small business marketing management

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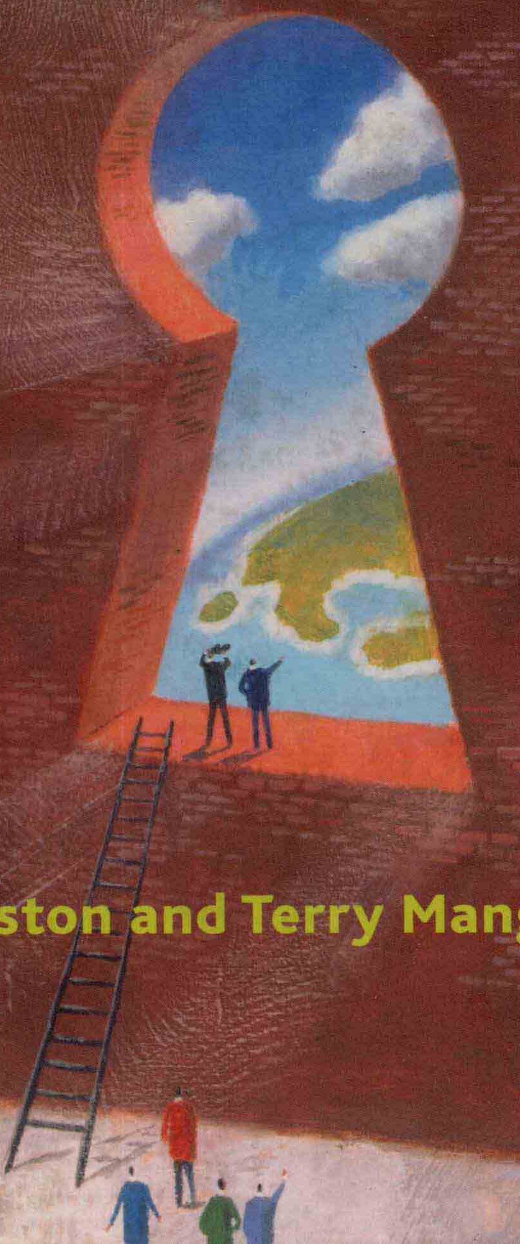

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SMALL BUSINESS MARKETING MANAGEMENT

PREFACE

A characteristic of Western world economies in the latter part of the 20th century was the decline in the number of large firms and the increasing importance of the Small and Medium Size Enterprise (SME) sector as the predominant source of employment. In recognition of the importance of small firms as a source of jobs, in the 1980s both governments and educational providers began to focus attention on the inclusion of small business management in university degree programmes and on expanding the provision of management training schemes for owner/managers.

In the case of marketing management, the initial response of course providers to an increased demand for university courses and management training schemes was to present small business marketing as being very similar to the practices utilised by large firms. The perspective of many academics and management trainers was that small firms, in the same way as large firms, should adopt a highly structured, strategic marketing orientation. As researchers in both Europe and North America began to study actual management practices in SME sector firms, however, it soon emerged that questions existed about the relevance of classicist marketing theories for optimising management processes in small firms. At the extreme, some academics argued that successful SME sector marketing is an intuitive approach rooted in the exploitation of social networks to acquire and retain customers. They proposed, therefore, that there was little point in exposing owner/managers to any of the formalised business paradigms that can be found in standard marketing texts.

The perspective of the authors of this textbook is that the actual marketing processes within small firms are located on a point somewhere between the two extremes of classicist strategic marketing theory and the intuitive, social network approach to marketing management. This opinion has evolved from extensive experience gained through activities such as research, delivering university degree programmes, developing Government-funded training programmes and working with owner/managers seeking to enhance business performance. With both owner/managers and students, the authors have adopted a perspective which says that although it is necessary to accept the preference for an intuitive, unstructured approach to marketing in the SME sector, benefits can accrue from complementing this managerial philosophy by applying more formalised processes to enhance day-to-day marketing operations within the small firms sector. Hence the purpose of this text is to demonstrate how formalised marketing theories and less formalised actual marketing practice can be combined to improve small firm market performance. The target audience for the text is undergraduate and postgraduate students participating in a small business marketing course and individuals employed in the SME sector.

Chapter 1 introduces classicist marketing, examines the relevance of such theories to the SME sector, examines the role of entrepreneurship and discusses the implications of transactional versus relationship marketing in the context of the small firm. A recognised constraint on the SME sector is the ability of firms to access and process information. Chapter 2 examines the implications of this constraint, reviews the information situation in start-up versus existing firms, discusses the role of accounting systems in the provision of data and introduces some basic principles of market research.

The scale of operations in most small firms is such that the survival of these organisations is often determined by events external to the firm, over which the owner/manager has no control. Chapter 3 reviews the nature of these external threats and introduces the concept of market system mapping as a path to identifying which environmental variables pose the greatest source of risk in terms of influencing the future destiny of the business. One approach to responding to market threats is to draw upon the resource-based view of the firm to identify internal competencies that can support successful marketing actions. Chapter 4 presents a competency model, examines how internal capabilities can influence performance and reviews the competencies that are required to underpin alternative strategic options.

By utilising knowledge of both markets and internal competencies, the small firm can evolve positioning options and identify potential sources of competitive advantage. Chapter 5 reviews the selection of an optimal market positioning. The chapter also examines how the move to 1:1 marketing by large firms and the advent of the Internet represent growing threats to the small firm strategy of avoiding competition by occupying a specialist market niche.

An ongoing debate in the academic literature is whether formalised, structured marketing planning has any relevance to small firms. Chapter 6 examines facets of this debate and presents the view that planning in small firms should not be directed towards the production of a detailed written report. Instead the activity should be perceived as an important route through to embedding organisational learning into the firm. A case example is provided to demonstrate the process of learning through planning, or 'marketing plearning'.

Chapter 7 examines the alternative options associated with innovation as the basis for executing new product and new market opportunity strategies.

The new product development process is reviewed in relation to the role of innovation to support strategy, the factors influencing new product success and the mechanisms for maximising the speed with which new products can be brought to market. Chapter 8 examines how promotional activities can influence customer behaviour, discusses how the resources available to small firms restrict promotional mix options and reviews the implications of the Internet as a promotional system alternative. This chapter also examines the role of networks to enhance SME sector promotional activities. Chapter 9 covers the topics of pricing and distribution management. Pricing is examined in relation to the influence of customer attitudes, sectoral conditions and the organisational circumstances confronting the firm. Pricing strategies and how the advent of the Internet can impact pricing decisions are discussed. Distribution is reviewed in relation to the limited channel power of small firms and also how this variable can be managed to provide the basis for a source of competitive advantage. The role of distribution networks is also examined.

As small firms grow, they will need to acquire greater capabilities in the area of information management. Chapter 10 examines why classicist views about marketing information systems are rarely relevant in the SME sector. An information management contingency theory is presented. The impact of the Internet on information management is discussed and a model presented on the evolution of real-time data management systems in SME sector firms.

The fastest area of SME sector growth is that of small service firms. Chapter 11 reviews the unique characteristics of service businesses, and materials are presented on exploiting service quality management as a source of differential advantage. Small firms often use entry into overseas markets as a strategy to sustain sales growth. Chapter 12 examines the relevance of classicist international marketing theory in relation to SME sector firms. Materials are presented on the role of networks and the factors that can influence success in overseas markets.

Throughout this book, the view is adopted that although successful marketing is dependent upon access to data, resource constraints and managerial skills limit the effectiveness of small firms to access and exploit information as a mechanism through which to optimise marketing decision-making. Materials are presented both on sources of data and on the application of information to enhance owner/manager understanding of how events external to the firm can impact on performance. To underline further the importance of exploiting low cost data sources, the text is accompanied by a free computer-based simulation which permits the reader to gain experience in the use of internal operational data as the basis for enhancing the effective management of customer needs. Please see back cover.

CONTENTS

1 PHILOSOPHY AND PROCESS

LEARNING OBJECTIVES

After studying this chapter you should be able to understand:

1. the marketing concept;
2. the processes associated with mass marketing and rational planning models;
3. the role of relationship marketing in certain market scenarios;
4. the emergence of the concept of entrepreneurial marketing;
5. the strategic implications of merging transactional versus relationship marketing with conventional versus entrepreneurial marketing.

CHAPTER SUMMARY

Marketing is concerned with understanding and satisfying customer need. The original theories of marketing were evolved and developed by major US mass marketing, consumer goods brands in the 1950s and 60s. These companies applied rational planning models known collectively as a classicist management approach. Observations of service sector and industrial market firms in the 1970s and 80s suggested that classicist marketing may be inapplicable in certain market situations. An alternative philosophy to serve such markets more effectively is relationship marketing, where the primary focus is on building long-term customer loyalty. This can be contrasted with the approach of mass marketing firms which are orientated towards managing transactions.

Studies of small firms also reveal the inapplicability of classicist mass marketing theory and have led to the emergence of the alternative philosophy known as entrepreneurial marketing. Not all small firms are entrepreneurial however, because in sectors such as retailing and hotels, many are engaged in managing conventional business operations. Combining the philosophies of transactional versus relationship marketing and conventional versus entrepreneurial marketing permits the evolution of a hybrid marketing philosophy. Within such a hybrid model small firms may exhibit the attributes associated with transactional/conventional, relationship/conventional, entrepreneurial/conventional or entrepreneurial/relationship marketing orientations.

INTRODUCTION

All firms, no matter their size, are dependant for their long-term survival upon customers purchasing a sufficient volume of products or services at a price which causes total revenue to exceed operating costs. Achievement of this goal is usually made much easier if the firm fully comprehends the specific needs of customers and can make available products or services which deliver a greater level of satisfaction than equivalent offerings from competitors. The activities associated with understanding and satisfying customer needs constitute the basic elements of the managerial function known as marketing.

The foundation stones upon which many of the current theories of marketing management are based are those evolved by US corporations in the period following the end of the Second World War. Companies such as Procter & Gamble and Coca Cola demonstrated that by exploiting the benefits of mass production and then investing heavily in activities to build customer awareness of the benefits offered by their products, it was possible successfully to dominate markets. Their managerial philosophy of achieving a high market share for a standard product became known as 'mass marketing'.

Richard Tedlow (1990), a business historian at Harvard Business School, has analysed the life history of a number of well known US companies in the automobile, electrical goods, retailing and soft drinks sectors. From his research on company behaviour both before and after the Second World War, he has formulated some generic guidelines concerning effective strategies for establishing successful mass market brands. These include the following four desirable aims:

1. exploit the economies of scale associated with mass production to generate high absolute profits by selling large volumes of low margin goods;
2. re-invest generated profits in high levels of promotional activity as a mechanism through which to shape and mould market demand;
3. create a vertical system in which raw materials are sourced, production operations managed and products delivered to the final consumer. This vertical system usually involves integration within the firm of some steps (for example, the Ford motor company owning both car assembly and component manufacturing plants) accompanied by contractual relationships for other elements within the distribution system (for example, the

move by Coca Cola to reduce costs by supplying concentrate syrups to bottling companies who managed production and distribution in a specified market area);

4. having achieved market dominance through being the first company to exploit a strategy of high volume/low unit prices, create economies of scale barriers to ward off attacks from competitors.

During the 1950s and 60s, management practices within large American corporations tended to be based upon paradigms evolved by academics working in business schools such as Harvard, Stanford and MIT. Many of these academics were influenced by the writings of Alfred Sloan. This individual, who was responsible for rescuing General Motors during the 1920s recession, was of the opinion that the secret of successful management is grounded in the concept of applying rational planning to achieve the single minded goal of maximising profits. To assist in the formalisation of this theory, Sloan and his supporters from within the academic community, such as Chandler and Ansoff, drew upon the conceptual rules of business established by the economist Adam Smith (author of *The Wealth of Nations*) and the militaristic principles of the Greek and Roman empires. Described as a classicist approach to business, the principles of rational planning models as a path by which to optimise organisational performance have subsequently become the foundation stone upon which the syllabi of many business schools around the world have been constructed (Whittington 1993).

Unsurprisingly early writings on marketing management theory followed the theme of rational planning models, and early texts contained recommendations about the advantages associated with the strategic marketing planning process of the type shown in Figure 1.1. The entry point into the model

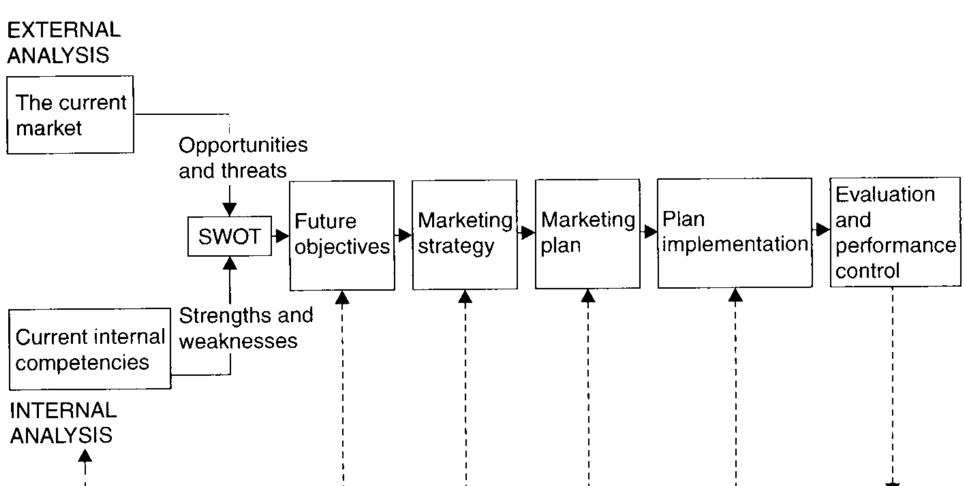

Figure 1.1 The classic marketing strategy planning process

described there is to execute a detailed study of both the internal and external environments confronting the organisation. This knowledge then permits definition of future performance goals, the strategy through which to achieve these goals, and the elements of the plan necessary for underpinning the adopted strategy. Delivery of the plan is achieved by utilising the '4 Ps' of Product, Price, Promotion and Place. Concurrent with implementation of the plan is the creation of a feedback and control system which provides the manager with the knowledge necessary to monitor effectively actual versus planned performance.

Even today, the rational planning approach is still recommended by leading academics as an effective approach to managing the marketing process. It also remains popular within many of the world's largest fast moving consumer goods (FMCGs) companies. It is necessary, however, to register the fact that over the last twenty years critics of the concept have emerged. One of its most vocal opponents has been Henry Mintzberg. He supports the school of thought which believes there is a need to place greater emphasis on observing actual management practices when seeking to evolve new theoretical paradigms. By drawing upon observations of real-world management behaviour, Mintzberg (1989) has questioned the basic premiss of classicist management theory which considers strategy formation to be a controlled, conscious process undertaken by man acting as a rational, economic thinker. He, and other individuals such as Cyert, March and Simon, believe rational, economic man is a figment of mythology rarely found outside of textbooks. Their perspective on the manager depicts an individual who is reluctant to embark on unlimited searches for information and instead is more likely to form an opinion on the basis of the first satisfactory option that is presented for consideration. These academics would also argue that as members of an organisation, managers survive by being willing to accept compromise in return for achieving acceptance of an opinion. Known as the processual approach to management, the ideas of this school of theorists downgrade the importance of rational analysis and instead perceive management as creating strategies through selecting those routines which, within the organisation, can be identified as contributing to success.

MANAGEMENT RESEARCH AND THE SMALL FIRM

In the 1970s, factors such as the impact of inflation, employers being forced to support the rising costs of social legislation aimed at the protection of workers' rights, and the growing success in world markets of Pacific Rim firms, all combined to influence the declining role of large corporations within economies across both Western Europe and North America. This reduction in the importance of the large corporation in Western economies was caused by events such as firms shedding labour (for example, in the European coal and steel industry), moves to automate labour intensive manufacturing process (for example, the introduction of robots into the car industry), some firms going bankrupt (for example, Pan Am), others moving production operations to nations in the developing world (for example, Texas Instruments) and others being taken over by Pacific Rim companies (for example, the UK computer firm ICL). One outcome of these events was a major reduction in the number of people being employed by large corporations. Further job losses also occurred in countries such as the UK, as politicians moved to reduce the proportion of GNP expended on the public sector and improve public sector productivity through the return of sectors such as telecommunications and utilities to the private sector.

By the 1980s, in many Western nations, many people faced the stark choice either of being unemployed or of starting their own business. In the UK, the trend towards self employment was hailed by politicians such as Margaret Thatcher as the advent of a new world which they labelled as the emergence of the 'enterprise economy'. Subsequently with *perestroika* acting as a catalyst which led to the fall of communism in Eastern Europe, as Government found it impossible to support the ongoing existence of large state run industries such as steel and shipbuilding, there also large numbers of people were forced to turn to self employment.

The outcome of both the restructuring of industry in the Western world and political reforms in the Eastern bloc is that by the 1990s, small firms became an increasingly important element of industrial economies in both Europe and North America. Recognition of this trend by academics has resulted in increased attention being given to acquiring an understanding of management practices within the Small and Medium Size Enterprise (SME) sector and the evolution of theories concerning the survival and growth of the smaller firm. A factor influencing this interest was that governments, having recognised the important job creation role of the SME sector, began to allocate large sums of money to create a diverse range of support services and financial aid packages. Concurrently as part of the processes associated with evaluating the effectiveness of such schemes, the Government also encouraged the academic community to undertake project assessment research.

There now exists an extensive body of academic literature concerning the factors influencing the performance of small firms. Gibb and Davies (1990) have suggested that these writings can be classified under the four major headings of entrepreneurial personality, organisational development, functional management skills and sectoral economics.

1. The *entrepreneurial personality* school, by building on McClelland and Winters' (1969) achievement model, seeks to link the personal characteristics of the owner/manager with the performance of the company. Kets de Vries (1977) and Gupta (1984) were able to show a correlation between

owner/manager personality and strategic decision making. Unfortunately although various studies have evolved typologies for classifying the entrepreneur, there appears to be conflicting evidence about the capability to clearly link these models to the observed performance of the business (Brockhaus 1982).

2. A common element in the *organisational development* school approach is to examine the relationship between the goals of the entrepreneur and the objectives of the organisation (Steinmetz 1969). In many instances, the discussion of relationships assumes the need for a move from an entrepreneurial to a 'professional' management style and is often characterised by recommended actions depending upon the firm's current position on an organisational 'stages of growth' model (Greiner 1972). However, given the subsequent debate on the needs of larger organisations to move in the opposite direction and become more entrepreneurial (Slevin and Covin 1990), some doubts must exist about whether the growth model philosophy should be offered as a normative theory through which to guide the activities of SME sector owner/managers.
3. The *functional management* school emphasises the need for the smaller firm to adopt a more formalised approach to activities such as strategic planning, marketing, finance and the installation of effective control systems (Brock and Evans 1989). Although this rational decision making approach has received extensive coverage in the literature, there is still only limited evidence to support the view that clear links exist between the acquisition of these competencies and the subsequent growth rate of the firm (Carland *et al.* 1989).
4. *Sectoral economics* studies usually seek to identify factors of influence within an industrial system as the basis for predicting potential for growth. They have been able to demonstrate clear relationships between the performance of original equipment manufacturers (OEMs) and growth rates of small business sub-contractors in sectors such as the car, computer and consumer electronics industries (Storey *et al.* 1987). Overall, however, these studies do not appear to provide the basis for a generalised predictive model for the management of SME sector organisations (Doctor *et al.* 1989).

MARKETING AND THE SMALL FIRM

In the case of research concerning the influence of marketing on the performance of small firms, early studies tended to focus on assessing the degree to which the SME sector was utilising large firm practices such as applying 'the strategic planning orientation models of the type shown in Figure 1.1. Most of these studies examined the somewhat broader issue of the relevance of classicist planning theory within the small firms sector. The common objective of many such studies has been to determine whether a relationship exists between the use of formal plans and the performance of the firm. Unfortunately the outcomes from this field of research are somewhat inconclusive. Whilst some researchers have concluded that development of a formal plan will improve performance, other studies have been unable to demonstrate such a conclusive relationship. One possible reason for this situation is the tendency of some researchers to use 'big business' language in their survey tools which are not understood by the small firm respondent. Bamburger (1980) in commenting upon this methodological issue advises that instead of basing research around phrases found in the strategic management literature, a more meaningful result can be achieved by examining broader frameworks of business behaviour. Similarly Gibb and Scott (1985) suggest that an approach which investigates the personal commitment and vision of the owner/manager is more likely to capture meaningful data on the utilisation of strategic management concepts within the SME sector.

Another factor influencing data on the adoption of a planning orientated approach to management is the variation in personality styles which exist within the SME sector. In an attempt to resolve this debate, Chell *et al.* (1991) have argued that as there is a need to distinguish between the small business owner/manager and the small business entrepreneur. This can be achieved by adopting a taxonomy of classifying owner/managers into four categories: Entrepreneur, Quasi-Entrepreneur, Administrator and Caretaker. Furthermore these authors feel that instead of just seeking to identify psychological characteristics, it is also necessary to determine how identified traits manifest themselves as modes of behaviour in particular circumstances. What has proved virtually impossible to validate, however, is the degree to which individuals exhibiting these different personality types perceive that utilisation of a formal business plan can contribute to enhancing the future performance of their firms.

By the mid-1980s, researchers such as Carson (1985) had adopted the Mintzberg philosophy of moving away from a positivist style of hypothesis testing and instead observing actual management practices. The results of such work stimulated the development of a somewhat different perspective on what might constitute effective marketing practices within the smaller firm. A basic tenet of this orientation is that observed marketing practices within small firms are a reflection of the fact that they face specific operational constraints which set them apart from larger organisations. Birley (1982) suggested that these constraints include (i) goals not based on analysis of opportunity, but determined by the actions which appeal to the owner/manager, and (ii) a lack of resources and/or knowledge which preclude decision making based on the classicist strategic marketing approach of analysing markets, selecting a long term growth strategy and optimally managing a detailed business plan. Carson *et al.* (1995) subsequently proposed that the lack of general management expertise and the limited number of customers will also influence the marketing processes employed by smaller firms.

This observation of actual management practice within the SME sector was a key stimulus to heightening the level of research activity concerned with the process of entrepreneurial marketing. This interest led to the formation by the American Marketing Association of the Marketing & Entrepreneurship Special Interest Group. Its annual conference proceedings are published under the direction of Professor Gerald Hills at the University of Illinois in Chicago. In an article summarising research to date, Hills and LaForge (1992) argue that four key factors of successful entrepreneurship – organisation creation, innovation, uniqueness, and growth – all have a special relevance to the precise nature of the marketing management process within entrepreneurial organisations. In this review article, the authors also support the continuing validity of Miller's (1983) earlier definition that any measurement of entrepreneurial style should encompasses the elements of risk taking, innovation and proactiveness.

Omura *et al.* (1994) by analysing scenarios in relation to the Schumpeterian Market Conditions and Kirznerian Market Discovery Dimensions concluded that traditional marketing is only applicable in situations where demand is stable and perceived customer needs are clearly understood. In the 'Omura Grid', entrepreneurial marketing is seen as a different process, most likely to prevail in those circumstances where the market is in disequilibrium and customers have needs which are not being fulfilled by existing suppliers. A similar conclusion is reached by Gardner (1991) who proposed that the influence of unsatisfied market need frequently results in entrepreneurial firms breaking with convention and exploiting opportunity through the provision of a new, innovative benefit solution.

It is necessary to recognise, however, that although entrepreneurial marketing may be a more prevalent style within the small business sector, crafters of management theory should recognise the views of Nevin (1994). He believes that in certain circumstances (for example, in a highly transactional, standard goods market in which customers are not interested in new, radically innovative products), some SME sector firms might find that the utilisation of a classic '4 Ps' approach to marketing is an effective path through which to deliver customer satisfaction. A possible example of this latter type of scenario can occur at the bottom end of the domestic replacement window market, where a number of small installation companies often offer the same product and the customer purchase decision is primarily determined by lowest available price.

EXAMPLE: BEATING THE BIGGER PLAYERS

Large consumer branded goods companies expend millions over many years to establish successful brands. Their approach is typically that of year-on-year careful analysis of the prevailing market conditions with modifications introduced to the marketing mix when it appears that another large brand might pose a competitive threat. One of the drawbacks of using a classicist strategic marketing approach to undertake an assessment of future scenarios, however, is the risk that the firm may overlook an emerging trend which initially appears to offer a limited incremental sales opportunity. Furthermore it is often the case that within large companies, even after a new trend has been identified, these organisations are unable to react with sufficient speed to be a 'first mover' within a market sector.

The ponderous, reasoned behaviour of large firms does, however, mean that small firms can sometimes launch a very successful market challenge. One such example is provided by Web Fuel, which was launched as the first breath mint available on the World Wide Web. Donna Slavitt and Amy Katz, two New York entrepreneurs, dreamed up the idea. The product aims to exploit two trends; firstly, that in the US breath freshener mints, as a confectionery category, are growing much faster than candy or gum and mints. Secondly, mints are the popular confectionery product amongst people surfing the Internet (www.webfuel.com). To add to the power of their idea, Web Fuel also uses 'in-tin advertising'. Advertisements inside the lids communicate the Web addresses for companies such as Amazon.com and generate over 15% of Web Fuel's revenues.

The tin is retailed at $2.95, somewhat pricier than the competition. The two entrepreneurs feel their product is more than a mint because they offer fresh breath, a dedicated online community of users who visit the site via a chat room and an in-tin Web guide (Poniewozik 1998).

THE RELATIONSHIP MARKETING DEBATE

As questions were being raised concerning classicist strategic planning versus entrepreneurial marketing in the small firms sector, studies of the marketing processes employed by large firms in both industrial and service sector markets were causing the emergence of a new school of thought which examines how firms can orchestrate internal resources and policies to create and sustain customer loyalty. Collectively this new orientation, which has both American (Berry 1983) and Nordic (Gummesson 1987) roots, is known as Relationship Marketing. Supporters of the 'new marketing' argue that in order to survive in highly competitive, rapidly changing markets, firms must move away from managing transactions and instead focus on building long term customer relationships (Webster 1992).

Not unsurprisingly, as with any new paradigm, relationship marketing attracted researchers from across various management disciplines who have articulated somewhat different perspectives on the use of the concept by organisations. One stream of research (Berry 1983) examined the concept in the context of service marketing. A second stream was concerned with inter-organisational exchange relationships encompassing buyer-seller relationships, resource dependency theory and social exchange theory (e.g. Håkansson 1982). The issue of developing effective and efficient channel relationships provided a third stream of research (for example, Buzzell and Ortmeyer 1995). Research on the role of relationships in value chains within the subject discipline of strategic management generated a fourth stream (for example, Norman and Ramirez 1993). Finally a fifth stream was that concerned with the impact which information technology has on relationships within and between organisations (for example, Scott Morgan 1991).

In an attempt to clarify and reconcile the various views which have been expressed within the literature, Coviello *et al.* (1997) have developed a classification system based upon a synthesis of both the American and European schools of marketing thought across the areas of service, interaction, channels and networking research. They concluded that there are two themes and within these, twelve dimensions in all. Under the theme of *relational exchange* they feel there are the following seven dimensions:

1. focus of the exchange
2. parties involved in the exchange
3. communication patterns between parties
4. types of contact between parties
5. duration of the exchange
6. formality of the exchange
7. balance of power within the exchange

The following five dimensions are those which Coviello *et al.* associate with the theme of *management activities and processes*:

1. managerial intent
2. managerial decision making focus
3. types of marketing investment made
4. the organisational level at which marketing decisions are implemented
5. managerial planning time frame

Some advocates of relationship marketing have suggested that traditional concepts based on the approach of focussing resources on the '4 Ps', which may have been appropriate in North American consumer branded goods markets of the 1950s and 60s, are no longer relevant in today's world. Gronroos (1994), for example, proposes that 'The usefulness of the 4 Ps as a general theory for practical purposes is, to say the least, highly questionable.' A somewhat less extreme position, however, has been proposed by Anderson and Narus (1991) who feel firms should adopt a segmentation philosophy ranging