CRITICAL SUCCESS FACTORS IN SMALL BUSINESS MARKETING: AN EXAMINATION OF HIGH AND LOW PERFORMANCE FIRMS

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■*This study examines the marketing activities of small businesses and measures their relative performance using a multi-dimensional scale of business success. This classifies the firms into two groups: 1) those classified as high performers; and 2) those classified as low performers. A factor analysis of the data was undertaken along with a logistic regression of the factors defining high and low performance. Three key variables were found to be related to high performance: 1) annual turnover; 2) formalisation (the degree of formal planning and marketing procedure in use); and 3) word of mouth referrals. These three factors provide a basis for the successful marketing of small firms and the paper provides a discussion of the managerial implications of these findings.*

Introduction

The importance of the small business sector to the national economies of many countries has frequently been under-emphasized with the focus of attention placed upon the large and multi-national enterprise. However, small to medium enterprises (SMEs) comprise a large proportion of businesses in most economies. For example, in Australia 97 per cent of all non-agricultural private sector companies are classified as small and employed nearly half the workforce [ABS 1995].

These findings are reflective of the general pattern of SME performance in other countries. It has been estimated that firms with fewer than 20 employees generated around 88 per cent of all employment growth in the United States over the period from 1981 to 1985 [Birch 1985 and 1987]. The American Express small business index survey in the United States found that firms with fewer than 100 employees tended to experience growth rates two to three times faster than larger firms [Dingle 1991]. The importance of small firm growth for job creation has also been noted by Phillips [1993] who highlights the potential of firms with less than 20 employees to create employment opportunities in the United

States.

As a result of the importance of the small business sector, attention needs to be given to the factors likely to influence its success. Of particular interest is the role of marketing. To enhance this understanding a study was undertaken to examine the factors likely to characterize the marketing practices of high performance small businesses.

The Importance of the Marketing Concept

Marketing has emerged in recent years as a significant business discipline, considered by some to represent the most important of all business activities [McKenna 1991]. Marketing is responsible for more than sales, depending on the level of organisation and strategy its responsibilities are usually wide spread. Whatever the magnitude of its importance, Marketing remains an important business function that has assumed even greater prominence in today's highly competitive markets. Changes over the past two decades in the field of marketing concept and practice [Arndt 1979, 1981 and 1983, Thorelli 1986, Van De Ven 1976, Williamson 1975], have subtly reshaped the marketing field [Webster 1992].

The process of marketing involves the development of strategies and plans, which can integrate all elements of the firm's activities to enhance customer satisfaction and maximise sales. It should involve the firm focusing upon the needs of its markets, and then developing or shaping its product or service offerings to satisfy these customer requirements. This "Marketing Concept" remains an integral aspect of good marketing practice in all successful businesses [Clark 1987, Kruger 1989, Payne 1988]. Marketing is also something that must involve all members of the firm not just the Marketing Department [Gummesson 1991, Piercy 1991].

The marketing concept has been a popular management philosophy first articulated since the 1950s [Webster 1994]. Companies subscribing to this concept would have a central marketing department that reviews and approves all activities involving a company's product or service offering and relationships with their customers. This marketing concept encompassed customer-orientation, innovation, and profit as a reward for creating a satisfied customer. It looked at the business from the customer's point of view [Webster 1994].

According to Levitt [1975], a company must learn to apply the marketing concept, which is to think of it not as producing goods or services, but as buying customers. Hence continued growth of any businesses hinges on acting upon customers' needs and desires rather than relying on the longevity of the businesses' products or services, which could be rendered irrelevant due to technological advancement and changing needs and desires of customers [Levitt 1975].

Webster [1994] attempted to introduce a broader marketing concept than those that preceded his. Webster [1994] believed that the marketing concept should include customer orientation, market intelligence, distinctive competencies, value delivery, market targeting and value proposition, customer-defined total quality management, profitability rather than sales volume, relationship management, and customer focused organisational culture.

Many authors [Kotler 1984, Kotler and Andreasen 1987, Levitt 1960] have supported the view that a business that increases its market orientation will improve its market performance [Narver and Slater 1990]. The marketing concept has therefore had a profound influence on the conceptualization of marketing strategy. However, work intended to refine the marketing concept or facilitate its implementation has made few contributions to strategic thinking [Valentin 1996].

The Marketing Concept and the Small Business

Large corporations have substantial resources to devote to marketing and frequently have many levels of marketing management with responsibilities for national and regional operations, or different product lines [Webster 1992]. A feature of the large corporation is its use of formal planning processes to guide its marketing activities [McColl-Kennedy et. al. 1990]. By contrast most small business proprietors find the marketing of their businesses a complex and difficult task. Unlike larger firms, the small business lacks both resources and expertise [DITR 1987].

While the large corporation can afford a dedicated team of trained marketing specialists, the small business owner/manager is forced carry the burden of being responsible for sales, marketing, personnel, publicity, production and financial matters. In most cases these duties are performed by the owner/manager without any formal training. Marketing knowledge and skill among small business proprietors is generally low and many consider marketing to be little more than selling or advertising [Gold 1993].

This lack of marketing skills among small business owners has been highlighted by past research which has identified an absence of formal planning, inadequate customer knowledge, an absence of market research and poor or ineffective use of promotional tools [Williams 1987, Carson and Cromie 1990]. Small business owner/managers are also restricted in their marketing activities by a lack of financial resources to undertake market research, promotions or employ specialists [Weinrauch et.al. 1991].

Small business marketing activities are heavily influenced by the perceptions of their owner/managers who are close to their customers and frequently follow intuitive approaches with little formal planning [Carson 1990]. Unlike management of large corporations, the small business proprietor is likely to view marketing expenditure as a non-essential cost. Many small firms due to its cost and complexity also avoid use of professional selling. Most small firms lack specialist marketing expertise and sufficient financial resources to make a significant impact on the market via promotion or distribution strategies [Carson 1985]. This lack of expertise and resources distinguishes the small firm from its larger counterparts in terms of marketing activity [Davis, Hills and LaForge 1985]. Despite this lack of marketing skill and application within the small business sector, the importance of marketing to small business success is strongly highlighted in the literature [Boag 1987, Reeve 1990, Merrilees and Nuesink 1992].

According to Carson (1985) the small business moves through a four stage evolutionary cycle in its marketing activities. In stage one the firm commences initial marketing activities and is frequently focused on product related issues. Product quality, pricing and the establishment of reliable distribution channels are a dominant concern. In stage two, the firm is involved in "reactive marketing". Increasing customer demand drives this and the firm is frequently engaged in reacting to this demand. By stage three the firm has grown both in market share and experience and the owners are usually willing to attempt new strategies in something of a "do it yourself" marketing approach. Finally, the fourth stage finds the firm adopting more sophisticated marketing techniques involving "integrative and proactive" strategies. This can incorporate such things as relationships marketing, customer tracking and coordination of all the elements within the marketing mix to deliver a fully customer oriented marketing structure [Kau and Ch'ng 1990].

The Marketing Mix

The marketing mix concept was introduced by Neil Borden in his presidential address to the American Marketing Association in 1953 [Waterschoot and Van Den Bulte 1992]. The "marketing mix" referred to the mixture of elements useful in pursuing a certain market response.

Early literature on the marketing mix attempts to itemise the large number of influences on market responses that managers must take into account [Oxenfeldt 1962]. Frey (1956) and Borden (1964) used a checklist approach, providing a useful tool for understanding the nature of marketing activities. Subsequent work on the classification of the marketing mix has been focused on developing a more willingly and convenient systems or concepts for organizing all marketing activities [Frey 1961, Howard 1957, Lazer and Kelly 1962, McCarthy 1960].

Among all classifications, McCarthy's "4Ps" formula was the most accepted [Waterschoot and Van Den Bulte 1992]. The 4Ps formula included Product, Price, Place, and Promotion, where promotion itself includes advertising, personal selling, sales promotion and publicity.

Subsequently there was an attempt to broaden the basic 4Ps by adding an additional 5Ps, e.g. Publics, performance, politics, probability, planning [Harvey, Lusch and Cavarkapa 1996]. The development of work on the marketing mix has been ongoing, but differences usually lie in the way authors viewed these elements. Borden (1964), Frey (1956), and Staudt and Taylor (1965) viewed these elements as procedures, policies, and processes (i.e. activities), whereas most authors in recent years, [Kotler 1988] depict them as parameters, tools, or instruments (i.e. objects) [Waterschoot and Van Den Bulte 1992].

Due to its simplicity, McCarthy's 4Ps formula was the most cited. It is often used as the traditional classification of the marketing mix despite the fact that there have been some criticisms on its' weaknesses [Waterschoot and Van Den Bulte 1992].

The Statement of Purpose

Much of the research into the marketing of organisations has focused on the larger firm. Gaps exist in the level of knowledge about small business marketing and its relationship with business performance. The Small Business Development Corporation in Western Australia, which commissioned a small qualitative study of small business marketing [SBDC 1992], acknowledged this.

As stated in this report: "While the SBDC study collected valuable qualitative information, a quantitative study, using a larger sample, would assist in establishing a more accurate indication of the marketing intelligence quotient of small businesses. Such an examination will allow for accurate impact assessments of any educational efforts geared towards improving the marketing knowledge of small firms to be undertaken" [SBDC 1992].

It was in response to this need that the current study was undertaken. Its aim was to explore the relationship between marketing practice and business performance within small firms. This study involved a questionnaire that measured the use of marketing practices within the respondent firms. Questions were designed to measure the various elements of the marketing mix and how important such strategies were to the firms' success in the market. Overall success was measured using a composite index of sales, profit, employment and asset growth over three years. Following a telephone survey the data was analyzed using a multivariate technique. This study provides a valuable contribution to the existing body of knowledge of small business marketing.

TABLE 1
THE SAMPLE COMPARED TO THE TRUE POPULATION OF AUSTRALIAN SMEs

Criteria	Sample (%)	Australian population
Proportion of owners aged between 30-50 years	73	65
Owners with high school education only	49	41
Owners with trade or technical qualifications	29	33
Owners with university degrees or higher	22	25
Businesses trading for 5 years or less	31	34
Businesses trading for 6 to 10 years	31	23
Business trading for over 10 years	38	30

A Survey of Small Business Marketing

In March 1996 a survey of the marketing activities of small firms in Western Australia was undertaken to address the need for more information on small business marketing practice. This study involved a telephone survey of 113 small firms in the Perth metropolitan area. The sample was comprised of 34 firms drawn from the "Winners Circle" of firms who had won awards for small business excellence. The remaining 79 firms were selected randomly from the telephone directory and represented all industry groups as measured by the Australian Standard Industrial Classifications (ASIC) code of the Australian Bureau of Statistics. The final sample was found to be representative of the true population within Australia as measured by the Australian Bureau of Statistics [ABS 1995]. Table 1 shows these comparisons.

The survey used in this study was designed to explore the ways in which small firms applied the four elements of the "marketing mix", a theoretical framework involving the four strategic variables of Product, Pricing, Promotion and Place Distribution [McCarthy 1971]. The questionnaire contained a range of questions that examined the importance placed upon the various elements of the marketing mix by respondent business owners, or their general level of performance on these items. Responses were generally ranked on seven point Likert scales, where 1 was equal to a low level of agreement or value and 7 equaled a strong level of agreement or value. All firms were contacted by telephone, the purpose of the survey explained to them, their permission sought, and a copy of the questionnaire faxed. A follow-up reminder call was then made. Response rates were approximately 40 per cent. The survey was pilot tested prior to the implementation of the full field survey resulting in minor changes to the wording of the questionnaire.

The survey involved a process of pre-qualification of the respondent firms to ensure that they conformed with the criteria for small business. All respondents were asked to indicate the nature of their business (whether manufacturer or not), and the number of employees in the firm. All respondent firms were independently owned and managed. Thirty firms (26.5 per cent) were manufacturers and 83 (73.5 per cent) were not. The average number of employees engaged by the sample firms was nine with a standard deviation of 15 (median = 4). The minimum number of employees was 2, the maximum 99.

Seventy-eight per cent of the respondents were owner/managers, the remainder were variously described as managers, marketing managers, directors, partners or a range of other miscellaneous titles. The majority of respondents (70 per cent) had been in their respective businesses for more than five years, while 57 per cent had been in business between six and twenty years. Most respondents (73 per cent) were aged between 30 and 50 years of age.

A Measurement of Business Success

Although the Winner's Circle group had been identified as being successful firms, it was considered desirable to find a more objective benchmark of success. To gauge the overall success of the firms respondent's were asked to indicate their views about the importance of four measures of business performance: profit growth, sales growth, asset growth, and growth in employees.

Respondents in order of their relative importance to each other as success measures then ranked these four measures. Most firms as the most important success measure ranked profitability. This was followed by growth in sales then growth in assets. Growth in employees was not generally viewed as an important measure of success.

The respondents on a seven-point scale to measure the level of performance that had been achieved on each of the four measures over the previous three years ranked following this each success measure. A composite index was then devised which weighted the results from the three-year performance measure against the relative importance placed on that measure. This scale measured firm performance by weighting the score of actual performance against the relative importance placed upon it by the respondents. This scale range from a low of 10 to a high of 70. The 50th percentile of the sample fell at a score of 48. This was used as the cut point to distinguish between high and low performers. Those firms scoring below 48 were considered low performers, while high performers were those scoring above 48.

An examination of the performance ratings by the Winner's Circle firms and the generic sample using a *t*-test procedure on differences between the mean rating scores found no difference at the 0.05 level. All firms appeared to view these success measures in the same way. This suggests small firms are likely to view success as first profitability, and then (in order of importance) growth in sales, assets and employees.

Not surprisingly the Winner's Circle group were generally found to be higher performers on the business success index than the average of the Generic sample. Subsequent chi-square analysis found a significant relationship (at the 0.05 level) between membership of the Winner's Circle and high performance. Among the Winner's Circle 26 firms (76.5 per cent) were classified as high performers. By contrast the majority of firms selected randomly from the Generic sample (67 per cent) were low performers.

An examination of performance and the demographic variables measured in the survey using chi-square and *t* - tests found the following:

- no significant relationship was found to exist between performance and the length of time the respondent had been in business;
- no significant relationship was found to exist between age of respondent and performance;
- no significant relationship was found to exist between the education level of the respondent and performance, however,
- a significant relationship was found between annual turnover and performance.

Exploratory Factor Analysis

Thirty-five items were used to measure the marketing activities of the small firms in the questionnaire. These were grouped into three sections measuring general marketing activities, promotional strategies and pricing strategies. Each section used different question styles leading to the 7 point Likert scales (involving questions with agreement ratings from 1 to 7). Three separate principal component analyses were used to identify any underlying dimensions existing within the data. In all cases a varimax rotation was used to enhance data readability and interpretation. This is a commonly used orthogonal factor rotation procedure in which the factors are extracted so that their axes of maintained at 90 degrees. Each factor then becomes independent of the other factors in the matrix and is more readily identified.

In keeping with the principal component approach, only factors with eigenvalues - the characteristic root of a square matrix - greater than 1 were considered as significant. The eigenvalue is a sum of squared loading for a factor. In factor analysis, the eigenvalue for a factor is the variance associated with it. It represents the amount of variance accounted for by a factor [Hair, *et. al* 1995]. Further, the factor loading for those factors selected for subsequent analysis were in excess of 0.4, which is generally considered a reliable benchmark for significance [Hair, *et. al.* 1995].

Factor Analysis 1: Marketing Activities

The first factor analysis to be undertaken was on the fifteen items measuring marketing activity. The initial factor solutions using all fifteen items produced scales with Cronbach alpha reliability statistics below 0.5 [Cronbach 1951]. Such statistics are commonly used to measure the reliability of indicator variables comprising a factor. Alpha statistic values range from 0 to 1 with higher values indicating greater reliability. With such low values four items were therefore removed from the final factor analysis.

A final factor analysis was therefore undertaken on eleven of the original fifteen items. The measure of sampling adequacy for the eleven items measuring marketing activities was 0.78 suggesting suitability for factor analysis [Kaiser 1974]. Table 2 shows the results of this analysis. The eleven retained items measuring marketing activities produced three factors with eigenvalues greater than 1, accounting for 60 per cent of variance following varimax rotation of the factor matrix. The eleven factor loading yielded clear results with seven of the eleven items grouping into the first factor. The majority of these items related to the use of formal systems to monitor customer or market activity. This factor was therefore labelled "***Formalization***". A further two items loaded onto the second factor. These items were both related to the development of long term relationships with customers. This factor was therefore labelled ***"Customer Relations"***. The last two items loaded onto the third factor ***"Market Orientation"***.

It can be seen that the reliability coefficient for the scales in the first two factors were 0.81 and 0.89 respectively. This indicated their acceptability for use as factors. The two items comprising the third factor did not provide a reliable scale and were therefore separated and retained, along with the other

TABLE 2
ROTATED FACTOR MATRIX - MARKETING ACTIVITIES

Variable	Factor 1 Formalization	Factor 2 Customer Relations	Factor 3 Market orientation
Formal marketing plan exists and is regularly reviewed	0.74		
Formal customer tracking and systematic recording	0.74		
Systematic Branding/Image development undertaken	0.74		
Use formal market research prior to launching new products	0.67		
Formal staff training in customer service skills conducted	0.54		
Informal customer surveys regularly conducted	0.52		
Formal information search to gather market intelligence	0.51		
Long term relationships exist between firm and customers		0.93	
Long term relationships exist between owner and customers		0.90	
Market orientation - products developed due to customer demand			0.87
Regular product reviews conducted following market feedback			0.53
Eigenvalue	3.94	1.60	1.10
Percent of variance explained	35.8	14.6	10.0
Cumulative percentage	35.8	50.4	60.4
Cronbach alpha reliability coefficients	0.81	0.89	0.33

four items excluded from the factor analysis as independent variables. These additional four variables were:

- Informal networking used regularly to gather market information
- Professional credit manager/agent used
- Bad debt management presents a major problem, and
- Formal customer satisfaction surveys conducted regularly.

This analysis suggests that marketing activities among the small businesses within the sample were structured around two key areas relating to formalization and customer relations. In addition, these firms also devoted some time to market research for product development, networking and credit management tasks. While formalization relates to the formal or systematic activities undertaken within the firm to develop their marketing practices, the focus of customer relations is upon the long term relationships with customers.

Factor Analysis 2: Promotional Strategies

The second analysis to be undertaken was on the fourteen items measuring the value of promotional strategies. An initial factor solution identified the need to remove one item (word of mouth referral) from the list of items to be analyzed. This was retained as an independent variable. The measure of sampling adequacy for the thirteen remaining items was 0.75 suggesting suitability for factor analysis [Kaiser 1974]. Table 3 shows the results of this analysis.

The thirteen items measuring promotional strategies produced four factors with eigenvalues greater than 1, accounting for 58 per cent of variance following varimax rotation of the factor matrix. The thirteen-factor loading yielded clear results with four of the thirteen items grouping into the first factor. The most significant of these items related to the use of trade related promotions (e.g. trade journal advertising and participation in trade shows). This factor was therefore labelled "***Trade Promotions***".

A further three items loaded onto the second factor. These items were principally related to mass media advertising (e.g. TV, radio). This factor was therefore labelled ***"Mass Media Promotions"***. Four items loaded onto the third factor. These items related to direct response marketing (e.g. telemarketing, direct mail, and sales promotions). This item was labelled ***"Direct Response Promotions"***. The variable relating to the perceived value of public relations produced a factor loading below 0.4 suggesting that it should be retained as an independent variable.

The remaining two items loaded onto the fourth factor.

TABLE 3
ROTATED FACTOR MATRIX - PROMOTION STRATEGIES

Variable	Factor 1 Trade Promotions	Factor 2 Mass Media Promotions	Factor 3 Direct Response Promotion	Factor 4
Perceived value of trade journal advertising	0.78			
Perceived value of trade show promotions	0.69			
Perceived value of magazine advertising	0.61			
Perceived value of personal selling	0.52			
Perceived value of television advertising		0.84		
Perceived value of radio advertising		0.75		
Perceived value of specialty gifts/products		0.50		
Perceived value of telemarketing			0.81	
Perceived value of direct mail			0.81	
Perceived value of sales promotions			0.47	
Perceived value of public relations			0.34	
Perceived value of Yellow Pages				0.72
Perceived value of newspaper advertising				0.60
Eigenvalue	3.86	1.44	1.18	1.03
Percent of variance explained	29.7	11.1	9.1	7.9
Cumulative percentage	29.7	40.8	49.8	57.7
Cronbach alpha	0.67	0.70	0.68	0.15

These two items (Yellow Pages advertising and Newspaper advertising) showed relatively high factor loading (0.72 and 0.60 respectively), however, their alpha reliability score was only 0.15 suggesting that the scale was unreliable and could not justify using them together as a fourth factor. For this reason these two items were retained as independent variables along with the item relating to word of mouth referral. However it can be seen that the reliability coefficient for the scales in the first three factors ranged from 0.67 to 0.70 indicating their acceptability for future use as factor variables measuring their dimensions [Cronbach 1951].

These results indicate that in terms of promotional activity the small firms view Yellow Pages and Newspaper advertising as separately defined, but then group the other remaining promotional media into the three categories of Trade, Mass Media and direct response promotions. Overall use of Yellow Pages and Newspaper advertising was found to be significantly greater than the other three areas.

Factor Analysis 3: Pricing Strategies

The third factor analysis undertaken was performed on the six items measuring the value of different pricing strategies. An initial factor solution on all six of these items produced three factors but was considered unsatisfactory due to negative correlation between two items. This resulted in the removal of one item (rate of return pricing). The results of this analysis are shown in Table 4.

A further solution with the remaining five items was undertaken. The measure of sampling adequacy for these five items was 0.50. The five items measuring pricing strategies produced two factors with eigenvalues greater than 1, accounting for 58 per cent of variance. The five factor loadings yielded clear results with three of the five items grouping into the first factor. These items related to cost plus pricing, "mark up" pricing and charging whatever the customer was willing to pay. This factor was labelled ***"Mark Up and Cost plus Pricing"***. Its scale reliability produced an alpha coefficient of 0.71, indicating these two variables provided a reliable measurement of the factor.

The last item produced factor loading of only 0.43. It was subsequently dropped from the scale. The remaining two items grouped together into the second factor. These items, norm reference pricing and leader pricing, produced factor loading of 0.85 and 0.69 respectively. However, the alpha

TABLE 4
ROTATED FACTOR MATRIX - PRICING STRATEGIES

Variable	Factor 1 Mark Up & Cost plus pricing	Factor 2 independents	Factor 3 independents
Mark Up final selling price to achieve a profit objective	0.86		
Establish costs of production and then add on a margin	0.83		
Set prices consistent with the industry norm		0.84	
Set price with reference to an industry leader		0.66	
Charge what the customer is willing to pay			0.76
Set prices to achieve a required rate of return			-0.56
Eigenvalue	1.82	1.26	1.08
Percent of variance explained	30.4	21.0	18.1
Cumulative percentage	30.4	51.4	69.5
Cronbach alpha	0.71	0.34	-0.16

coefficient for these two items was only 0.34 suggesting unreliability for the scale. Therefore the two items were retained as independent variables.

Estimation of the Logistic Regression Model

For the final stage of the analysis, the sample was divided into two groups - those firms classified as high performers and those classified as low performers. The presence of a dichotomous dependent variable precluded the use of linear regression. The chosen form of analysis for the study was logistic regression. Logistic regression is suitable when a categorical variable is regressed against any combination of discrete and continuous variables [Hosmer and Lemeshow 1989:1]. It identifies the variables, which classify membership of one, or the other groups that comprise the dependent variable. In this case it was used to identify the characteristics which classified membership of either high or low performance small firms.

The six factors and the remaining independent variables identified from the factor analysis were regressed on the dichotomous dependent variable. Additional variables measuring firm characteristics were also included from the demographics of the sample. The SPSS Logistic Regression procedure was used to develop the model. A total of 79 of the 89 firms in the sample were used to estimate the model. Ten firms were not included because their responses were missing data for one or more of the variables. The final model, which contained three significant terms, is shown in Table 5. All three variables were significant at the 0.05 level.

The first variable in the model was the annual sales turnover of the firm. The positive coefficient (0.66) for this term indicated that firms, which were identified as high performers, were also significantly more likely to be larger than those that were classified as low performers. The second term selected for inclusion in the model was the factor variable "formalization" which measured the use of formal systems to monitor customer or market activity. The positive sign for this term's coefficient (0.45) indicated that the firm,which used these formal systems, was more likely to be classified as a high performer. The third term in the model was a measure of the importance of word of mouth referrals

TABLE 5
LOGISTIC MODEL FOR BUSINESS SUCCESS

Model Term	Coefficient	Significance level
Annual turnover	+ 0.66	.0131
Formalisation	+ 0.45	.0464
Word of mouth referrals	+ 1.02	.0252
Constant	- 10.34	

to the firm. As for the previous terms, this term also possessed a positive coefficient (1.02). The interpretation was that the firm, which reported word of mouth referrals to be an important method of promotion for their business, was more likely to be classified as a high performer.

An examination of the goodness of fit of the model found that it correctly classified 72 per cent of the 89 firms used in the analysis. This included 77.5 per cent of the low performers and 66.7 per cent of the high performers. These results suggest that the model estimated by the regression analysis was statistically reliable.

Discussion of the Findings

These findings provide some insight into the way that a small firm approaches the "marketing mix". As shown by the exploratory factor analysis, the practices or systems, providing for planning, customer tracking, branding and customer service skills training are all, associated together. They represent formalization in the firm's marketing activities. Another significant dimension of small firm marketing is the development of long term relationships between the firm and/or owner and the customers. Given the importance of repeat business this is not surprising.

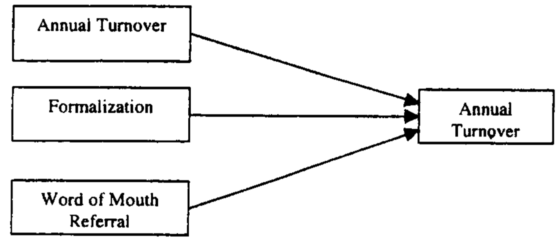
In the area of promotion the small firms separate their activities into word of mouth referral, Yellow Pages and newspaper advertising, as well as the three broader areas of trade, mass media and direct response promotion. Of these the overall value of word of mouth referral was rated most highly, followed in turn by Yellow Pages directory advertising, newspaper advertising, and then the three factors with mass media promotion rated very low. This reflects the greater use by small firms of referrals, Yellow Pages and newspapers as promotional media.

With respect to pricing strategies all the most commonly used ones were identified. Of these the most highly valued overall was that of following the industry leader, with mark up and cost plus pricing following in second place. As most small firms are price takers and lack sophisticated price setting mechanisms this is an expected outcome.

As the regression analysis shows the key factors distinguishing high performance small firms from their less successful counterparts are the three elements of: annual turnover, formalization and word of mouth referral. In understanding the implications of these findings it is necessary to examine the nature of these three elements within the marketing processes of the small business. The findings can be summarized in Figure 1, which illustrates the relationship between the variables in the model.

Annual turnover. The study measured business success using four dimensions: profitability, growth in sales, growth in employees and growth in assets. The majority of firms considered profitability to be most important of these dimensions. Firms were also asked a separate question regarding their annual turn over. As noted earlier slight more than half the sample had annual turnovers under $500,000.

FIGURE 1
A DESCRIPTIVE MODEL OF SMALL BUSINESS MARKETING SUCCESS



Annual turnover and profitability are not identical. For the small firm annual turnover is a measure of market share. Profitability by comparison is a measure of efficiency. It is possible for a small business to be highly profitable for its owners with an annual turnover below $500,000. Market share (as measured by annual turnover) and financial performance (as measured by profitability) has been identified as the two major measures of business success [Bharadwaj, Varadarajan and Fahy 1993: 87]. Market share growth has been linked to profitability in empirical studies using the PIMS database [Bharadwaj and Menon 1993]. It is not surprising to find annual turnover positively linked to performance, as it is a reflection of the size of the firm's overall market share.

Formalisation. It will be noted from the earlier discussion that Formalization was a factor variable comprising a range of dimensions. A firm was considered to be highly formalized if it:

1. had a formal marketing plan which it regularly reviewed;
2. undertook formal customer tracking and systematic recording;
3. attempted to systematically brand its products or services and develop its corporate image;
4. used formal market research prior to launching new products;
5. conducted formal staff training in customer service skills;
6. regularly conducted customer surveys; and
7. made use of formal information search to gather market intelligence.

All these issues are widely regarded as beneficial to the successful development of a business. The need for coordinated planning within a small and medium business is generally accepted as an important element of success [Crawford-Lucas 1992, Knight and Knight 1993, Morris 1994, Way 1994]. This linkage between successful performance and formal business planning within small and medium enterprises (SMEs) has been identified in the literature as a key issue [McKiernan and Morris 1994]. Research into this relationship suggests that while planning in SMEs is related to size, age, and perceptions of the external environment, a direct connection between planning and success is indeterminate and might be counterproductive [Risseeuw and Masurel 1994]. The findings from this study reinforce the view that formalization is important and that a direct link between formal marketing activities and business performance may exist. The majority of small firms in the sample indicated that they were more likely to have good long term customer relations, or undertake regular product reviews, than adopt formalisation. However, the findings suggest that it is formalisation that is more likely to be associated with higher performance.

Word of Mouth Referral. As discussed earlier the average small firm's promotion strategy is based upon word of mouth referral, the Yellow Pages and newspaper advertising. After these some value is placed on trade promotions, direct response advertising and possibly other mass media promotion. A lack of financial resources is likely to restrict the small firm's ability to engage in any promotion beyond the first three. However, this study suggests that word of mouth referral is associated with high performance firms.

The small firm is more dependent upon word of mouth referral than larger firms for two principal reasons. First, the small firm usually lacks the financial resources to undertake large-scale media advertising typically employed by large organisations. This restricts the small firm's ability to convey its message to a broad spectrum of the public. Even use of other promotional strategies such as professional selling or sales promotion may be found to be financially prohibitive for many small business owners.

A second reason that word of mouth referrals are so important to the small business is the close personal contact most small business owner-managers have with their clients. While a large organisation will deal largely through intermediaries and its management will be somewhat distant from the customers, the small business owner is usually able to develop a close relationship with their customers. It is through this close personal association that effective word of mouth referral can be achieved. Although the importance of word of mouth referral to the small firm is widely accepted, the mechanisms for achieving this are poorly understood [Bessom and Jackson 1975, Davis, Guiltinan and Jones 1979, George and Berry 1981, Zeithaml, Parasuraman and Berry 1985].

Only limited research has been undertaken into the generation of word of mouth referrals and much of this has taken place in the professional services area [Morgan 1991]. Research undertaken in the fields of accountancy, legal, consulting engineering and banking services highlight the importance of word of mouth referrals to the final purchase decision [Sarkar and Saleh 1974, Wheiler 1987].

Within the small business environment, generation of effective word of mouth referral is likely to be contingent upon the development of effective customer service strategies and the overall quality of the product or service delivered. Those firms, which have established a long-term relationship with their customers of mutual benefit, are more likely to experience an enhanced world of mouth referral flow than those who have not.

Conclusion and Implications

No simple formulas can be found for the successful management of a small business. This study has attempted to provide an empirical foundation to the marketing practice of the small firm. It has identified three key elements found significantly related to business performance and success. Perhaps the most critical of these is Formalization which relates to the systems that the business owner is willing to put in place to ensure a successful marketing outcome.

As noted in the introductory section of this paper the importance of small business to many of the world's economies is now becoming recognised. The small business sector is viewed by governments throughout the world as a potential engine of growth and employment. While this view is open to debate the importance of small business is reflected in government policy efforts. For example, in the United Kingdom over 100 separate policy measures to assist small business were introduced by the government in period 1979-1983 alone [Storey 1994]. An examination of public policy assistance to small business in the European Union identified over 230 separate policy instruments [De Koning, *et. al.* 1991]. Many of these policy measures aim to remove from small business various burdens such as taxation or compliance costs. They also seek to assist small business to become more competitive via industry deregulation or training.

This study supports the findings of other investigations into small business marketing which highlight the general lack of systematic or formal marketing among such firms and the problems this produces for long term success [SBDC 1992, Kau and Ch'ng 1990]. Previous studies have highlighted the lack of adequate market research and systematic information gathering among small business proprietors [Brisoux and Perreault 1988]. Frequently this is attributed to lack of time, money or unnecessary due to their existing knowledge of their market [McDaniel and Parasuraman 1985, Ryan and Noonan 1982]. Use of market research, for example, is generally associated with the size of the firm and the level of formal education attained by the owner/manager. Most small business owners who conduct some form of market research consider it money well spent [McDaniel and Parasuraman 1986].

For small firms and government policy makers throughout the world this study suggests that enhanced performance can be achieved through formal planning and strategy development which offer a source of competitive advantage. They also suggest that competitive advantage can be obtained from making use of word of mouth referral as key source of promotion. Enhanced word of mouth referrals are likely to result from conscious use of networking by the owner-manager as well as a formal approach to customer tracking and customer service management. The value of networking and customer focus as means of developing their customer base has been identified as a key success factor for growing small firms [Hall 1992]. The small business proprietor who wishes to improve their market performance may therefore gain advantage from developing an effective marketing plan, systematically branding their business and its products, and establishing networks among others in the industry.

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