

Marketing the SME

Marketing the SME:
Innovation and Approach

By

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P U B L I S H I N G

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GLOSSARY OF TERMS

- **Entrepreneurial Marketing** is dominated by the inherent entrepreneurial characteristics (that is, the strong influence of the personality / expertise / experience) of the founding entrepreneur/their owner/managers.
- **Innovation** refers to an enterprise-wide pervasive attitude focusing on either the process of, or introduction of, change, based on creativity, success, profitability and customer satisfaction.
- **Innovative Marketing** focuses on the utilisation of innovation to exploit a market opportunity to meet market demand in an innovative manner through innovation in ideas/products/service/technology
- The traditional **Marketing** concept is a management philosophy based on customers, competitors, inter-functional co-ordination, and profitability.
- An **SME** is owned/managed as an independent enterprise, whose focus is based within a community. In addition, when using variables such as employee numbers or turnover the enterprise must be small when compared with others in its industry.
- **SME Marketing** is based on inherent SME characteristics, such as, size, resource constraints, muted influence of the founding entrepreneur, strong sales focus, strong awareness of some aspects of formal marketing, and personal contact networks.
- **SME Innovative Marketing** encapsulates the core variables of newness, market centred, product enhancement, change, vision, profit, altered marketing mix and distribution channels, uniqueness, marketing integration, customer centric, unconventional, permeation through all organisational functions and proaction.

CHAPTER ONE

INTRODUCTION

1.1 Introduction

This research addresses Innovative Marketing in Small and Medium, size Enterprises (SMEs). Given that micro and SMEs are major providers of new jobs (Audretsch et al., 2002), providing approximately 75 million jobs, and representing 99% of the 23 million enterprises in the EU (Nyman et al., 2006), increasing understanding of the key determinants of their success is essential. Research illustrates that SMEs in pursuit of organisational goals do not adopt the marketing concept to the same extent as larger firms (Pollard and Jemicz, 2006; Brooksbank et al., 1999; Liu, 1995; Meziou, 1991; Bell and Emory, 1971), and that marketing practice in SMEs is situation specific, and variable, regarding the levels of sophistication and effectiveness (Hill, 2001; Carson and Gilmore, 1999; Hogarth-Scott et al., 1996; Brooksbank et al., 1992);

“However, it is recognised that small firm owner-managers do engage in marketing, but that the form this marketing takes is not fully understood” (O’Donnell, 2004: 206).

The marketing function in SMEs is hindered by constraints such as poor cash flow, lack of marketing expertise, business size, tactical customer-related problems, and strategic customer-related problems (Doole et al., 2006; Hill, 2001; Chaston, 1998; Weinrauch et al., 1991; Carson, 1985). Yet, despite such restrictions, these SMEs successfully use marketing to generate sales (Hill, 2001; Guersen, 1997; Romano and Ratnatunga, 1995), a fact that highlights the need to understand Innovative Marketing as practised by SMEs. Much of this successful marketing is driven by innovation, however, to date, the preponderance of Innovative Marketing research has focused on firm-specific characteristics of innovation, and/or the effect of external environment (Wolfe, 1994; Capon et al., 1992; Fritz, 1989; Kraft, 1989); large firms (Damanpour, 1991, 1988; Kim, 1980; Kimberly and Evanisko, 1981); market based constructs (Danneels and

Kleinschmidt, 2001; Han et al., 1998; Jaworski and Kohli, 1996; Andrews and Smith, 1996; Ali et al., 1995; Narver and Slater, 1990; Miller, 1983; Cooper, 1973; Schumpeter, 1934); barriers to SME innovation (Fritz, 1989; Sweeney, 1983); product innovativeness (Schmidt and Calantone, 1998; Zirger, 1997; Masaaki and Scott, 1995); product or business success (Sethi et al., 2001; Henard and Szymanski, 2001; Zirger, 1997), with little research undertaken into the core of this research: Innovative Marketing in SMEs. Therefore, the primary aim of this research is to investigate Innovative Marketing in SMEs for the purpose of identifying, clarifying and evaluating the nature of Innovative Marketing.

For the purposes of this research, the definition of Innovative Marketing adopted is that posited by Kleindl et al. (1996: 214) as;

“doing something new with ideas, products, service, or technology and refining these ideas to a market opportunity to meet the market demand in a new way”

within the characteristic framework of SMEs. Thus;

“an innovative company searches for creative, novel or unusual solutions to problems and needs. This includes the development of new products and services and new processes for performing organisational functions” (Knight et al., 1995: 4).

However, it should be noted that the terminology adopted for this empirical research differs from that given by the body of literature, in that this research utilises the term Innovative Marketing rather than marketing innovation. This differentiates between Innovative Marketing, and the marketing of innovation, thereby attaining greater clarity.

1.2 Research Issue

Much research has been undertaken into innovation and marketing, however, the components of Innovative Marketing in SMEs from an SME perspective are nebulous as of yet, thus, the overall aim of the research is to identify, clarify and evaluate the nature of Innovative Marketing in SMEs.

From the primary aim of the research, there are a number of research objectives addressed:

- Research Objective 1 – to identify the perspectives of SME decision-makers on Innovative Marketing,

- Research Objective 2 - to examine the nature of Innovative Marketing practices in SMEs, and
- Research Objective 3 – to assess the interrelationship between SME Marketing theory and Innovative Marketing in practice.

Underpinning these research objectives are four key topics which will form the basis of the literature review;

- SME Characteristics, as they impact upon marketing activities,
- Marketing Characteristics as denoted by the traditional marketing paradigm,
- Characteristics of SME marketing, and
- Innovative Marketing Characteristics.

1.3 Research Aim and Objectives

Although a proliferation of SMEs dominates international and European industry, their size mitigates against their potential influence in their markets, but affords them competitive advantage (Hill, 2001). Pelham (1997) found that the associated flexibility, reactivity and dynamism of SMEs enables them to thrive in the increasing competition and complexity of the global business environment. Therefore, in identifying, clarifying and evaluating the nature of Innovative Marketing, a section of the literature review will focus on gaining an understanding of SME characteristics as they impact upon marketing activities. This addresses the first research topic, namely, to gain an understanding of SME characteristics as they impact upon marketing activities.

Literature reviews by Romano and Ratnatunga (1995) and Guersen (1997) indicate that the understanding of marketing concepts and theory by SME owner/managers is limited to sales or a basic level of marketing orientation; yet, these companies successfully use marketing to generate sales. In addition, research by Coviello et al. (1995) has reinforced alternative marketing concepts by moving from the traditional marketing paradigm, which emphasises the management of the 'four P's' (Product, Price, Place, and Promotion), and has been deemed inappropriate for a dynamic business environment. Thus, a section of the literature review will explore the value of marketing characteristics as denoted by the traditional marketing paradigm within SMEs. This addresses the second research topic, namely, to appreciate marketing characteristics as denoted by the traditional marketing paradigm.

Research by Carson (1993) confirms that the relationship between SMEs and marketing is either growth-or survival-oriented. As with larger companies, SMEs must generate sales to survive, but need to market their products to generate sales (Carson, 1993). SME growth stems from engaging in some form of marketing activity, which will focus on attaining and retaining competitive advantage by engaging in marketing practice, that addresses market share, market development, product promotion, product pricing, product differentiation and distribution (Carter and Tzokas, 1999; Pearce and Michael, 1996; Carson and McCartan-Quinn, 1995; Wind and Robertson, 1983; Hisrich, 1990).

The most successful companies recognise the importance of comprehensive situation analysis and simple marketing structures (Siu and Kirby, 1996), which enable them to target their market effectively (Hill, 2001), thus increasing company success. In a review of literature, Carter and Tzokas (1999) found that academics and practitioners accept the intrinsic value of marketing to business, although there are SMEs for whom marketing is perceived to be peripheral. For companies who do not recognise the value of marketing, there is sufficient evidence that small business failure can result from either a lack of marketing, or poor marketing practice (Bruno and Leidecker, 1988), and that they may be more vulnerable to competitive threat (Carson and McCartan-Quinn, 1995).

However, given that the marketing function in SMEs is hindered by constraints such as limited access to resources, and a lack of marketing expertise on the part of the owner/manager, it is expected that SME marketing differs from marketing in larger organisations (Hill, 2001; Carson, 1985; Chaston, 1998). Consequently, a section of the literature review will concentrate on acquiring insight into SME marketing characteristics. This addresses the third research topic, that is, to acquire an insight into SME marketing characteristics.

A review of literature has linked the marketing behaviours of SMEs to innovation, through the formation and maintenance of material competitive differentiation (Morris and Lewis, 1995; Liu, 1995; McGowan and Rocks, 1995; Sexton and Arbaugh, 1995). As part of a firm's successful Innovative Marketing, continuous environmental assessment is essential within a dynamic market, to guarantee the growth of the business within a highly competitive market, with threats from substitute products or services, potential new entrants and the increasing power of suppliers/buyers (Simpson and Taylor, 2000). Stokes (2000) found that

successful entrepreneurs undertake unconventional marketing, focusing first on innovations to products and services, followed by addressing customer needs.

Such marketing activities can be highly innovative but not necessarily based on originality, and are more likely to be an adaptation of an existing concept or practice; therefore the innovation lies in its unique application to a particular company or situation (Cummins et al., 2000). Thus, a section of the literature review will focus on gaining an understanding of Innovative Marketing characteristics. This addresses the fourth research topic, that is, to realise an understanding of Innovative marketing characteristics.

In addressing Research Objective 1, current innovation literature suggests that Innovative Marketing is inherent to the SME environment, for instance,

- innovative managerial traits and proactive innovative strategy traits (Hills and LaForge, 1992);
- innovative traits of individuals;
- innovative risk coping skills;
- innovative idea generation;
- innovative new product champions; and
- managerial innovativeness as; *“an individual difference variable”*. *“The two ends of this cognitive style continuum are adopters and innovators. Adopters are not likely to challenge the structure while innovators look for new ways of doing things”* (Kleindl et al., 1996: 214).

Thus, given the integral nature of innovation in today's business environment, it is imperative that its organisational and environmental determinants are clearly understood (Carroll, 2002; Beaver, 2001; Özsomer et al., 1997; Knight, 1995). Innovative activity is mandatory in an environment where firms must continually develop new products, services, and processes to enhance competitive positioning and confront the hostile and turbulent current global environment (Arias-Aranda et al., 2001). Thus, a section of the literature review will concentrate on the overall aim of this research, which is to identify and examine the perspectives of SME decision makers' on Innovative Marketing activities.

A review of pertinent literature highlights the linkage between innovation in SMEs and economic success (O'Regan and Ghobadian, 2005; McEvily

et al., 2004; Salavou, 2004; Shoham and Fiegenbaum, 2002; Quinn, 2000; Roberts, 1999; Doyle, 1998; Knight, 1996; Hitt et al., 1996; Banbury and Mitchell, 1995; Tower and Hartman, 1990), creativity, new product or service development, new approaches to marketing issues (Knight et al., 1995), competitive advantage (Kandampully, 2002; Martin and Rana, 2001; Stokes, 2000) and opportunity (Hulbert and Brown, 1998; Raymond et al., 1998; Nonaka and Takeuchi, 1995). Furthermore, continuous innovation in markets, products or processes in anticipation of, and response to, dynamic customer requirements, competitors and supply analysis is the essence of SME growth and survival (Mostafa, 2005; McEvily et al., 2004; Nieto, 2004; Salavou, 2004; Chesbrough, 2003; Martins and Terblanche, 2003; Prahalad and Ramaswamy, 2003; Mosey et al., 2002; Senge and Carstedt, 2001; John, 1999; Herbig et al., 1994; Sexton and Arbaugh, 1992). Such innovation stems from the flexibility and willingness of small firms to try new approaches (Stokes, 1998), and seize opportunity (Hulbert and Brown, 1998) and competitive advantage (Knight et al., 1995).

Kleindl et al. (1996) built on research by Hills and LaForge (1992) which reinforces Innovative Marketing as focusing on an individual doing something new with ideas, products, services, or technology to exploit a marketing or market opportunity. However, despite such evidence of the integral nature of innovation to marketing, McGowan and Rocks (1995) found that acknowledgment of innovation as a core element of marketing was absent from marketing theory.

Thus, given the relationship established in literature review between Innovative Marketing and SMEs, Research Objective 1 was formulated, that is, to identify the perspectives of SME decision-makers on Innovative Marketing.

In addressing Research Objective 2, to examine the nature of Innovative Marketing practices in SMEs, the core attributes of Innovative Marketing as derived from a review of literature, are explored. In a categorisation of the elements comprising Innovative Marketing, Cummins et al. (2000) conclude that Innovative Marketing does not simply refer to new-product development, but to all marketing activities; Innovative Marketing

- has the same profit generation motivation as other innovative behaviour;
- is reactive;

- is related to current activities by being either incremental or complementary;
- is continuous; and
- is not necessarily new but can be an adaptation of an existing activity illustrated by the owner-manager's ability to take advantage of an opportunity presented.

This overview is complemented by the definition of Innovative Marketing adopted for this research, and forms the basis for Research Objective 2, that is, to examine the nature of Innovative Marketing practices in SMEs.

Research Objective 3, to assess the interrelationship between SME marketing theory and Innovative Marketing in practice, builds on the literature review and empirical findings for Research Objectives 1 and 2 which are extrapolated in a Descriptive model. Thus, Research Objective 1 establishes SME decision-makers perspectives on Innovative Marketing, while Research Objective 2 examines the nature of Innovative Marketing, exploring the significance of literature-based Innovative Marketing variables to Innovative Marketing from an SME perspective. Consequently, this is related to literature findings in addressing Research Objective 3: to assess the interrelationship between SME Marketing theory and Innovative marketing practice. The cumulative contribution to knowledge of identifying, clarifying and evaluating the constituent elements of Innovative Marketing in SMEs addresses the variance between literature and practice, and nebulous nature of SME Innovative Marketing.

1.4 Research Approach

In addressing the research aim, the literature review was underpinned by a synthesis of literature on SME characteristics, the characteristics of marketing, and of innovation in business. The literature review focused on three sub-sections of the SME, Marketing and Innovation bodies of literature; Characteristics of SME Marketing literature, Innovation in Business literature, and SME Innovative Marketing literature. In accordance with Shaw (1999), the aims and objectives of any research project are largely determined by existing knowledge; thus, a Conceptual model was constructed and refined for this study, based on the literature reviewed.

A review of methodology literature revealed that while each of the methodologies reviewed has substantial value in its own right, the

ontological stance of this research at the marketing/entrepreneurship interface is firmly rooted in the acceptance of interpretivism, and an epistemological approach which recognises the importance of the minimisation of distance between the researcher and the SME (Hill et al., 1997). The correlated research methodology for this research focused on convergent interviewing, utilised to refine the research objectives, and was followed by case studies, utilised as the primary research instrument (Carson et al., 2001; Perry et al., 1999).

This research approach was selected to facilitate researcher empathy with the research subjects, which enabled penetration of the internal logic of SMEs, and interpretation of their subjective understanding of reality, thus allowing observation of their world (Shaw, 1999). Such immersion facilitated the theory building required by this research. Thus, the empirical research methodology addressed the conceptualisation of the research problem arising from a literature review of small firm literature, utilising case study methodology, through which the research aim and objectives were addressed.

1.5 Document Outline

The first chapter frames the literature review, and presents the research aim and objectives. Chapter 2 outlines the primary bodies of literature reviewed covering topics such as Characteristics of SME Marketing, Innovation in Business, and SME Innovative Marketing and culminates in a Conceptual model. Following from the literature review, Chapter 3 focuses on the empirical research methodology, outlining the research paradigm and approach.

Chapter 4 outlines the case-by-case analysis for Research Objective 1, while Chapter 5 presents a case-by-case analysis for two of the eight case studies. Chapter 6 illustrates the cross-case analysis for Research Objectives 1 and 2, while Chapter 7 focuses on the additional concepts emerging from the case, and cross-case analysis, and presents the Descriptive model.

The final chapter, Chapter 8, concludes the research, specifically addressing the research aim and objectives, and highlighting the contributions to knowledge made by the research. The implications of the research, research limitations, and suggestions for further research are also addressed.

1.6 Conclusion

This chapter has presented a practical and theoretical context for this research by outlining the significance of SMEs to international, national and regional economies, which establishes the need to gain a more comprehensive understanding of the nature and complexities of SMEs. Notably, it was illustrated that the significance of the marketing challenge to SMEs, and its contribution to their survival and success, warrants investigation of marketing innovation in SMEs identifying, clarifying, and evaluating SME perspectives on Innovative Marketing activities in SMEs, which now continues with Chapter 2, a literature synthesis.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

As noted in Chapter 1, the primary research aim of this study is to investigate Innovative Marketing in SMEs for the purpose of identifying, clarifying and evaluating the nature of Innovative Marketing. To address this aim, it was necessary to undertake a review and synthesis of the existing body of literature in Marketing characteristics, SME characteristics, Characteristics of SME marketing, and Characteristics of Innovation in Business. These literature strands are then drawn together in section 2.7, SME Innovative Marketing, which encapsulates the focus and context of this research.

The literature review focuses on SME perspectives on Innovative Marketing and gaining an understanding of Innovative Marketing in SMEs. This was drawn from marketing, marketing innovation, and SME marketing literatures. Initially, the research aim is explored through a review of the literature, addressing the Research Objectives and culminating in the presentation of a Conceptual model upon which the empirical research is based. As noted in Chapter 1, the Research Objectives are stated as follows,

- Research Objective 1 – to identify the perspectives of SME decision-makers on Innovative Marketing,
- Research Objective 2 - to examine the nature of Innovative Marketing practices in SMEs, and
- Research Objective 3 – to assess the interrelationship between SME Marketing theory and Innovative Marketing in practice.

Underpinning these Research Objectives, there are four key topics which form the basis of the literature review;

- SME Characteristics, as they impact upon marketing activities,