



INSTITUTE OF SOUTHEAST ASIAN STUDIES

SMALL AND MEDIUM BUSINESS IMPROVEMENT IN THE ASEAN REGION

Marketing Factors

Edited by

**KENNETH JAMES
and
NARONGCHAI AKRASANEE**

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INSTITUTE OF SOUTHEAST ASIAN STUDIES

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PREFACE

Development policies in the countries of the ASEAN region have in recent years reflected an increasing awareness of the significance of the small and medium-sized business enterprise in economic development. This has manifested in official action, initially hesitant but now increasingly vigorous, to develop and support small and medium businesses (SMBs), financially and otherwise.

The ASEAN Small and Medium Business Improvement project seeks to contribute to this awareness of the significance of SMBs in a direct and practical manner: through the examination of SMBs at ground level, and the dissemination of findings for policy action. The project is the collaborative effort of research teams in each of the ASEAN countries (except Brunei; the project was formulated before that country joined ASEAN), co-ordinated centrally at the Institute of Southeast Asian Studies (ISEAS). The general objectives of the project are:

- (1) to collect, develop, and organize information relating to the role and potential of small and medium-scale enterprises in GNP formation, employment creation, and industrial growth;
- (2) through overall analysis of problems involved, as determined through primary (field surveys and case studies) and secondary research, to identify and recommend economic policies and measures (institutional, educational, and commercial) geared to the improvement of the small and medium business sector in ASEAN countries;
- (3) to disseminate the findings and recommendations of the project in a readable and easily comprehensible form.

The first phase of the project focused on financial (including fiscal) factors affecting the improvement of ASEAN SMBs. In the second phase, the participating research teams studied issues and problems relating to the marketing of SMB products. As with the first phase, the research teams in each country obtained primary

data from surveys they carried out, and supplemented this with relevant secondary information from published and unpublished sources. Early drafts of the country studies were revised in the light of valuable feedback from several experts in SMB marketing, from both the public and private sectors. This interaction between academicians and practitioners helped ensure that recommendations were as realistic as they were innovative.

The present volume is the distillation of the substantial output from the second phase. (Readers interested in the original papers should contact the respective writers.) The country studies are preceded by an Overview chapter which describes the analytical framework followed by the research teams, looks at similarities and differences in findings, and summarizes the conclusions and recommendations. We hope that this publication, and its companion volumes on Financial Factors and Production Management, will contribute to an increased understanding of SMBs and their potentially powerful role in the economic development of the region.

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May 1988

**Kenneth James
Narongchai Akrasanee**

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I MARKETING FACTORS AFFECTING SMALL AND MEDIUM BUSINESSES IN THE ASEAN REGION: AN OVERVIEW

Kenneth James

Introduction

Previous studies have indicated that finance, marketing, and problems of production management are three of the major constraints facing small and medium-sized businesses (SMBs) in the ASEAN region. These three concerns are addressed in successive phases of the ASEAN Small and Medium Business Improvement Project co-ordinated by the Institute of Southeast Asian Studies. The present paper draws on the findings of the second phase, which focused on marketing issues.

The nature of the marketing problem as it applies to SMBs in the ASEAN region is first defined, while the following section describes the analytical framework employed by the research teams. The findings are then presented in two parts: internal factors related to the marketing decisions of SMBs, and external factors which influence those decisions. This provides the context for the discussion following, on the marketing systems practised by SMBs. Finally, some conclusions and recommendations are offered.

Nature of the Marketing Problem for SMBs

Definitions of the the marketing process range from the simple and straightforward to the complex and comprehensive, but all seek to specify this essential commercial activity

in terms of elements that are applicable to all businesses, irrespective of the business environment. Thus, marketing is:

the performance of business activities that direct the flow of goods and services from producer to consumer or user (American Marketing Association 1960)

the process of planning, organizing, staffing, directing and controlling the forces of production in order to fill the wants and needs of a distinct set of consumers for a product or service with a unique set of characteristics preferred by those consumers or end-users. Includes market segmentation, brand management, market research, pricing strategy, sales, distribution and promotion (del Val 1983)

a process aimed at finding and keeping satisfied customers (Australia, Department of Industry, Technology and Commerce 1985)

With a deeper understanding of the marketing process, traditional and more limited approaches as reflected in the first definition above have given way to a broader perspective which sees marketing as an important socio-economic process, in fact, "a basic component of the social structure in all but the most primitive societies" (Yoshino 1971, p. xiii). Thus, while the principles of marketing may have universal application, they have to be tailored to the nature of the marketing problem which is specific to the particular environment. An essential prerequisite, therefore, is an understanding of that environment, and how it affects the marketing efforts of a particular business community.

"ASEAN Small and Medium Business" defines such an environment. An understanding of the small and medium business sector is all the more imperative for the ASEAN region because, more than their Western counterparts, SMBs form the core of business activity in their respective countries (Chee 1984). Recognizing this, ASEAN governments have in recent years paid closer attention to SMBs. Increasingly, government development policies reflect a growing awareness of the needs of SMBs, in the hope that they might provide the stimulus for renewed economic growth (James 1986).

Given that official interest in SMBs is of comparatively recent origin, it is not surprising that reliable primary data on SMBs, particularly in the area of marketing, is at a premium. The research findings from "ASEAN Small and Medium Business Improvement in the ASEAN Region: Marketing Factors", the second phase of a project co-ordinated by the Institute of Southeast Asian Studies, is a modest contribution towards redressing that lack.

The five country studies from this phase of the project provide an excellent illustration of the marketing-environment relationship, all sharing elements common to the regional environment with each nevertheless presenting a unique identity arising from its own domestic environment. In formulating a common approach, therefore, the challenge was in applying a uniform set of analytical tools within a framework flexible enough to highlight the similarities as well as the differences.

Analytical Framework

Borrowing from marketing management theory, the various aspects of marketing were analysed in terms of the five elements of Product, Place, Price, Promotion, and Customer -- the 4P1C approach. Besides serving as a common set of tools, the approach provided a common language as researchers compared and contrasted differing sets of data.

Internal aspects examined in the sample surveys (carried out in the latter half of 1985, which focused on industrial SMBs) included the characteristics of the product(s) of the firm; the methods of distribution (that is, place) of the product(s); who determines price, and how; who handles promotion, and how; and the relationship between the producer and the market (the customer who makes the final purchase). However, the analysis would be made within an environmental framework that considered these internal factors in relation to external factors affecting the SMB's ability to market its product effectively. The external environment would include, among others, cyclical and seasonal changes, economic infrastructure, social and political factors, and government involvement.

It was hypothesized that the effects of the environment on marketing decisions of the firm would be reflected in the firm's choice of marketing system. Accordingly, the principal working hypothesis suggested to the teams was: "The correct choice of a marketing system is crucial to the successful marketing of a product or product group. Conversely, a major reason why SMBs fail is because of an incorrect choice of marketing system."

A priori, six distinct marketing systems were identified. These were:

(1) Direct Sales

The producer sells directly to the market. He relies on his own marketing network and information. He also does his own marketing campaign.

(2) Subcontracting

The producer produces and sells on a contract basis. There is a marketing firm which hires small producers to manufacture products according to certain specifications. The marketing firm may also supply materials and know-how.

(3) Broker-Distributor System

The producer sells products wholesale to a broker-distributor.

(4) Joint Investment

Several producers of the same product co-invest in a marketing firm, which usually carries out the final stage of production before selling to the market. The producers/investors would sell products in semi-finished form to the joint investment firm. Profit from the joint investment would be divided pro rata.

(5) Purchase Agreement

The producer enters into a long-term agreement with a marketing firm to purchase a certain amount of output for him. The marketing firm is not responsible for other aspects of operation.

(6) Integrated Operation

The producer is a part of a group of companies which divides production allocation according to different stages. All products are sold to the marketing arm of the group. Firms may concentrate on the procurement of raw materials, or the manufacturing of semi-processed materials or finished products.

The research teams were of course free to formulate their own hypotheses according to their more intimate understanding of the respective country environments. The Malaysian team, for instance, surmised that marketing factors were best examined according to the hypothesis: "SMBs in Malaysia are significantly different from large businesses in their strategies and practices", with specific differences listed as sub-hypotheses to be tested against the survey data.