



## Marketing “A cost,” or “A key success factor,” for small medium enterprises (SMEs), Lusaka Province, Zambia

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### Abstract

The study was motivated from a practical perspective of a small business owner and a business consultant. In view of the above, a critical literature review in form of a desk research was conducted. Content analysis of secondary information formed a major part of data collection. Further, Small Medium Enterprises in Lusaka district constituted the target population. Small Medium Enterprises (SMEs) are faced by numerous challenges ranging from, lack of access to finance compared to large enterprises, lack of adequate skills when it comes to financial management, inadequate information and corruption. However, among the number of challenges encountered by SMEs, lack of adequate financial resources makes small businesses to regard marketing activities as an unnecessary cost that should not be included on their financial statements. Empirical evidence (Phiri & Mwale, 2019) have shown that cost of advertisement inversely correlates with sales (i.e. Testing  $H_0$  at 5% level of significance,  $P_v < \alpha$  ( $0.016110754 < 0.05$ ); Reject  $H_0$ ). Therefore, as competition for customers becomes more intense, entrepreneurs (business owners) must understand the importance of developing creative marketing strategies; their success and survival depends on it. Marketing takes the centre stage in the realisation of revenue and profits for businesses. Successful entrepreneurs recognise that modern marketing strategies must include techniques such as social media and marketing that pull customers into their companies'. The good news is that many of these “pull” strategies are relatively inexpensive and, when infused with a healthy dose of creativity, are extremely effective. Although they may be small and cannot match their larger rivals' marketing budgets, entrepreneurial companies too are not as powerless when it comes to developing effective marketing strategies. This paper therefore, walks us through the journey of creating an effective marketing plan for SMEs and adoption of some cost effective marketing strategies that SMEs could employ to achieve business competitive edge, profitability and success.

**Keywords:** marketing cost, small medium enterprises (SMEs)

### Introduction

Small to medium enterprises (SME's) make up the vast majority of businesses in most countries. According to US Census Bureau Data (2004) <sup>[3]</sup>, small businesses with less than 20 workers accounted for 97.9 percent of all firms in the US. Small enterprises tend to outnumber large companies by a wide margin and also tend to employ many more people. In developing countries, smaller (micro) and informal firms have a larger share than in developed countries. For example, in Tunisia the self-employed workers alone account for about 28 percent of the total non-farm employment and, firms with fewer than 100 workers account for about 62 percent of total employment.

An entity to be considered a small business and eligible to apply for government contracts and targeted funding, a business must be within the defined limits in terms of a number of employees or revenue, (North American Industry Classification System NAICS). A business with a headcount of fewer than 250 is classified as medium sized; a business with a headcount of fewer than 50 is classified as small and a headcount of fewer than 10 is considered to be micro-business. In Zambia about 97 percent of businesses are in the micro small and medium sector and employs about 18 percent of the labour force and a lot of them are women, (1996 baseline survey of SMEs)<sup>[3]</sup>.

SMEs are said to be responsible for driving innovation and competition in many economic sectors. According to Nawagaba (2015) <sup>[7]</sup> SMEs in Zambia, employ about 50 percent of the working class, similar to countries like

Indonesia, Tanzania, and Kenya. SMEs are notably the engines that drive economic development through job creation, employment, tax provisions, and contribution to Gross Domestic Product (GDP). This therefore is an indication that their role to national development cannot be over emphasised.

However, research shows that most businesses in Africa (Sub-Sahara), do not manage to grow to large firms compared to other developing countries, although this trend is slowly changing. As earlier alluded in the abstract, Muriiti (2007)<sup>[5]</sup> also notes that SMEs are faced by numerous challenges ranging from, lack of access to finance compared to large enterprises, SMEs also lack adequate skills in financial management, inadequate information and corruption. Most African governments give very little support to small business owners because of their limited financial capacity which neglects a vital economic trigger that could form pillars for development.

A number of factors are critical to the success of SMEs besides the role that the governments play in ensuring that they create the necessary policy environment that is conducive for business entities to thrive. The key success factors could be classified under internal and external factors including: policy, industry and competition, strategic planning, skills development, infrastructure development, marketing etc.

Business entities usually are driven by long term as well as short term objectives. Much emphasis however, is on achieving financial objectives in order to create profits and

creating owner's wealth. As such, entrepreneurs have a sole responsibility of ensuring that the organisational efforts are directed to achieving these objectives. Often, business success or performance is measured based on these financial yardsticks. However, in trying to understand the different key success factors that enable businesses to succeed, a question that should be answered could be, what is the purpose of a business? Understanding the purpose of a business and its existence is significant in creating a fit within the business environment.

Drucker (2006) <sup>[2]</sup> states that economic theory makes a fundamental assumption that 'maximising profits' is the basic objective of every firm. But in recent years 'profit maximisation has been extensively qualified by theorists to refer to the long run; to refer to managements rather than owner's income; to include none financial income such as increased leisure for high strong executives and to more congenial relations between executive's levels within the firm; and to make allowance for special considerations such as restraining competition, maintaining management control and wading off wage demands. Drucker argues that, the concept has become more general and hazy that it seems to encompass most of men's aims in life. This however, does not mean that profit and profitability are unimportant. It means that profitability is not the purpose of the business enterprise and business activity but a limiting factor on it. The 'profit motive 'in this sense is seen to, be the major cause of misunderstanding in our society.

### **Purpose of a Business**

The business enterprise is an organ of society and its purpose lies outside the organisation/ business itself. There is only one valid definition of business purpose 'to create and keep a customer' (Drucker, 2006) <sup>[2]</sup>. According to the business philosophy "business exists to serve customers rather than manufacture products" (Adcock, Halborg, and Ross 2001) <sup>[1]</sup>. Although it is business action that creates the customer, it is a customer who determines what a business is. Only a customer has the potential to transform economic resources into wealth through being willing to pay for a good or for a service. Therefore, what a business thinks it produces is not of first importance but rather what a customer considers to be value is what determines what a business will produce in terms of goods or services. Understanding who a customer is requires for SMEs to answer the following important questions; Who is a customer? Where is he? What does he buy, how can he be reached? Answers to these questions are very pertinent to business success as defines their clientele and what they consider to be value. This therefore, brings in the marketing function of the business as competition for customers becomes more intense, entrepreneurs (business owners) must understand the importance of developing creative marketing strategies because their success and survival depends on it.

### **The marketing function of a business**

Marketing has taken centre stage in the realisation of revenue and profits for business and organisations. As companies are increasingly becoming more customer centric, the customer is now dictating the success of companies in their businesses. There is need for SMEs to appraise themselves of what the customer needs, and whether the needs are adequately met through the company's products because the customers' needs are shaping the product offering of a company,

(Murombedzi, Mungwangwa & Chivandikwa, 2015)<sup>[6]</sup>. Kotler, (1994) in Phiri & Mwale, 2019) <sup>[9]</sup> agrees with this view and points out that emphasis of marketing is on the customers' needs and how to ensure that these needs are satisfied.

Marketing is the distinguishing and unique function of the business. A business is set apart from all other human organisations, by the fact that it markets a product or a service. Drucker argues that "any organisation in which marketing is either absent or incidental is not a business and should not be run as if it were one." Marketing encompasses the entire business. It is the whole business seen from the point of view of its final results, that is, from the customer's point of view. The concern and focus of marketing as such, should permeate all areas of the enterprise. Marketing encompasses so many things from the design and delivery of products, how they are priced, packaged and promoted, to the business side of segmentation and targeting customers and then positioning the product using the strategic tools available.

Thus Marketing, through its studies and research, does establish what a customer wants in given product, what price he is willing to pay and where and when it will be wanted. Marketing would have authority in product planning, product scheduling, and inventory control as in the sales distribution and the servicing of the product.

### **The Role of Marketing in Business**

Successful firms are the ones that are able to adapt themselves to take advantage of opportunities and avoid threats presented by the dynamic environment. They have to find the fit between the firm's goals and capabilities and the changing marketing environment Marketing plays a major role in ensuring that this is achieved through developing offers that customers find irresistible, coupled with the strong use of promotional techniques.

Good marketers understand their customers well and base all activities on what can be acceptable to them. They work in their organisation to ensure that the best possible overall offering is developed and that it is supported by all employees of the organisation. But more importantly, today, marketers regard customers as partners in the exchange process. Customers are crucial to an organisations successes and this involves interacting with those customers and developing profitable exchanges with them over time. Customers are not just there to be sold to, but are to be encouraged and developed so that very satisfied customer is an advocate for the supplier, prepared to recommend a favoured company to friends and acquaintances, and willing to purchase again from the organisation, (Adcock, Halborg, and Ross (2001)<sup>[1]</sup>.

However, it appears that the interests of the various groups, more often than not conflict. Consumers normally want quality products at reasonable prices. On the other hand, producers want to maximise return on investment. As such SMEs are challenged to design a marketing mix that both attracts and satisfies consumers' needs and gives greatest value to the firm.

### **Marketing Strategies for SMEs.**

Basically strategies are simple consistent and long term objectives for organisations. In simple terms, objectives explain where the organisation wants to get to and strategy addresses how the organisation will get there in a challenging business environment. These plans should be guided by the

organisations mission statements which though broad outlines what the organisations is set out to achieve. Marketing as an organisation function requires that its activities are guided by the strategic long term as well as short term direction of the organisation. It is marketing that originates the market opportunities through research and market intelligence, and from there the strategic planning analysis will then take over setting the long term goals, vision and resource allocation of the organisation.

A versatile and effective marketing campaign does not require an entrepreneur to spend large amounts of money, but it does demand creativity, ingenuity, and an understanding of customers' buying habits. Building a successful versatile marketing plan does not have to be complex,

Guerrilla marketing expert Conrad Levison (1998) [4] in Scarborough (2014) [10] is of the view that entrepreneurs can create a marketing plan with just seven sentences:

1. What is the purpose of your marketing plan? In other words, what action do you want customers or prospective customers to take as a result of your marketing efforts?
2. What primary benefit can you offer customer? Or what is your competitive advantage as a solution to your customers?
3. Who is your target market? Whom are you aiming your marketing efforts?
4. Which marketing tools will you use to reach your target audience? Focus should be on using cost effective tools to market the business.
5. What is your company's niche in the marketplace? In other words, how do you intend to position your company against your competition?
6. What is your company's identity in the market place? Customers enjoy doing business with small companies that have a clear, meaningful and compelling identity in the market place.
7. How much money will you spend on your marketing? In other words, what is your marketing budget?

Answers to these questions will help an entrepreneur to outline an effective marketing plan. A recent study by Phiri and Mwale (2019: 47-48) [9] provide gainful insights on the relationship between advertising costs and sales volume. In their study the approximated cost of advertisement and sales over a period of five (5) years affirmed a general increase in the cost of advertisement while sales steadily reduced over

**ANOVA**

**Table 2**

	df	SS	MS	F	Significance F			
Regression	1	18	18	4.21875	0.13226019			
Residual	3	12.8	4.26666667					
Total	4	30.8						
	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	64.8	13.17775904	4.9173763	0.016110754	22.8624894	106.7375106	22.86248943	106.7375106
X	-3	1.460593487	-2.0539596	0.132260192	-7.6482603	1.648260345	-7.648260345	1.648260345
Residual Output					Probability Output			
Observation	Predicted y	Residuals	Standard Residuals	Percentile		y		
1	40.8	1.2	0.67082039	10		35		
2	37.8	1.2	0.67082039	30		36		
3	37.8	-0.8	-0.4472136	50		37		
4	34.8	1.2	0.67082039	70		39		
5	37.8	-2.8	-1.5652476	90		42		

Source: Phiri and Mwale (2019) [9]

the same period under consideration. Using the regression model

$$Y_i = \beta_0 + \beta_1 X_{1i} + \beta_2 X_{2i} + \beta_3 X_{3i} + \dots + \beta_m X_{mi} + e_i$$

$$i=1, 2, 3, \dots, n.$$

Where:

$Y_i$  - is the  $i$ th observation on the dependent variable  $Y$  (i.e. sales of Parmalat dairy products)

$X_{mi}$  - is the  $i$ th observation on the independent variable  $X_m$  (i.e. cost of advertising Parmalat dairy products)

$m$  is the number of independent variables. In this case  $m=1$ , the model therefore is a simple linear regression model  $n$  is the number of observations (i.e.  $n = 5$  years)

$\beta_1, \beta_2$  up to  $\beta_m$  are the regression coefficients. These are known and where estimated from observed data

$e_i$  - is the error term or stochastic disturbance term which measures the deviation of each observed  $Y_i$  value from the true regression line. Accordingly, the error term was discarded in the model because it is a simple regression model involving only two variables (i.e. cost of advertising and sales of Parmalat dairy products)

$$Y = 4.21875 + 0.13226019X$$

**Table 1:** Regression Statistics Summary on cost of advertisement and sales

Regression statistics	
Multiple R	0.76447079
R Square	0.58441558
Adjusted R Square	0.44588745
Standard Error	2.06559112
Observations	5

Source: Phiri and Mwale (2019) [9]

The  $R^2 = 0.584$  which shows that the model is statistically and relatively a good fit although not very strong: Thus, 58.4% of the total variation in sales of Parmalat dairy products is explained by the model. The value of  $R^2$  is which is a non-decreasing function is relatively low because the number of explanatory variables added to the model is small. On the other hand, the Adjusted R Squared (i.e. a measure of goodness of fit) = 0.44588745. A further analysis of variance (ANOVA) produced the following results:

However, there are two essential elements that small business owners should consider in trying to achieve competitive cost reflective edge:

- The need to understand their target market, including what customers want and expect from the business products and services (Ward, 2018)<sup>[12]</sup>.
- Identifying the obstacles that stand in the way of satisfying customers (competitors, barriers to entry, processes, outside influences, budgets, knowledge and others) and eliminating them.

The following simple strategies and effective strategies that entrepreneurs can implement for business success.

1. Help organise and sponsor a service- or community oriented project.
2. Offer to speak about your business, industry, product, or service to local organisations.
3. Launch a loyalty program that gives customers a reason to return. Be sure to provide loyalty program members with benefits, such as special offers, discounts, shopping previews, and others.
4. Develop a sale ‘script’ that asks customers a series of questions to hone in on what they are looking for and what will lead them to the conclusion that your product or service is it.
5. Offer 100 percent, money- back with a punch-card, no-hassles guarantee. By removing the customer’s risk of buying, you increase your products attractiveness.
6. Create a big event of your own: for example, you can pick December as Customer Appreciation Month. Buy one product and get the other one free.
7. Get a former journalist to write a story ‘pitch,’ for local media.
8. Show an interest in your customer’s needs. If you spot a seminar that would be of interest to them, tell them! Become a valuable resource to them
9. Corporate with other businesses selling complementary products and services in marketing efforts and campaigns, a process called fusion marketing. Share mailing lists and advertising time or space or work together on a special occasion.
10. Create a brochure. Brochures can be great tools that give pertinent information to customers who want to think over a company’s products and services.
11. Email marketing is perfect for small businesses as it provides an opportunity to develop customer loyalty. A lot of companies are using this strategy by sending weekly newsletters and catalogues of what is new in store.
12. Offer high levels of customer involvement and interaction which will increase the probability that they spend a long time in your shop and may end up buying a product.
13. Send out promotions with your invoices. This is an easy way that small businesses can use to send out information on what promotions they are running using their invoices.
14. Create a friendly store environment that is welcoming, friendly and gives customers a reason to return.
15. Embrace social marketing, Businesses recognise that many of their current and potential customers use social networking sites and are reaching out to them with social marketing efforts. Social media marketing is cost effective and entrepreneurs spend very little or nothing at all to advertise on such platforms.

It may be argued and deduced from the above that modern

marketing should embrace sustainable innovation if it is to outweigh costs associated with the phenomena. Vilanova and Deltoni (2016:17)<sup>[11]</sup> correctly observes and proposed:

*At the centre of the debate on innovation as a linear versus a dynamic, complex and unpredictable process is the question of what drives innovation. Ultimately, innovation has been generally about generating profits for the firm, while today there seems to be a tendency to understand innovation as the effective application of new processes and products designed to benefit the company as well as its stakeholders. The difference may seem mild, but it takes innovation from a process designed to generate profits for the firm, to a process focused on generating value for both the public and the firm. That is, innovation must generate some sort of public value beyond the sole satisfaction of the customers. The innovation drivers are very important because there is some evidence that the manner in which the firm innovates determines what the firm innovates. In other words, a firm that uses exploration throughout its ranks understands that the basic unit of innovation is not a department, but rather a network which aims to generate public and private good. As Prahalad and Rang swami proposed in 2009,<sup>[8]</sup> “we find that smart companies now treat sustainability as innovation’s new frontier”.*

Therefore, it cannot be ignored that conducting an innovative marketing cost analysis plays a critical role in the sustainable profitability of an entity. First, it is an integral part of the decision making and second, it serves as the basis for management decision. Moreover, the study by Phiri and Mwale (2019)<sup>[9]</sup> found no sufficient evidence statistically that an increase in advertising cost spontaneously increases sales (Testing Ho at 5% level of significance,  $P_v < \alpha$  (0.016110754 < 0.05); Reject Ho). Therefore, an inverse proportion between the cost of advertising and sales emerged from the study findings. That is an increase in the cost of advertising did not translate into a direct increase in the sales.

### Conclusion

It has emerged that SMEs play a critical role in economic development of any nation. Although it has been acknowledged that advertisements are very expensive and a cost, entities are nevertheless encouraged to strategically allocate resources due to a number of benefits that it comes with. Phiri and Mwale (2019)<sup>[9]</sup> firmly argues that advertising gives the following benefits: it helps in establishing and promotion of the company and its products or services, it builds the brand, It also creates demand since it persuades the customers to buy. It contributes in the creation of brand awareness and demand. Advertising informs customers about a product, company or service. It is actually a strong medium of communication and for promoting particular features and overall achieving sales and profit goals. Therefore based on the above findings it was concluded that despite being expensive to advertise, there is still need that organizations invest in advertising. However, despite the many challenges small businesses face, they too can rise and grow their business through various techniques that include a deliberate versatile cost effective marketing plan. Through this they can attract a pool of right customers to their businesses and in turn be able to make profits. Strategic market planning therefore becomes key in ensuring that these efforts are achieved. The customer is the foundation of a business and keeps it in

existence. In every case it is business action that creates the customer. The purpose of a business is to identify the needs of customers and to satisfy them profitably.

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