OCCASION

This publication has been made available to the public on the occasion of the 50th anniversary of the United Nations Industrial Development Organisation.

DISCLAIMER

FAIR USE POLICY

CONTACT

Please contact publications@unido.org for further information concerning UNIDO publications.

For more information about UNIDO, please visit us at www.unido.org

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION
Vienna International Centre, P.O. Box 300, 1400 Vienna, Austria
Tel: (+43-1) 26026-0 · www.unido.org · unido@unido.org

17134

Distr.
LIMITED

IPCT.71(SPEC.)
1 November 1988

ORIGINAL: ENGLISH

UNITED NATIONS
INDUSTRIAL DEVELOPMENT ORGANIZATION

Expert Group Meeting on Small- and Medium-Scale Enterprises including Co-operatives

Manila, Philippines, 14-17 November 1988

MARKETING FOR SMALL-SCALE ENTERPRISES IN LATIN AMERICA AND THE CARIBBEAN AREA*

prepared by

John McKiernan**

1/

* The views expressed in this paper are those of the author and do not necessarily reflect the views of the Secretariat of UNIDO. This document has not been edited.

** Executive Director, School of Management, Boston College.

V.88-30493

The Marketing Concept

Peter Drucker, a well known author and management consultant points out that "Marketing is so basic that it cannot be considered a separate function [of the business firm]. It is the whole business seen from the point of view of its final result, that is from the customer's point of view. Marketing for any firm should start with this perspective which is often referred to as the Marketing Concept. The customer or client is the foundation of any business. The satisfaction of the customers needs and wants is of primary importance. Any business, large or small, will survive as long as it can provide its customers with the goods and services they want at a price they are willing to pay and at a price that produces a profit for the business. A profit can only be made when the customer buys the product or service. A business that adheres to the Marketing Concept recognizes the imperative to provide the customers with what they desire. The Marketing Concept stresses that the marketing objectives are important not only to the people directly involved in the marketing function but to the whole organization. The people who design the product need to be concerned with whether it will satisfy the customer's needs not whether or not they , the designers, like the product. Manufacturing decisions should be made with consideration for their impact on customers. If a manufacturing process significantly improves the quality of the product but causes a significant increase in its sales price, the result may be a fine product that no one will buy because of the high price. Training of personnel can stress the concept that the customer is always right, but a rude sales clerk will make this business policy meaningless to the customer. Every area of the business must practice the concept of putting the customer first in planning and in actions.

Marketing has been defined in many terms. For example Malcom P. McNair, another well known business author describes it in its broadest sense when he says, "Marketing is... the creation and delivery of a standard of living." Phillip Kotler also views marketing in a broad sense when he says, "Marketing is a social process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others". Still others seem to have a narrower focus when they describe marketing as "...getting the right goods and services to the right people at the right place at the right time at the right price with the right communication and promotion". Without argument it can be said that marketing is the process of delivering desired goods and services to customers. Determining exactly who the firms customers are and what goods and services they may want can be a problem for many small scale enterprises. However the customer orientation advocated by the Marketing Concept is made practical by identifying the market the firm plans to serve. Target market identification helps the firm determine how many potential customer there are for its products or services. Not all possible customers in the firm's immediate geographic region should be included in its target market. In most cases, however , the firm has its best chance for success if the size of the specific group whose needs and wants the product or service tailored to is sufficiently large to support the firm.

The marketing concept is characterized by integrated marketing strategies. The successful small scale enterprise needs to have:

- a product strategy
- a price strategy
- a promotion strategy
- a distribution strategy

Competitive Edge

The enterprise needs a competitive edge. Competitive edge means the customer's perception is that the products or services of the firm are superior to those of its competitors, and this perception can be created from a variety of factors.

When the customers view all competitive products or services as equal in quality, price may be the critical factor. Price , however, is a dangerous criterion on which to build competitive edge. Many small scale enterprises recognize that some other factors may be considered more critical than price in the buying decision of customers. The service the firm provides with the product may in many cases be the deciding factor.

Some firms develop a reputation for standing behind their product or service, and this reputation can be even further enhanced if the firm is perceived by its customers to be the authority on such goods or services in the area. The firm's customers come to feel confident in purchasing from them. This confidence, which is earned by the firm over years of business, can be the firm's competitive edge.

In manufacturing the firm's competitive edge may be in the products design or quality. A common example of this is the designer label on clothing items. Manufacturers promote the designer's name because customers, impressed with the designer's reputation, are willing to pay a premium for the product. Some firms enjoy the reputation of being first with new products. For those customers seeking the latest in products, these firms have the competitive edge.

The small scale enterprise must make a conscious strategic decision about how it hopes to create its competitive edge. The entire organization must be committed to producing products or providing services consistent with the competitive edge target. Successful enterprises do not accidentally fall into a competitive niche; they create it.

There are several marketing strategies the small scale enterprise can use to establish a competitive edge. For example it can employ:

- a market penetration strategy
- a market development strategy
- a product development strategy

A market penetration strategy aims to increase sales of existing products or services in current markets, or in current locations, through increased selling and advertising efforts. Such a strategy is quite feasible for many small scale enterprises.

A market development strategy, on the other hand, attempts to increase the firm's sales by introducing existing products or services into new markets. A simple example of this is the firm opening a branch location.

A product development strategy tries to add new sales by adding new goods or services in existing markets. These new products may be modifications of existing products or they may be entirely new ones.

Product differentiation is closely linked to competitive edge. Here the emphasis on product differentiation creates the product or service that best serves the needs and wants of a specific consumer group or market. Products or services that are shaped to satisfy the needs or wants of a specific group are called differentiated. A simple example of this strategy being employed is the specialty restaurant that features a limited menu of gourmet meals. Since the product has been targeted to a select client base, the enterprise is more likely to be successful if the market base is large enough and the customer really believe the food to be of gourmet quality. However, the enterprise must take care to insure that all support functions of the restaurant also convey the message that this is truly elegant dining. To the extent it can do this the enterprise has succeeded in differentiating its products to serve a specific client base.

Target Market

Determining and defining the target market is not an easy task. Yet, the target market must be defined as clearly as possible if the enterprise expects to be successful. Rarely is the entire population the target market. All people do not wish to purchase the firm's product or service nor do they have the means to do so. Therefor, the target market is that segment of the total market that is willing and able to purchase the firm's products or services. The more that is known about the target market the better able the enterprise is to focus its marketing strategy on the proper target. Analyzing who are the customers for the firm's products or services, where they are located, and what they are like allows the small enterprise manager to segment the mass market into smaller, more homogeneous market segments. This will in turn permits attacking each market segment with a specific marketing strategy designed to maximize the effectiveness of the marketing effort. Such a directed approach is usually more successful than a broad approach used to appeal to the general market.

Market Segmentation

To segment a market successfully the small scale enterprise management must:

- identify the characteristics of two or more segments

Effective segmentation requires that the firm differentiate among its customers on the basis of their traits, personalities, buying patterns, or some other characteristic.

- verify that the segments are large enough and have enough purchasing power to generate a profit for the firm

Segmentation is useless if the small scale enterprise can not profit from serving its segments.

- reach the market

To be profitable the firm's market segment must accessible by the firm.

Market Research

The procedure used to learn about the marketplace is called Market Research. It helps the firm identify customers, determine the potential demand, size up the competition and provides data pertinent to the setting of prices. Market Research helps the firm to identify the best way to bring its product o, service to the customer.

The results of the market research should confirm management's initial belief that the business idea is sound. Every successful small scale enterprise s management must be enthusiastic; but it is not enough. A market for the firm's product or service must exist. The only alternative is to be able to create a market for the firm's product or service--but this approach is usually much too costly to be feasible for a small scale enterprise.

Some questions the Market Research must answer include:

- Customers

Who are the customers for the product? Where are they located? Who are the large potential users? How do they buy?

• Market Size

What is the size of the market for this product or service? Is the market growing or shrinking? How fast? How many units can be sold each year?

• Pricing

How should the product or service be priced? Are there competitive products or services available? How sensitive will the customers be to price?

•Distribution

How will the product or service be distributed? How do other firms distribute similar products? What margins should be offered to those in the channel of distribution?

• Communication

How can communication with potential customers be established and can advertising be beneficial? If so, in which media and more specifically which publications, programs, etc.?

• Competition

Who is likely to be the firm's major competitor? How can the impact of competition be limited?

The small scale enterprise's market research must be aimed at discovering answers and information in each of the above areas. The firm can then discuss how it will handle each of these areas. It is in the Market Plan that the firm develops the product, pricing strategies, distribution methods, style, packaging, and promotion of the product or products to be followed. Therefore, it is imperative to begin by researching the market to ascertain the need for the product and to perform a feasibility analysis to be certain that there is sufficient market for the product or service and to determine that the firm can be competitive.

Market research is the process of getting and analyzing information from customers or secondary sources to ascertain customer preferences, opinions, habits and trends. It also entails the analysis of the geographic, psychographic and cultural aspects of the marketplace. In researching the market it is important to consider the location of the enterprise, potential customers, size and trend of the market, the competition, product lines and mix, penetration of the market, market share, channels of distribution, and selling and advertising strategies. Evaluation of these areas will help the firm to target the market and the particular segments it can service.

How To Research The Market

Questioning potential consumers can provide good information about the market's potential. Suppliers, wholesalers and manufacturers are an excellent source of information about an industry and in areas of specific products or services. They can also give insight on current market trends and consumer preferences.

Some firms may have access to a public library, or to the business libraries of a local university. In some countries there is a wealth of information available--specific industry data, geographic data, economic data, census data as well as information about specific companies. Trade publications, industry reports, university research studies, financial press articles, and government publications can provide a tremendous amount of information at virtually no cost to the firm. A side benefit of management doing this research is that they will develop a solid understanding of their market place and this will be very evident later when they are discussing their market plan with potential investors or creditors.

In addition to information gathered from published sources, or because of the absence of such secondary source data, the firm may need to develop primary data. Primary data is information the firm develops as opposed to information that someone else developed. However, gathering some kinds of primary data can be prohibitively expensive. The less expensive approaches include direct observation, counting traffic flow, talking with potential customers, suppliers, or even competitors. The more expensive approaches to gathering primary data for the firm's market plan include hiring trained interviewers to conduct interviews, commissioned studies, and large scale surveys.

Having researched answers to the above questions and many others not listed above, prepares the firm's management to lay out an approach to the marketing of its product or service. In the process of answering the questions they may well discover things that will help the firm avoid a major pitfall. For example, they may learn that the buying decision is not being made by the actual user of the product or service. If their intention was to appeal to the user, sales might have been very disappointing.

Researching the market will provide insight and increase the probability of success of the enterprise. Market research and a definitive market plan provide the foundation necessary for building a successful small scale enterprise.

Distribution Strategy

A channel of distribution is that combination of institutions through which a seller markets products to the user or ultimate consumer. Channel decisions are critical to the success of the firm. They must be integrated into the total marketing mix. Once set up, distribution channels are often very hard to change. Distribution channels provide the ultimate user with time, place, and possession utility. An efficient channel is one that delivers the product when and where it is wanted at a minimum total cost. It costs considerable time and money to set up efficient channels of distribution.

In many industries channels have evolved over many years and have become traditional. This is not to say traditional channels are the most efficient. In fact, in areas where the availability of channels is restricted traditional channels are often notoriously inefficient. However, in most instances the wide spread acceptance of a traditional channel of distribution would indicate that the channel is efficient. In some cases the middleman is so powerful in a given market that the producer can have no policy of distribution for that market. An example of this might be Sears and a small manufacturing firm producing products for the Sears sales organization.

Some people may question the need for other institutions or intermediaries in the distribution process because of the additional cost associated with the intermediaries. The primary role of the intermediary is to bring supply and demand together in an orderly fashion. Whether or not a producer uses intermediaries, the functions usually associated with intermediaries must be performed by someone. Producers usually use intermediaries because the intermediaries can perform the function more cheaply and more efficiently than can the producer. This concept of efficiency in distribution is often critical to the small scale enterprise.

For the firm that is in a position to develop its own strategy relative to its channels of distribution, there are six basic characteristics it should consider. These are as follows:

- customer characteristics
- product characteristics
- middleman characteristics
- competitive characteristics
- environmental characteristics

The firm should also take into consideration:

- the market coverage required
- the degree of control it wishes to exercise
- the total distribution cost
- channel flexibility

The total distribution cost concept suggests a channel should be viewed as a total system composed of interdependent subsystems. The objective is to optimize total system performance. It is further assumed that the system should be designed to minimize costs. The major distribution costs to be minimized are:

- transportation
- order processing
- lost business opportunity costs
- inventory carrying costs

Inventory carrying costs include not only the costs of storage and space; but also the costs of capital invested in the inventory, taxes and insurance on the inventory, deterioration, obsolescence, and pilferage of the inventory.

IMPLICATIONS FOR LATIN AMERICAN AND CARIBBEAN AREA SMALL SCALE ENTERPRISES

Marketing Concept

Very often, in fact too often, small scale enterprise owners and managers equate marketing and sales. They try to sell that which they can produce rather than produce that which they can sell. The sales perspective is a short term view, whereas the marketing perspective is a longer term view. The sales function is a part of marketing and the sales function should be directed by marketing strategy. Marketing's principal responsibility is to communicate the customer's needs to the organization. The sales functions principal responsibility is to communicate the firm's capability to the customer.

Marketing Strategy

Very often referred to as the four P's of marketing; product, price, place, and promotion lose there meaning in situations where government controls the market. Price controls for example remove this important element from the marketing equation. Many countries have found it necessary to establish controls over the marketing of many basic products.

Target Market and Market Segments

Many of the markets in Latin America are fragmented. Often the fragments are not large enough to permit the firm to concentrate on that target within the geographic area it can serve and still generate sufficient profit to justify the enterprise. Many of the countries have relatively small populations and therefore a limited domestic market. And, in some of the larger countries a significant percentage of the population has no buying power due to the high levels of unemployment and the age distribution of the population. The middle economic class who would normally be expected to consume over 60% of the gross domestic product have suffered sever reductions in their purchasing power due to inflation. Many of this group are now buying only necessities. Thus the effective target market, i.e., those willing and able to buy the product or service is even smaller than the demographics would indicate.

Market Research

The market is ever changing; therefore firms must stay vigilant to remain attractive to the changed market. Change brings opportunities to those who are attuned to the changes that are occurring in the marketplace. Implicit in this is the need to know the market; the firm's target market and the total market.

Distribution Strategy

Distribution is a major problem in most Latin American countries. There is a lack of infrastructure for physical distribution. The airplane was available before many countries in the area had an economy sufficiently developed to warrant the construction of major road networks. The terrain of many of the countries mitigated the impact of railroads. Channels of distribution, where they do exist are often very rigid. In other cases the channels do not exist and must be created by the producer. This means the firm must invest capital into establishing the channel of distribution. The result is a high cost of selling and distribution. The small scale enterprise must address these problems in its basic mission statement. It must be able to identify and define a distribution strategy that will place the product as close as possible to the ultimate user. In fact, the small scale enterprise cannot properly cost its product until it knows the distribution costs. Very often the distribution costs significantly exceed the cost of manufacturing the product. Lower distribution costs could mean lower costs to the consumer.