Marketing and Small Firms

The Characteristics of Small Firms

In assessing the planning activities of small firms it is important to have an understanding of the peculiar characteristics of small firms. As stated at the beginning of this monograph, small firms are not just little big business. What precisely are the characteristics of small firms?

The term "small firm" is used with frequent regularity throughout the literature and in business in general. Everybody "knows" what is meant by the term "small firm" but few would be able to define it precisely without entering into a broad discussion over a range of factors.

In an article on the evolution of small firms' marketing practice Carson[6] reviewed a number of definitions of small firms ranging from numbers of employees and size of revenue, to types of business and size of premises. For the purposes of this discussion two definitions serve to classify small firms. These focus on size and management style. In relation to size a comprehensive general definition is offered by the Committee for Economic Development which states:

A small firm is one which possesses at least two of the following four characteristics:

1. Management of the firm is independent. Usually the managers are also the owners.  
2. Capital is supplied and the ownership is held by an individual or a small group.  
3. The area of operations is mainly local, with the workers and owners living in one home community. However, the market need not be local.  
4. The relative size of the firm within its industry must be small when compared with the biggest units in the field. This measure can be in terms of sales volume, number of employees or other significant comparisons[7].

But just how important is this issue of relative size? Is it, in fact, the characteristic of a small business which has the most significance for marketing?

It is widely accepted that small firms have different characteristics from larger companies. Sometimes these differences are put down simply to the factor of relative size but, as Mendham and Bannock state: "... the most significant difference between big and small firms is not their size"[8]. Rather, the real differences concern objectives, management style and marketing. Clearly, small firms have different characteristics to those of large companies. The definitions so far, in addition to size defined quantitatively, have mentioned various qualitative factors of significance. Such qualitative characteristics are summarised by Schollhammer and Kuriloff[9] who put forward five sets of qualitative attributes of small businesses:

- **Scope of operations.** Small firms serve predominantly a local or regional market rather than a national or international market.
- **Scale of operations.** Small firms tend to have a very limited share of a given market, they are relatively small in a given industry.
- **Ownership.** The equity of small firms is generally owned by one person, or, at most, a very few people. Small firms tend to be managed directly by their owner or owners.
Independence. Small firms are independent in the sense that they are not part of a complex enterprise system such as a small division of a large enterprise. Independence also means that the firm's owner/managers have ultimate authority and effective control over the business, even though their freedom may be constrained by obligations to financial institutions.

Management style. Small firms are generally managed in a personalised fashion. Managers of small firms tend to know all the employees personally, they participate in all aspects of managing the business, and there is no general sharing of the decision-making process.

It is this last characteristic of small firms' management style that dominates much of the literature and is often cited as the single most significant factor influencing the development of a business. Indeed, there are various publications, such as Dun and Bradstreet's *Business Failure Record*, that provide statistical support for the argument that the calibre and experience of management are the most important factors in determining business success.

Carson also debates the marketing characteristics of small firms and cites Cohn and Lindbore as identifying a number of areas in which small business owners and managers differ from professional marketing managers in large companies. These can be summarised as negative attitudes to marketing; the perception of marketing as a cost; distribution and selling treated as uncontrollable problems; and possibly most significant, the belief that each case is so specific it cannot be treated with general rules[10].

An issue arising out of these areas of difference is that of the very size of the small business operation and the consequent ability to employ specialists. This issue has also been considered previously by Carson[6, pp. 7-9] who in conclusion offers a definition of small firms' marketing characteristics. These are limited resources, lack of specialist expertise, and limited impact on the marketplace. These constraints can be described more fully as:

*Limited resources*, such as limitations on finance, marketing knowledge, time, may all contribute to limited marketing activity relative to large companies and large competitors.

*Specialist expertise* may be a constraint because managers in small businesses tend to be generalists rather than specialists. Traditionally, the owner/manager is a technical or craft expert; he is unlikely to be an expert trained in any of the major business disciplines. In addition, marketing expertise is often the last of the business disciplines to be acquired by an expanding small company. That is, finance and production (if the company is a manufacturing unit) experts usually precede the acquisition of a marketing counterpart.

*Limited impact* on the marketplace may be a constraint because small businesses have fewer orders, fewer customers and fewer employees than large companies. Consequently, the impact of a small firm's presence in an industry, geographic area, or whatever, is likely to be limited due to its size alone. Similarly, because of limited resources and lack of marketing expertise, the impact on the media through advertising and publicity will often be negligible in relation to large company activities[6, p.9].

What then are the issues that arise out of this discussion? Accepting that these marketing limitations broadly exist and apply to most small firms, consideration can be given to the actual practice of marketing in small firms particularly in relation to marketing planning.

**Marketing Planning Adapted for Small Firms**

The discussion so far has highlighted a number of characteristics, differences,
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and constraints which indicate that small firms are unique, particularly when addressing marketing. Equally, as small firms develop and grow they experience or develop different marketing approaches and requirements. What impact do all these issues have on the ability of small firms to plan their marketing activity? Daltas and McDonald cite, as a barrier to marketing thinking, a limited strategic framework and weak processes. As noted previously, these can be viewed as inherent characteristics of small firms. Daltas and McDonald suggest that these account for a variety of marketing problems, such as:

Marketing planning may be sporadic, haphazard, or non-existent. Marketers may lack strategic models or criteria for evaluating new ideas and may use improper or biased methods for collecting and analysing market data[11].

The lack of an organised framework is also noted by Ford and Rowley[12], who acknowledge that, "A potential framework for decisions is provided in the many textbooks in the marketing literature". But they suggest that "... the framework loosely defined as the 'marketing concept' is not employed by small firms".

Taking account of these statements the question must be asked, can and do small firms use standard marketing-planning approaches when planning their future marketing activity? The debate so far would suggest that they may require an approach which is entirely suited to their own requirements and capabilities.

The purpose and value of planning in marketing is well documented in the literature and has previously been debated by Carson and Cromie[13]. Authors addressing this issue underline its importance to good marketing practice. A typical emphasis is that given by McDonald when he says that "... effective marketing planning lies at the heart of a company’s revenue-earning activities"[14].

In general the value of marketing planning can be described in terms of how it is useful, and maybe even essential, for clarifying management thinking and for informing and guiding other managers, subordinates and superiors. Perhaps the major benefits to be gained from marketing planning are in enhancing the marketing profile throughout the firm’s activities in terms of stating and understanding objectives, motivating and directing staff, establishing priorities and improving the quality of market information. All of which leads to a greater awareness and acceptance of change and general business success.

Planning is often seen, perhaps particularly by managers, as a sophisticated, elitist kind of activity done solely by specialists or very senior management. But where does or should planning actually occur in an organisation and how does it integrate across an organisation’s managerial structure?

Essentially the fundamental concept of marketing planning is clear but it is acknowledged that there is a plethora of approaches to describing the scope and function of the concept and equally many ways of implementing it.

But what does this mean in the context of the small firm owner/manager and that individual’s use of marketing-planning techniques? Greenley identifies many weaknesses relative to the prescriptive methodology given in the literature. He concludes that these weaknesses could be due to two causes:
First, it could be that the methodology prescribed in the literature has limited application for many companies in doing their planning. Second, the cause could be due to managers, in that they are either unable or unwilling to apply this methodology to their planning, as prescribed in the literature[15].

In describing results of a survey, Greenley draws attention to distinct differences between theory and practice. He concludes that:

The theoretical body of knowledge within the literature prescribes a certain approach to planning, whereas the research results are indicative of British firms taking a different approach. The literature advocates that a certain type of relationship between strategic and marketing plans should be established by firms, whereas the evidence suggests that this is not being pursued[16].

A similar conclusion is arrived at by Shiner when he states that:

... in most planning literature, the majority factors are prescribed either a priori or with, at best, only little evidence: the things to be determined and the whole burden of implementing the results of planning are conveniently left to an individual or an organisation's discretion[17].

Greenley's and Shiner's conclusions draw attention to the fact that there appears to be a dichotomy between what the literature prescribes in relation to marketing planning and how it is actually practised by firms. The reasons for this may be many but one of the major influences on how the concept of marketing planning is viewed and used, is the stage of development of the organisation as represented in the discussion so far in terms of the marketing evolution of the firm. Leppard and McDonald's approach to the development and role of marketing planning is to attribute it to the influence of the 'culture carrier' within an organisation, in particular "... the extent to which they use their positions of power and influence..."[18]. As a consequence of this influence, Leppard and McDonald have identified four levels of acceptance of marketing planning in firms. These range from that of deliberately ignoring it, to treating it unthinkingly and only paying lip-service to it, to treating it moderately seriously and, finally, very seriously. They state:

... the acceptance of marketing planning is largely conditioned by the stage of development of the organisation and the behaviour of the corporate culture carriers. Thus it is that different modes of marketing planning became more appropriate at different phases of the company's life.

While the marketing planning process itself remains more or less consistent throughout, how that process is managed must be congruent with the current organisational culture[18, p. 170].

While it can be acknowledged that the culture of an organisation will be of prime influence, an even more fundamental factor is the very existence, in itself, of culture carriers. It is logical to hypothesise that the younger and, more particularly, the smaller an organisation, the more likely it is that the major culture carrier will be the entrepreneur him- or herself. However, it is possible that an organisation, indeed the entrepreneur, will progress through the levels of acceptance of marketing planning as put forward by Leppard and McDonald without actually acquiring any additional culture carriers. An exception perhaps is in the final level where clearly a measure of technical expertise may be required to devise and implement complex marketing planning.
Conclusion
When then is the outcome of all this? Taking account of all the issues addressed so far it would appear that marketing planning must "fit" the circumstances of the organisation. Equally, it may not be enough to take one, or any, elaborate model of marketing planning and attempt to apply it to different companies at different levels of marketing development and evolution. As James argues, "Marketing needs to break away from the inflexible, institutionalised, analytical approaches . . ."[19]. Or as Leppard and McDonald state, marketing approaches:

... concentrate almost exclusively on the "medicine" itself and showed relatively little concern for the "patient". That this should happen makes about as much sense as a doctor dispensing the same drug to every patient he sees, irrespective of his or her condition[18, p. 163].

This monograph addresses these issues and develops an approach to marketing planning that can be adapted in a flexible way to suit any small firm at whatever stage of development and evolution it may be. Taking account of the small business marketing characteristics, it is expected that this approach will acknowledge the informality of small business decision making which results in a merging of marketing-planning decisions and marketing activity decisions. That is, the approach will not differentiate or distinguish between planning and operations in much of the decision making, but will instead treat the planning of marketing as an integral part of marketing operations. An exception to this will be where a model focuses particularly on marketing-planning issues.