 2022, the balance is positive in terms of growth of the range of products but not as positive as the sales manager would have liked in terms of market penetration. This is due to the fact that the product distribution is still on a local basis and the production plant is not sufficient to satisfy the request for the national large-scale distribution. However, the management stated during the interviews that they are planning and working on these aspects in order to expand their production capabilities and sales, hoping to become an example to be followed. Indeed, Russosan's CEO concluded, *"despite the objective difficulties I encounter in physically reaching my final con-*

sumers, [...], I always involve people with joy and enthusiasm, so that my work can be a positive example for other local businesses [...] I hope Prontigen becomes an example of resilience, intended as the ability to face difficult moments glimpsing different perspectives, including the development."

5. Discussions

Prontigen played a crucial role in the distillery's existence during the pandemic period. Criticising the diversification, it was a smart and winning strategy that faced many difficulties.

The hand sanitizer was initially produced by the brand Russo Siciliano, taking advantage of the existing target, partners, and distribution channels; moreover, Prontigen was created with the distillery alcohol and distributed by the employee, giving the chance to save 30% of the costs. Prontigen had the function of supporting the distillery business and employees, as well as financing it with the birth of Russosan. Indeed, after the above-mentioned reputational damage, the new firm bought alcohol and grape seeds to create sanitizers and cleansers. Russosan today is the most important commercial partner of Russo Siciliano firm, but nothing could have been done if the business had not started from the existing resources of the distillery.

The COVID-19 pandemic has certainly brought management greater attention to digital transformation and communication, therefore companies have woken up. E-commerce is essential in 2022; it allows companies to directly reach new markets and consumers, increasing sales. In the same way, online communication, intended as sponsored ads and social media interactions, helps firms to strengthen their identity, create engagement and make the customer experience more enjoyable. However, in a crisis period, digitalization can be done only if the companies have disposable capital and resources to invest in it. Therefore, how and why an SME should consider implementing a diversification strategy over digitalization, and through which resources in times of crisis? The reply to this question is to be found in the opportunities that a company has in the market and the availability of resources. In a crisis, an SME can implement its digitalization in different ways, for instance, by employing digital marketing tools. It can create engagement with the customers through social channels and sponsored advertising, open or improve the e-commerce, update the website and make a better user experience, expand the product catalogue so it can be seen before the purchase, provide digital payment methods, and so on. Moreover, the enterprise can also increase the digital transformation of internal data and adapt the workplace to provide agile working. It can digitalize the supply chain and distribution. In any case, digitalization is

carried out if the company wants to increase sales and visibility, aiming at improving efficiency, the work, and the consumer experience. It also works when the company wants to create engagement with customers, reaching and facilitating new customers who are always on target. As regards the supply chain and distribution, digitalization facilitates and speeds up contacts and practices with the stakeholders during the various phases. As far as the workplace is concerned, digital transformation allows the enterprise to provide business continuity and the workers not to lose their job. However, to achieve all this, it is necessary to have the financial, human, and logistic resources available.

On the contrary, the company that wants to expand its range of products, develop new ones, and address them to new or existing markets, therefore new or existing consumers, achieves diversification. Indeed, as mentioned before, the company can develop in sectors connected or not to its core business. Hence, diversification is a useful strategy for enterprises that have the purpose to expand, create new market possibilities, reduce dependence on a single product or market, and increase their resilience. However, this strategy also comes with risks, including rising operating costs and the need to acquire new skills and resources to enter new markets or industries. To successfully diversify, a company needs many resources, including financial, human, technology, marketing, R&D, and logistics resources.

Before starting a digital transformation or a new strategy of diversification, the management has to evaluate the availability of the resources, which can drive the choice about what to implement (the internal organization, the workplace, the market, the target, or both) and have a row idea about the costs. An environment and competitor analysis can give more information about the directions to take. Once the strategy is well defined, it is time to take into account other additional costs, such as R&D, machinery, human resources, marketing, and possible changes in the supply chain. Finding the best supplier and creating with them successful relationships can be very rewarding: especially for companies who want to propose a new product, the key point is to determine the value proposition and make it evident to the customers and the stakeholders.

Distilleria Russo proposed a new product to its existing target, a hand sanitizer done without the utilization of chemicals, strengthened by the fact that there are no other similar products on the market. The diversification strategy was successful: they made Prontigen and opened Russosan exploiting the internal resources, savings on alcohol, and employee costs. Later, Russosan highlighted the value of the products and based its business on their quality, giving life to a line of detergents made with natural ingredients, which were dermatologically and metal tested. The digitalization process did not go hand in hand due to the lack of liquidity to invest.

Russosan's digitalization was limited to Prontigen's e-commerce which was a showcase page of the company's products on the distillery website, it did not have any social channels or sponsored ads. However, thanks to the possibility given last April 2022 by the Italian government with the national call for financing aimed at the digitalization of businesses, the process will undergo faster in the next months to be ready in October 2022.

To sum up, the theoretical implications of this study help us understand the difference between diversification as a corporate strategy and digitalization as a digital transformation process. It suggests that, although risky and expensive, diversification plays a winning role in long-lasting results. The research has important practical implications for the management of companies that are considering adopting a growth strategy based on diversification. In particular, this study demonstrated that in a period of crisis, with the availability of resources, it is more rewarding to expand the range of products and the market rather than aiming only at online sales. Lastly, for what concerns academic implications, the study provides guidelines and insights about how diversification and digitalization can be adopted and implemented within enterprises. This could be an inspirational model for SME management to face crises, such as the pandemic one, and develop growth strategies, as well as new approaches in the business context.

6. Conclusions

The COVID-19 pandemic weighed on SMEs with different consequences, from the supply chain to the sales process. Markets and consumers will reflect the effects in the next future, with the hope that businesses can overcome the economic and financial loss of the last two years.

In the meanwhile, the companies tried to react in the best way to the crisis with various approaches and strategies. The majority of enterprises put into practise digitalization, especially as a business continuity measure. For instance, many enforced smart working, others used their social and online presence to improve consumers' online engagement and online sales. Differently, as this study underlined before, only a few companies put their efforts into other strategies, such as diversification. This approach gave the chance to the firms to expand their business, carrying out vertical and horizontal integrations.

The Sicilian Distilleria Russo is an example of successful diversification: it used unsold alcohol and the internal employee to create and distribute a new product, different from the existing portfolio. Starting from a hand sanitizer, the firm created a new business, Russosan, specialised in a wide range of cleansers and disinfectant products. This smart intuition initially represented a way to employ the stockpiles, but it shortly became a new

market partnership. Indeed, Russosan is today the best alcohol buyer of the Russo's distillery. It is significant that in the year 2020-2021, the distillery registered an increase in online sales, although the low-performing website, but nothing has been done to implement the online aspects due to a shortage of liquidity in that period.

Through the presentation of this study, this paper wants to increase awareness of the possible strategies that SMEs can apply or implement in the context of a crisis. Considering the business adaptation and development, as well as the available resources, can make a difference. In addition to this, the creation of a value proposition and the satisfaction of the evolving market's demands can be the starting point of a new trade.

The findings of this study have to be seen in light of some limitations. Being based on a single case study, a limit of this research is found in its generalization. Another limit was given by the data saturation problem, which is in part solved using different sources and data triangulation. However, it would be interesting to follow the path of these companies to analyse their development. Furthermore, being related to the COVID-19 crisis, which is a quite recent event, relevant studies on this topic are limited. Future research may be developed to validate the strategy of this company. In the same way, a similar analysis can be applied to other companies that boosted digitalization and diversification in order to compare their results. Moreover, it would be inspiring to compare the Russosan path to the one of other family firms, which lived COVID-19 crisis and employed a diversification strategy.

To conclude, it is ambitious and challenging to modify the company strategy to get the business back up in a period of crisis. However, it may not be enough to carry out a single strategy between diversification and digitalization, forasmuch as often both are functional to the success of the enterprise. This is reinforced by the fact that we live in a time where companies are looking to technology to facilitate the sales processes, marketing, and management of businesses in general.

The key point for a successful SME facing a period of crisis is to have a business model that takes into account the budget and the resources for the product, the needs of the market and consumers, and a strong value proposition. Finally, a good level of organizational resilience can help the company to react proactively to market changes and unexpected events.

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