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## **How marketing affects an SME firm's profitability, growth and success**

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### **Abstract**

Among manufacturing industries can be found many well-known small- and medium-sized enterprises with established brand status in their home markets. When such a company has a plan for growth through exporting, they need to put significant effort in marketing. This marketing effort is useless, however, if the company is not believable from the international customers' points of view. To ensure profitable growth in international markets, the company should be managed well at all operational levels: purchasing, manufacturing, delivering and marketing. One challenge for operation management is how to update all business functions to fulfil the needs coming from international markets. Marketing is a tool for a company to visualise its own capabilities, offerings and the brand for the export markets. This paper is a story of one company from Finland with great products, willingness for growth, and the effort they have used in operations management to support their growth in international markets.

**Keywords:** SME, manufacturing, profitability, growth

## **Introduction**

It is not clear that every company is willing to grow. One CEO from a successful, small company in Finland has said that the company is the right size when you know all your workers' first names. If, however, the company shows a willingness for growth, they have to work on it. First of all, the product or offerings should be desired. In this paper the focus is on the manufacturing industry. There are two ways for manufacturing Small-and-Medium-sized Enterprises (SMEs) to take part in global supply chains: 1) as a supplier / sub-contractor for globally acting customers, or 2) by producing their own products for global markets (Hemilä and Kicin, 2008). If a company is a supplier for large customers, it is in many cases the easiest way to take part in the global supply chain. It is easier, because the SME then has a clear distribution channel from its own production to the customer's site. In that case, it is quite easy to grow, if the customer needs more production capacity or the success of the product increases. The second choice mentioned earlier is actually the idea of Original Equipment Manufacturing (OEM). In this case the company uses components from different suppliers to create their own product for the markets. This kind of activity is the focus of this paper. The paper analyses how an SME with its own products can enter international markets: what is needed and how to support that process through marketing. It is a question of company strategic choices, innovative products but finally effective marketing to achieve the status of being well known.

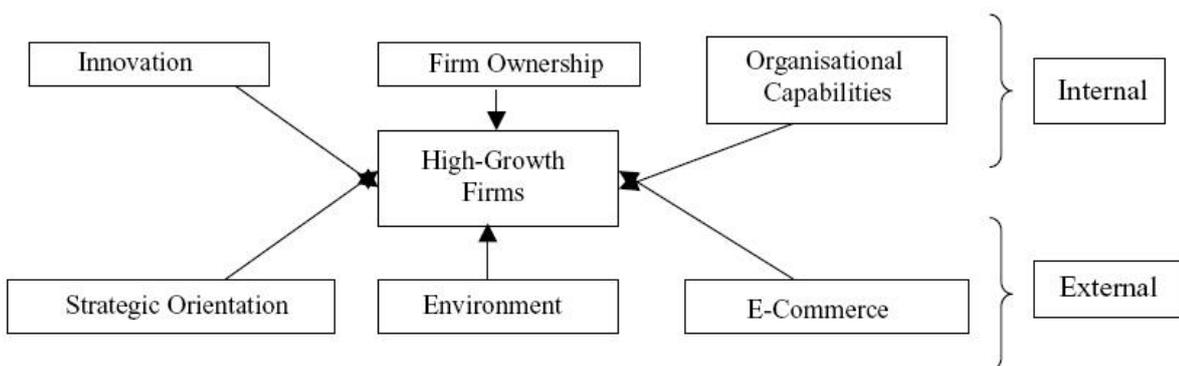
## **Methodology**

This paper describes a development project to develop a new business plan for a small-sized manufacturing company in Finland. They have a strong position in home markets with highly innovative niche products. The company is willing to grow in international markets. Development work has been conducted during meetings, workshops and brainstorming sessions in the company with the support of researchers. This paper is based on the findings from the development project as

well as a literature survey. We have also had many benchmarking visits to successful manufacturing companies in Finland that have achieved growth through exporting.

## What is needed for a small-sized company to grow in global markets?

When a manufacturing company decides to enter international markets, it should have a strong history and experience in its home markets. It is a strategic choice to go for international markets. Growth needs more resources and a new strategy leading the way towards the goal. O'Regan et al. (2006) have defined a framework for drivers of growth companies.



**Figure 1. Conceptual model of the drivers of high growth (O'Regan et al. 2006)**

We have used the O'Regan et al. (2006) framework as a basis of our analysis, but we have also taken into consideration other scholars' ideas from literature and we have extended the framework with some ideas.

### Product Innovation and Quality

SMEs are said to be innovative, in both processes and products. Despite the limited resources, they can provide very innovative offerings to the markets. Especially in niche markets there are many success stories concerning manufacturing SMEs. The literature focuses on innovation as a crucial

element in the achievement of competitive advantage (O'Regan, et al. 2006). Today competition is fierce and quality should be at a high level. Customers are willing to pay more if they can be sure of product quality. In some industries low-cost countries are setting prices low, but the quality is far from standards. Customer loyalty is stronger when product quality is high and exceeds customer requirements (Knight, 2000). With high quality products a company has the ability to charge prices higher than the competitors (ibid). Quality was the key element in Japanese companies gaining market acceptance in the 1970s (Hsu, et al. 2008). Japanese companies began to embark systematically and relentlessly on brand development and image building, with the result that Japan has since established strong brand names in the world market (ibid). Of course it was not only due to quality; Japanese companies were also extremely effective with production and process development. Total Quality Management and other managerial methods are born in Japan.

## **Strategy**

Strategy research is concerned with understanding the factors that contribute to the success and competitive advantage of business organisations (O'Regan et al, 2006). The success of SMEs under globalisation depends for a large part on the formulation and implementation of strategy (Knight, 2000). According to Knight the strategy reflects the firm's short- and long-term responses to the challenges and opportunities posed by the business environment. O'Regan et al. (2006) argue that strategic studies focus on a resource-based view of strategy, and contend that competitive advantage arises from organisational capabilities. This view suggests that competitive advantage and performance results are a consequence of firm-specific resources and capabilities (ibid). Organisational capabilities will be discussed in a later section, a very important topic for growing SMEs. O'Regan et al. (2006) has used the Miles and Snow typology to categorise various generic strategies.

**Table 1. Summary of the Miles and Snow strategy typology (O'Regan et al. 2006)**

<b>Strategic orientation</b>	<b>Main focus</b>	<b>Traits</b>
Prospector	Entrepreneurial, innovation and new opportunities orientated	External orientation, environmental scanning, maximising of new opportunities. Innovation to meet market needs. Flexibility and freedom from constraining company rules and regulations. Welcome change and see their environment as 'uncertain'
Defender	Defending existing market. Targets a narrow market segment (may be a niche market). Uses a variety of means to defend existing market	Narrow range of products/services. Internal orientation, efficiency of existing operations. Use of well-established ideas/methods, avoiding unnecessary risk. Centralised control and a functional structure are common
Analyser	Hybrid of Prospector and Defender types	Operates well in both stable and dynamic markets. Thorough analysis. Uses efficiency and increased production in stable markets and innovates in dynamic markets
Reactor	Reacts to change	Short-term planning, reacts to others' actions. Change inevitably presents some difficulties

The analysis of O'Regan et al. (2006) indicates that the majority of high-growth firms are prospectors, whereas defenders form the larger portion of firms with static or declining sales. Prospectors are continually looking for new opportunities, whereas defenders are happy to safeguard existing markets (ibid). O'Regan et al. (2006) conclude that strategic orientation impacts on high growth. There are growth examples of defenders also. Targeting a narrow market segment is a strategic choice, but growth can also be achieved in a niche market. This is why some successful companies are more like "analysers": they have features of both "prospectors" and "defenders". Porter (1998) has talked about a focus strategy, in which the company targets specific narrow markets with innovative or differentiated products. Porter's focus strategy is in that way also an "analyser" in the Miles and Snow typology. Some scholars argue that a focus strategy is the only

real choice for SMEs (O'Regan et al. 2006). In the Smallbone et al. (1995) study almost all the high-growth firms (90 per cent) had identified and responded to new market opportunities, which means that successful SMEs are actively searching for new markets for products, a feature of the "prospector".

## **Capabilities**

The strategic management field focuses on the role of competencies and resources that accumulate within a firm (O'Regan, et al. 2006). We see that strategy sets the goal for the company, but how the company can achieve its goal depends on available capabilities. Organisational capabilities are commonly defined as a firm's capacity to deploy its assets, tangible or intangible, to perform a task or activity to improve performance (ibid.). O'Regan et al. (2006) have argued that a definitive listing of organisational capabilities is not possible, but they have listed commonly agreed capabilities:

- Advertise/promote the product or service
- Deliver a broad product range
- Distribute products broadly
- Respond to swings in volume
- Make rapid design changes
- Compete on price
- Provide after-sales service
- Deliver products quickly
- Provide high performance products
- Deliver products on time
- Offer consistent quality
- Involve top management
- Involve line managers

- Adapt flexibly to unanticipated changes.

The above listing is important for SMEs: if these issues are managed well, the company has much better possibilities for success and growth. First on the list was advertising: marketing is a very important aspect of a successful company. With advertisement and marketing promotions a company can create a well-known status in the markets and ultimately after market acceptance can achieve brand status. Through the company strategy it should be described what the company's target is regarding these mentioned capabilities. Partanen et al. (2008) have identified that key tasks for managers in growth is the identification of the kinds of resources and capabilities they have to develop and acquire.

### **Networking and Supply chain**

One view on the resource-based approach is the networking of organisations. When a company's own capabilities are not sufficient, the lack of resources can be filled through networking. Networking could be done through joint ventures, alliances or merely by contracting with local companies. In many cases a local contract company or alliance partner can be used for sales and after-sales services. A local presence can be more easily achieved in this way than by establishing a local office. It is becoming increasingly difficult for organisations to remain self-sufficient in an international business environment, which is one of the driving forces behind the popularisation of inter-firm relationship building (Hsu, et al. 2008). These partnerships allow access to the skills and resources of other companies and provide new opportunities for upgrading and renewing existing capabilities (ibid). Partanen et al. (2008) argue that because of their limited internal resources, SMEs are expected to search for and access external resources through various relationships and networks (Partanen et al. 2008). There is a link from the network of organisations to organisational capabilities in the Partanen et al. (2008) argument. If entering a foreign market with dissimilar culture and buying habits to the home country, the firm may choose to simply employ local

managers with marketing expertise in order to reduce language and cultural obstacles and to make up for their own unfamiliarity with the new market (Hsu et al. 2008).

The delivery of products is a significant challenge for internationalising SMEs. It is difficult to establish a distribution network for products and services. Product communication can be achieved through advertising, which can be bought by any firm with an advertising budget. Distribution channels on the other hand can be more difficult to infiltrate (Hsu, et al. 2008). Robson and Bennett (2000) even recommend that for SMEs the best way to enter new markets is to establish alliances with other SMEs or larger firms.

### **Ownership and Entrepreneurship**

In small firms ownership and management are typically combined in one or more individuals, where personal ideology and targets affect future company goals (Smallbone et al. 1995). Smallbone et al. (1995) have listed the characteristics of the entrepreneur as one of the key components of the growth of small firms. Robson and Bennett (2000) have analysed that the company's strategic management emphasises the personal and leadership characteristics of the owner and entrepreneur. Also O'Regan et al. (2006) have similar findings in that ownership has important implications for the formulation and deployment of the corporate strategy, and for performance objectives such as short-term and long-term targets. In reality, ownership may also be a limitation on strategic development by dictating the funding environment within which strategy will actually develop (ibid). Again, the entrepreneur's own ideology affects the growth and success of the company.

### **E-business and Marketing**

E-business is today having a significant role in Business-to-Consumer markets, but it is not yet so widely used in Business-to-Business relations in manufacturing industries. There are huge opportunities to utilise internet technologies in the B2B relationship. Today, most manufacturing

SMEs have web-pages. It may be standard, but the content of the web-pages varies greatly. We have noticed that web-pages are an important part of the company's profile. When entering a well-designed website, one gets a feeling of trust in this company. Trust is a major part of brand creation and customer loyalty. We have used benchmarking to identify best practises in web-page content, and the basic information provided by a good manufacturing company website are:

- company profile: history, size, location, values, targets
- product and service descriptions, company offerings.

It is a simple issue, but still difficult for some companies. It is also good to have additional information about customer references, updated news, recruitment and sponsorship. The updating of web-pages is also one key element. Seeing news from one year ago on the home page makes one feel that nothing happens in the company. An innovative and extroverted company always has something to tell the public. E-business is an important method for marketing and part of the company image.

Partanen et al. (2008) discuss networks also in the case of marketing. According to these authors, marketing and distribution networks (e.g., advertising agencies, marketing consultancies, various distribution-channel members) facilitate access to new or current markets, and provide market information and expertise in the commercialisation of a product-service offering. We agree that networking in marketing channels is the choice with the most potential for SMEs to facilitate international marketing.

## **Case company**

Our case company is an air-conditioning equipment manufacturer called Chiller Oy. The company has around 60 employees and a turnover of €17 million. By Finnish standards Chiller is a Small and Medium sized (SME) company. Despite its size, the company is very strong in the air-conditioning

equipment market, with a market share of about 70% in Finland. Chiller has some experience in exporting to Nordic and Baltic countries, but this mainly represents an opportunity for future growth. This potentiality has been the inspiration for the development project to set a new business strategy, growth plan and business image. Chiller's competitiveness is primarily based on strong product development and innovative products for air conditioning. Chiller's products are developed particularly for the Nordic climate, which also gives it a competitive edge in the Nordic market. We are now also developing the after-sales services for Chiller, which is a new but huge business opportunity for them. Chiller has nowadays about 10 000 installed bases of their machines, but only after sales for the spare parts.

Chiller's aim is to double production volume and in that way sales volume. As its market share is already around 70% in Finland, the obvious markets are abroad. The ownership of the company is by the three persons in the management board, so they are thus quite a traditional manufacturer. They are "analysers" according to the O'Regan, et al. (2006) framework presented earlier. Chiller has focused on the niche markets of air conditioning (defender), but is actively seeking new market areas (prospector). The management team has set the targets for growth, but the idea of the project was to facilitate development actions needed for the steps towards the target.

The strategic approach was the focus on growth. As in many cases, the strategy is part of the knowledge of management board members or the CEO, but not clearly indicated to outsiders. We decided to define the strategy and write it on paper so that employees could read and absorb it. It is necessary that everyone understands, accepts and supports the strategy of the company. It is a question of capabilities in the company. Everyone should stand behind the targets and work towards them. The strategic target could also be published as information in the company website. The growth plan is a good signal to potential customers and also to existing relationships. Future plans are part of the company image and thus brand. The website is one issue for our development. Web-

pages are sometimes the first point of contact to the company, and people form their opinions according to first impressions.

Chiller is constructing a new production plant for doubling production. They have also made major changes in the existing production plant because there were potentialities to increase volume by changing layout and practises. Earlier they had already outsourced the logistics to a service provider (Hemilä et al. 2007). They are now developing the quality management of the company. They have had high quality products, but in the future they will have quality checks during production, not only in the final check.

In summary, our idea was that all functions should be updated to support growth and then marketing is considered. When all parts of the company are like a polished diamond, it is the marketing function's job to tell everyone about this company and what they can offer. Marketing is the tool to boost commercialisation and achieve new market acceptance.

## **Conclusions**

SMEs can face several constraints and risks in increasing international sales, but they can also benefit from internationalisation in several different ways. They may be able to exploit a similar market niche in different countries, thus enhancing their revenue as well as profit potential (Pangarkar, 2008). We have analysed which kinds of features a company should have when focusing on export markets and internationalisation. The findings of the study by Knight et al. (2006) suggest that growth manufacturing firms are sales oriented rather than innovation oriented. A company needs to focus on sales and marketing when trying to grow. Before sales and marketing, however, the company has to have all other functions working perfectly. Our approach in development is the business lifecycle ideology that first analyses, then develops and finally follows up and makes corrections. We will use the same method for all business functions. Partanen et al.

(2008) have defined a framework for SME growth (Figure 2) that mentions all necessary phases of the growth process and what is needed from the company targeting growth.

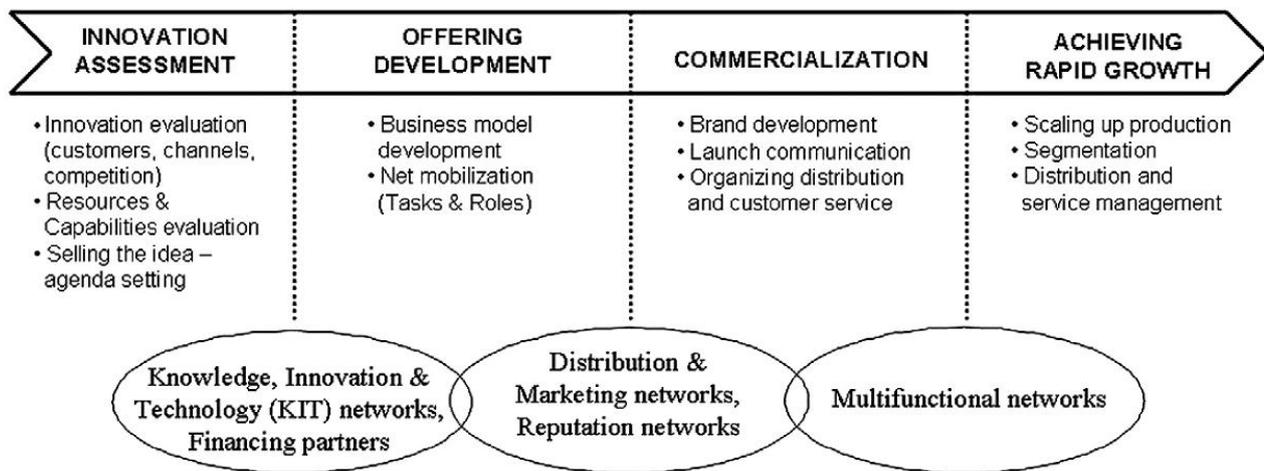


Figure 2. SME growth - a preliminary framework (Partanen, et al. 2008)

An important part of the Partanen et al. (2008) model is the commercialisation phase when the marketing network supports the company growth. Marketing is needed to attract potential customers but also to create the company image. This promotes market acceptance and a growing brand.

Marketing can be done in many ways, but it should be local, for local customers. Global advertising is not possible for SMEs, so internationalising should be done step by step locally in different target markets. Hsu et al. (2008) found that of the motivations for establishing a strategic alliance, marketing know-how was not a resource commonly sought by manufacturing companies. They estimated that when firms have access to international channels, they are more likely to employ local managers with marketing expertise from whom they can learn, therefore decreasing the need to form an alliance in order to attain marketing know-how. However, we think it should be based on the business strategy that decides when it is better to form a partnership, alliance or establish a local office.

We did not analyse internationalisation from a costs point of view. Transaction costs theory suggests that internationalisation can lead to increased coordination and communication costs, because of an increased amount of management and information sharing (Pangarkar, 2008). The literature suggests, however, that the benefits of internationalisation outweigh the increased costs and hence should impact firm performance positively (ibid).

High-growth firms also demonstrated a greater willingness to extend their management resource base through the use of external advice and consultancy (Smallbone et al. 1995). SMEs' own resources and knowledge are not enough to create totally new business concepts and business plans. Innovative companies are wise enough to realise that they do not have to know everything and some knowledge can be bought or outsourced. This is positive for researchers and consultants: advanced companies are willing to utilise knowledge from experts to support them in growth and internationalisation.

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