

“Small and medium enterprise development: do traditional marketing functions have a role to play?”

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## Small and medium enterprise development: do traditional marketing functions have a role to play?

### Abstract

A principle of the marketing concept is that to run a successful business venture, the business needs to identify and fulfil the needs, desires and ambitions of its consumers. This determination and fulfilment of consumer needs and wants is crucial for the success of a business. The literature has shown that small and medium enterprises (SMEs) play a pivotal role in the growth and development of a country, and it has repeatedly been emphasized that marketing, strategic positioning, and entrepreneurship are key factors in business survival and growth. The purpose of this article is to determine the marketing functions that business owners or entrepreneurs of South African SMEs consider important and to identify the business constraints they face. Data for this quantitative study were collected by distributing self-administered questionnaires to a sample of SME owners who had registered their businesses at an official state institution for SMEs. The study revealed that the respondents regarded marketing and related marketing functions as very important or critical for the success of their businesses. This finding supports existing marketing literature regarding the role and importance of marketing in SMEs.

**Keywords:** marketing function, business development, traditional marketing, business owners, entrepreneurs, SMEs, South Africa.

**JEL Classification:** M30.

### Introduction

Small and medium enterprises (SMEs) have proven their extraordinary role and significance within national economies on a global scale (Savlovski & Robu, 2011). It is evident that SMEs play a pivotal role in invigorating and sustaining a modern economy and in producing considerable employment opportunities (Bharati, Lee & Chaudhury, 2010; Reijonen, 2009) and that SMEs serve as engines of economic growth (Savlovski & Robu, 2011). Furthermore, governments worldwide have recognized the emergent function of SMEs and entrepreneurship, namely, to drive economic growth and job creation, which serves as an effective means of alleviating poverty, especially in developing countries (OECD, n.d.).

Although SMEs worldwide have experienced an increase in success and growth, the collapse of the major banks in Europe and the devastating global recession in 2008 presented SMEs with major challenges, leading to the failure of many businesses (Cant, Wiid & van Niekerk, 2013). Moreover, globalization and the rising prominence of information and communication technologies have presented SMEs with challenges as well as opportunities (OECD, n.d.). According to Reijonen (2009), one of the principal problems that owners of

SMEs face is a lack of understanding of the importance of marketing as a business function. Researchers have highlighted the significant function that marketing fulfils in the continued existence and development of SMEs (Lorette, n.d.; Moorman & Rust, 1999; Reijonen, 2009; Stokes, 2000; Simpson & Taylor, 2002; Urbonavičius, Dikčius & Kasnauskienė, 2007). Marketing theories, however, have been developed mainly on the basis of studies of large organizations (Stokes, 2000) and SMEs do not implement these theories and concepts to the same extent as larger organizations do (O'Dwyer, 2009; Stokes, 2000), as their practices and activities differ considerably from those of larger organizations (Hill, 2001; Liu, 1995). According to O'Donnell (2004), it is widely known that owners of SMEs do engage in marketing, but that the form that this marketing takes is not entirely understood.

The main aim of this research study was, therefore, to establish to what extent the marketing function is regarded as important in SMEs in South Africa. The article will further identify the factors that affect the development and growth of SMEs in terms of their marketing functions.

### 1. Literature review

**1.1. Important marketing functions.** The marketing function of an organization refers to the tasks that enable the organization to recognize and to source potentially thriving products for the marketplace and then to endorse them by distinguishing them from competitors' offerings (Business Dictionary, 2014). Typical marketing functions within an organization include conducting market research, deciding on a marketing plan, doing product development, and strategically overseeing advertizing, promotion,

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distribution, customer service and public relations (Business Dictionary, 2014). The current attitude towards marketing in SMEs as well as the role of marketing in SMEs will be discussed in the subsequent sections.

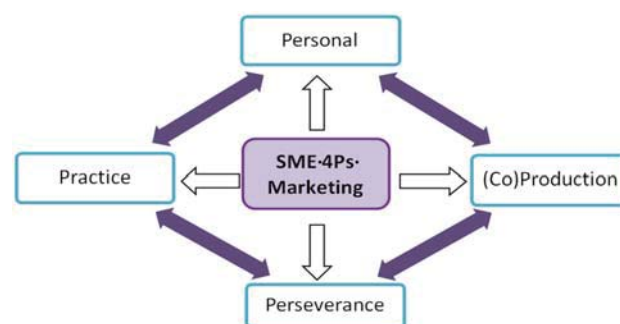
**1.1.1. Marketing in SMEs.** According to Reijonen (2009), marketing is relevant to both large and small organizations and basic marketing principles are equally pertinent to both. The marketing of small businesses, however, has distinctive features that set these businesses apart from larger organizations (Fillis, 2002; Gilmore, Carson & Grant, 2001). Marketing in SMEs has been characterized by traits such as being disorganized, easy-going, irresponsible, vague and impulsive, all of which are perceived as having undesirable implications for a business (Gilmore et al., 2001). Furthermore, McPherson (2007) argues that SMEs appear to have certain weaknesses with regard to pricing, development, training and predicting future trends. O'Dwyer, Gilmore and Carson (2009) state that a phenomenal portion of marketing in SMEs is propelled by novelty. McPherson (2007) argues that SMEs are perceived to function adjacent to their customers, to be malleable and to respond rapidly to the changing needs of their customers. Thus, the marketing functions of SMEs result from various limitations in the business. Moreover, the marketing function in SMEs is seen to be mired in financial constraints, a lack of knowledgeable marketing experts, the size of the business (small, medium or large), a constricted customer base, and a lack of resources (Gilmore et al., 2001; O'Dwyer et al., 2009; Stokes, 2000). Given the continued pressure and challenges that SMEs face, coupled with the shortfalls of sufficient resources, marketing may appear to be a peripheral and redundant luxury in SMEs (Hogarth-Scott, Watson & Wilson, 1996). The importance of the marketing function in SMEs is discussed next.

**1.1.2. The role of marketing in SMEs.** The failure rate of SMEs is still extremely high, despite the fact that SMEs play an important role in the development and sustainability of a country's economic growth (Marjanova & Stojanovsk, 2012). The most prominent reasons that have been identified for the high failure rate of SMEs are their lack of skills, knowledge and abilities, which ultimately leads to insufficient planning, low sales and competitive weaknesses. There is thus a notion that SMEs, in general, face a shortage of managerial and marketing knowledge and skills (Marjanova & Stojanovski, 2012).

In a study conducted by Urbonavičius, Dikčius and Kasnauskienė (2007), managers of SMEs rated marketing planning and price management as the two most important marketing functions, while product

management, marketing research and communications management were rated as the least important. Moreover, in contrast with managers of medium-sized or larger businesses, managers of small businesses (< 50 employees) rated almost all marketing functions as less important to them (Urbonavičius et al., 2007). Furthermore, Walsh and Lipinski (2009) found that the marketing function contributes positively to the success of SMEs and their ability to think strategically. The literature has shown that larger businesses achieve better competitive positions than SMEs, as they have greater marketing capabilities (Grimes, Doole & Kitchen, 2007). It is therefore all the more important that SMEs maintain strong marketing initiatives in order to be able to effectively compete with larger organizations.

According to Resnick and Chen (2011), traditional marketing methods are perceived as pricey and as requiring specific knowledge and expertise. They also found that marketing is perceived as an acceptable practice within the environment in which SMEs operate (Resnick & Chen, 2011). Thus, owners of SMEs are basically unsure whether marketing is worth the effort in terms of time and expenditure. Resnick and Chen (2011) concluded that SMEs do engage in marketing, but their 4Ps marketing model is based on four different attributes, namely, personal, (co)production, perseverance and practice, as indicated in Figure 1.



**Fig. 1. A proposed 4Ps model for SME marketing, Resnick and Chen (2011)**

Resnick and Chen (2011) suggest the following four attributes, as shown in Figure 1, in terms of a marketing model for SMEs:

- ◆ *Personal*: The owner personifies the business with a set of unique skills – self-marketing.
- ◆ *(Co)production*: Services and goods are produced to customer specifications.
- ◆ *Perseverance*: Long-term customer relationships are maintained.
- ◆ *Practice*: There is a focus on the execution of tasks.

Although the common consensus, as mentioned above, is that SMEs do not function or perform in the same

manner as larger organizations do, the management styles of SMEs are fairly simple and more flexible, seeing that SMEs are more innovative and entrepreneurial than larger organizations (Resnick & Chen, 2011). This study therefore aims to determine the marketing functions that owners or entrepreneurs of SMEs in South Africa consider important and to examine the business constraints they face.

## 2. Aim and methodology

This article attempts to close the gaps in the literature and to broaden the knowledge base regarding managerial evaluations of marketing activities or functions in small and medium-sized enterprises in South Africa. Therefore, the main objective of this article is to analyze which marketing functions predict the importance of various marketing decisions and activities in SMEs.

Self-administered questionnaires were distributed to a sample of owners of SMEs who had registered their businesses at an official state institution for SMEs. The questionnaire consisted of quantitative questions where owners of SMEs had to indicate how important they rank marketing for the success of their businesses and how important the various marketing functions were to them. A non-probability, convenience sampling method was used, which enabled the researcher to collect data quickly and easily. A sufficient number of questionnaires were distributed to achieve a confidence level of 95% and an error margin of 10% at a 50% response distribution. A total of 71 useful responses were received, reflecting an error margin of 11.38%. The number of responses thus only gives a general indication of how important marketing and marketing functions are in South African SMEs.

The data were checked, coded and corrected, and descriptive statistics (frequency counts) were used to describe the findings. Factor analysis was used to classify the different groups of factors that are important in managing SMEs. The quantitative data were analyzed using IBM SPSS Statistics V22.

## 3. Research findings

Descriptive statistics were used to describe the characteristics of the sample, that is, how important people think marketing is for the success of their

business, and to analyze the importance of marketing functions in SMEs.

**3.1. The sample characteristics.** Of the 71 businesses that were included in the survey, 67 provided information on the number of employees they had. Fifty-five (82.1%) of the businesses had fewer than 20 employees. The majority (50%) of the 66 businesses who provided information on the frequency of updating their marketing plan updated their marketing plans once a year and 27.3% of them updated it once a month. The majority (51.5%) of the 68 businesses who provided information on their monthly expenses on marketing activities spent less than R1000 per month and 38.2% of them spent between R1001 and R5000 (Table 1).

Table 1. The sample characteristics

| Number of employees                  | Count (n) | %     |
|--------------------------------------|-----------|-------|
| Fewer than 20                        | 55        | 82.1  |
| 21-40                                | 7         | 10.4  |
| 41-60                                | 1         | 1.5   |
| 61-80                                | 2         | 3.0   |
| More than 100                        | 2         | 3.0   |
| Total                                | 67        | 100.0 |
| Frequency of updating marketing plan |           |       |
| Once a week                          | 3         | 4.5   |
| Once a month                         | 18        | 27.3  |
| Monthly marketing expenses           |           |       |
| Less than R1000                      | 35        | 51.5  |
| R1001-R5000                          | 26        | 38.2  |
| R5001-R10 000                        | 5         | 7.4   |
| More than R10 000                    | 2         | 2.9   |
| Total                                | 68        | 100.0 |

**3.2. The importance of marketing.** The question was asked how important the participants perceived marketing to be for the success of their businesses on a scale of 1 to 5, ranging from “not very important” to “critical”. Respondents who rated marketing as critical or very important for the success of their businesses comprised 91.5% of the total sample ( $M = 3.33$ ,  $SD = 0.675$ ) (Figure 2). The relatively low standard deviation indicates that the responses from the different participants did not differ much. The rating of the importance of marketing, with a skewness of -0.799 ( $SE = 0.287$ ) and a kurtosis of 0.785 ( $SE = 0.578$ ), was not normally distributed.

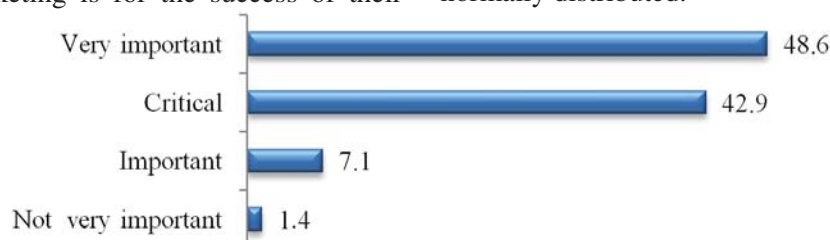


Fig. 2. Percentage of respondents rating the importance of marketing for the success of their businesses.



**3.3. The importance of specific marketing functions.** Regarding the importance of different marketing functions, respondents were asked to rate the importance of the eight listed items for their businesses on a scale of 1 (“not important at all”) to 5 (“very important”).

Because of the sample size of this survey, it was necessary to collapse the Likert scale to a three-point scale. This was achieved by combining the two lowest frequency scales into a single negative scale and the two highest frequency scales into a single positive scale. The neutral or “don’t know”

view remained unchanged. It should be noted that a collapse in scale will result in a loss of information. It is clear from the descriptive statistics that the frequencies for all the items were highly skewed and therefore non-normally distributed (Table 2).

The marketing functions that were regarded as the most important were price management, product management and marketing planning, with mean scores of 4.66, 4.61 and 4.60, respectively. The relatively low standard deviation (<1) indicated that the responses from the different participants did not differ greatly.

Table 2. Descriptive statistics for the questions on the frequency of use of marketing tools

|                    | N     |         | Mean | Median | Mode | Std. deviation | Skewness | Std. error of skewness | Kurtosis | Std. error of kurtosis |
|--------------------|-------|---------|------|--------|------|----------------|----------|------------------------|----------|------------------------|
|                    | Valid | Missing |      |        |      |                |          |                        |          |                        |
| Marketing planning | 70    | 1       | 4.60 | 5.00   | 5    | .730           | -2.657   | .287                   | 9.310    | .566                   |
| Price management   | 70    | 1       | 4.66 | 5.00   | 5    | .657           | -2.977   | .287                   | 13.040   | .566                   |
| Product management | 69    | 2       | 4.61 | 5.00   | 5    | .669           | -2.688   | .289                   | 11.316   | .570                   |
| Marketing research | 70    | 1       | 4.53 | 5.00   | 5    | .847           | -2.601   | .287                   | 7.956    | .566                   |
| Communications     | 70    | 1       | 4.56 | 5.00   | 5    | .715           | -2.533   | .287                   | 9.381    | .566                   |
| Distribution       | 70    | 1       | 4.39 | 5.00   | 5    | .839           | -1.748   | .287                   | 3.781    | .566                   |
| Consumer behavior  | 70    | 1       | 4.40 | 5.00   | 5    | .923           | -2.030   | .287                   | 4.507    | .566                   |
| Customer loyalty   | 70    | 1       | 4.51 | 5.00   | 5    | .864           | -2.198   | .287                   | 5.007    | .566                   |

The marketing functions that were regarded as important were distribution, consumer behavior, customer loyalty, marketing research, marketing planning, price management, product management

and communications. More than 90% of the respondents believed that all eight marketing functions listed in the question were very important or important for the success of their businesses (Figure 3).

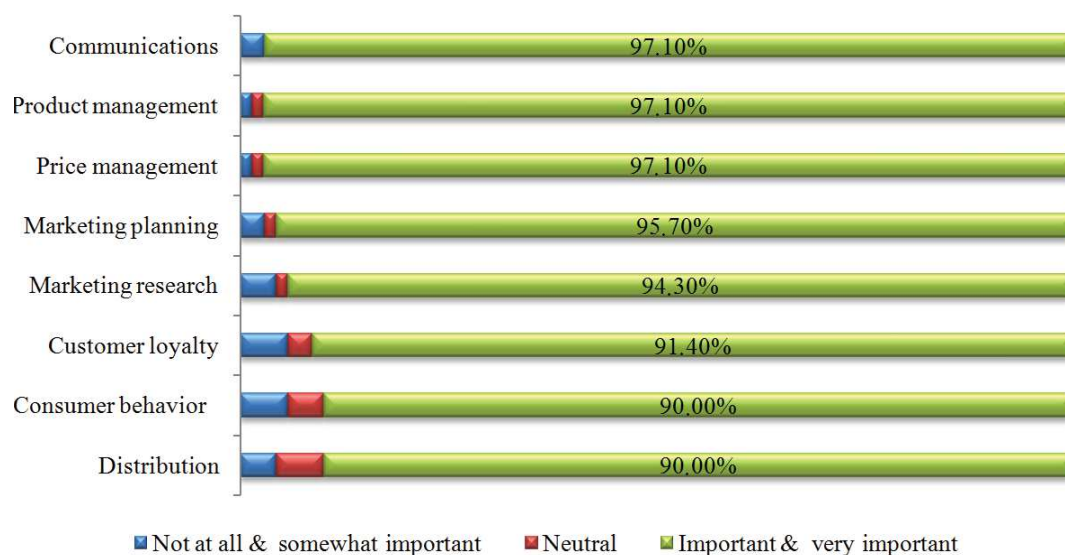


Fig. 3. Frequency analysis of the importance of marketing functions in SMEs

**3.4. Reliability analysis.** To establish whether there was internal consistency among the eight questions regarding the theme “importance of the marketing function”, an item analysis was performed. An initial overall Cronbach’s alpha value of 0.946 was recorded for the eight questions. There were high correlations (above 0.56) between all the questions on this theme. The

eight questions were therefore related to the theme “importance of the marketing function”.

### Conclusion and recommendations

Marketing lies at the heart of the success of SMEs. The success of a small or medium enterprise depends on the owner’s ability to market the right products and services at the right price, to promote

the product or service with the right message and to sell the product/service at the right place (the four Ps of marketing). The four Ps and related aspects are the focus of a marketing plan, which should map out the marketing direction, objectives and activities for the business.

The main objective of this article was to analyze the importance of marketing functions among owners or entrepreneurs of SMEs in South Africa and to determine the main factors that have an effect on the successful business development of SMEs. The study revealed that the respondents in general regarded marketing as very important or critical for the success of their businesses. Furthermore, the majority of them agreed that the following marketing functions were important or very

important for their businesses: distribution, consumer behavior, customer loyalty, marketing research, marketing planning, price management, product management and communications.

The findings support existing marketing literature on the importance and role of marketing in SMEs. The success and existence of a small or medium enterprise is dependent on the owner's ability to market its products/services effectively. Marketing is thus an umbrella term that includes product management, sales, advertising and promotion, public relations, distribution and pricing. It is recommended that owners of SMEs be schooled in the fundamentals and essentials of marketing, as this will contribute to the success and continuance of SMEs.

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