

*Full Length Research Paper*

# **SMEs' marketing skills challenges in South Africa**

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**SMEs comprise over 90% of African business operations and contribute to over 50% of African employment and GDP. SMEs sector has shown positive signs in South Africa, Mauritius and North Africa. In South Africa, SMEs constitute 55% of all jobs. Research such as Bowler, Dawood and Page (2006) and Phakisa (2009) reveal that 40% of new business ventures fail in their first year, 60% in their second year, and 90% in their first 10 years of existence. It seems that a number of challenges have been identified as contributing to the failure of SMEs in South Africa and worldwide. The research problem of this study emanates from the current high business failure rate as well as marketing skills of South African SME managers. The research investigates whether managerial marketing skills of small and medium enterprises (SMEs) contribute to high business failure rate in South Africa. The research established that lack of marketing skills of SMEs definitely contribute to high business failure rate in South Africa. The study concluded that the lack of marketing skills has a negative impact on the success of small businesses. The conclusion is that a positive correlation between lack of marketing skills and business failure exists in South Africa. The challenge is to improve the marketing skills of small business owners as small business is considered to be the panacea for South Africa's unemployment problems.**

**Key words:** Marketing challenges, lack of marketing skills, business failure, business measuring criteria.

## **INTRODUCTION**

It is difficult to formulate a universal definition of a small business because the economies of countries differ and people adopt particular standards for particular purposes. Secondary research (Bowler, Dawood and Page, 2006; Phakisa, 2009) indicated that there are no universally accepted small business definitions. What is regarded in the US as a small business by definition would often be regarded as a medium sized business elsewhere in the world. Small business definitions differ vastly in smaller countries like New Zealand and South Africa to their bigger counterparts in the US and the EU. In South Africa Phakisa (2009) defines an enterprise with less than 100 employees as a SME.

Small business undertakings create about 80% of all new job opportunities and according to Bowler, Dawood and Page (2006) more than 70% of all South Africans are employed in the small business sector. The small business sector is an essential factor in promoting and achieving economic growth and development and the widespread creation of wealth and employment. Nager,

Swanepoel and van der Merwe, (2008: 37) indicated that small business development should be an essential component of all reconstruction and development initiatives and this has the potential to economically empower the majority of the country's people. However, secondary resources revealed that 40% of new business ventures fail in their first year, 60% in their second year, and 90% in their first 10 years of existence (Pearce and Byars, 2002). It seems that a number of challenges have been identified as contributing to the failure of SMEs in South Africa and worldwide.

The research problem of this study emanates from the current high business failure rate. Secondary resources such as Dockel and Ligthelm (2002) have indicated that very little marketing is actually undertaken by SMEs in general hence the high failure rate in South Africa. Kroon and Moolman (2007) have the opinion that the initial costs of getting any SME up and running are high and as such marketing cost does not take priority.

This study focuses on the marketing skills challenges of

South African SMEs managers. In this regard, the problem to be researched is the lack of marketing skills. Therefore this research tries to establish the correlation between lack of marketing skills and success rate of SMEs in South Africa as well the marketing challenges experienced by SME owners.

### **Problem statement**

Research conducted on SMEs in the past has mainly focused on the challenges from the SME's funding perspective. This study will focus on the marketing issues on SMEs. In this regard, the problem to be tackled is around lack of marketing and in some instances improper marketing of SMEs. This normally results in failure of a business. This phenomenon is supported by (Bateman and Snell, 2006) when they argue that something was wrong with their (business) understanding of the opportunities they perceived or with the way they pursued them. SMEs did not have enough capital to sustain themselves until their businesses became profitable; marketing efforts were ineffective or insufficient or management was ineffective.

### **Aim and objectives**

The objectives of the study are to:

1. Gather perceptions of the importance of marketing for SMEs in South Africa.
2. Establish whether lack of marketing skills have an influence on SMEs business failure.

To attain the objective of this paper, the following hypothesis was formulated.

**H<sub>1</sub>:** There is a positive correlation between lack of marketing skills of managers and success rate of SMEs.

## **LITERATURE REVIEW**

### **The importance of marketing for South African SMEs**

'If you are a small business owner, one of the key issues you consider is balancing your time. The problem, of course, is that you have too much to do and never enough time to get it all done. The other side of this is that the tasks required of small business vary widely: inventory, accounting, personnel, recruitment, organisation, sales, marketing, and payroll. Whether you like marketing is not the issue. Managers need marketing skills to achieve balance in their business' (Bowler, Dawood and Page, 2007). Marketing of an SME

determines in the long term whether the business will succeed or go under. The assumption is if the potential customers are not aware of your products or services no one will do business with you. Gem (2002) argues that marketing in SMEs is fundamentally different and more successful. This is partly because marketing implementation can be more important to success than planning and strategy.

Walker, Boyd and Larreche (1999:27) argue that a major factor in the success or failure of a strategy at any level is whether it fits the realities of the firm's external environment. Thus, in developing a marketing strategy for a product, the marketing manager (the entrepreneur in our study) must first monitor and analyse the opportunities and threats posed by factors outside the organisation. Kotler (2005) furthers this argument in his contention that the key to successful strategic marketing is focusing, positioning and differentiation. The company (SME) must define its target market carefully. It must communicate a unique benefit positioning. And it must develop valued points of difference in its offerings and services that competitors would find difficult to copy.

Research by Smit (1999) showed that SMEs failed because they did not pay attention to the marketing side of business. However, Smit did not look at the underlying reasons for that. This research looks at the major challenges for that and as such the key challenge is finance to conduct marketing activities.

### **Marketing in the SME environment**

'If you are a small business owner, one of the key issues you consider is balancing your time. The problem, of course, is that you have too much to do and never enough time to get it all done. The other side of this is that the tasks required of small business vary widely: inventory, accounting, personnel, recruitment, organisation, sales, marketing, and payroll. Whether you like marketing is not the issue. You need marketing to achieve balance in your business' (Cook, 1994, p.x). Marketing of an SME determines in the long term whether the business will succeed or go under. The assumption is if the potential customers are not aware of your products or services no one will do business with you. Bjerke and Hultman (2002) argue that marketing in SMEs is fundamentally different and more successful. This is partly because marketing implementation can be more important to success than planning and strategy.

### **Marketing skills**

Murphy (2006:13-14) states that small business owners exhibit certain personality traits that are responsible for the success or failure of their businesses. Inadequate

**Table 1.** How important are the following needs of an SME from a business skill development perspective?

Need	Critical	Somewhat important	Not very important	Not at all important
Better knowledge of business and marketing skills (%)	30	59	10	1
Resources to hire professional advisors	24	46	22	7
More staff training	17	53	26	5
A continuous learning philosophy	25	50	20	5

Source: CMA Canada.

marketing skills of owners create marketing problems in the small business sector. Marketing of an SME determines in the long term whether the business will succeed or go under. The assumption is if the potential customers are not aware of your products or services no one will do business with you.

### Marketing skill challenges of SMEs

Some of the marketing skill challenges have been addressed in the various studies on SMEs. These can relate to the following:

1. Gain an understanding of the market and potential for growth
2. Market Segmentation
3. Market Needs Analysis
4. Access to finance
5. Education and training
6. Competitiveness
7. Marketing of products and services

Marketing is one of the most important tasks for SMEs in South Africa and marketing skills consist of marketing activities, sales, increasing market share to introducing particular new products or building relationships with customers. Murphy (2006:13-14) states that small business owners exhibit certain personality traits that are responsible for the success or failure of their businesses. Inadequate marketing skills of owners create marketing problems in the small business sector. Marketing of an SME determines in the long term whether the business will succeed or go under. The assumption is if the potential customers are not aware of your products or services no one will do business with you. Table 1 indicates the importance of the stated needs of an SME from a business and marketing skills development perspective.

As indicated in Table 1 strong management and marketing skills are identified as critical for growth and success of SMEs, deficiencies in both general and financial management are described as the major causes of business failure. Resources to hire professional

advisors (24%); more staff training (17%) and a continuous learning philosophy (25%) are all important to ensure business success.

### Measurements of successful SMEs

The success of SMEs can be measured with the following measures. 1) Profitability is probably the first thing people think about when measuring success. 2) Growing customer base growing customer base is a sure sign that the SME is effectively reaching target markets. 3) Customer satisfaction is an indication that the SME understands the needs of customers. 4) Employee satisfaction is another key indicator of business success. 5) Owner satisfaction.

### METHODOLOGY

Secondary and primary sources were used to gather information analyze the managerial skills of small business owners. The main sources of secondary sources were journals, articles, press reports, books and research studies.

Since the aim of this research was to answer a research question by understanding the perceptions of small business owners a qualitative paradigm was deemed appropriate for the primary research. The population of the research consists of all small business owners in South Africa. A Department of Trade and Industry (2007: 48) list of 10 000 small business owners exists which formed the population of the study. A sample of 1000 small business owners was randomly selected from this list and the 1000 questionnaires were completed using face to face interview method between 1<sup>st</sup> and 28<sup>th</sup> of February 2008. 801 replies were received which means a response rate of 80%. This may be considered a good response rate according to Nederhof (2002) considering the sensitivity of the topic, the nature of the problem under investigation and the inhibitions that management might have regarding the survey.

The main construct of this study marketing challenges was measured through the use of Likert-type scales. The basic scale design therefore consisted of a Likert-type scale with five scale points (with labels ranging from strongly agree to strongly disagree) and 11 scale items. This scale was found to be highly reliable with a Cronbach's alpha of 0.7. In this study the researcher not only wants to describe the sample data such as means, standard deviation and proportions but wishes to make inferences about the population based on what was observed in the sample. Therefore the following null and alternative hypotheses were formulated:

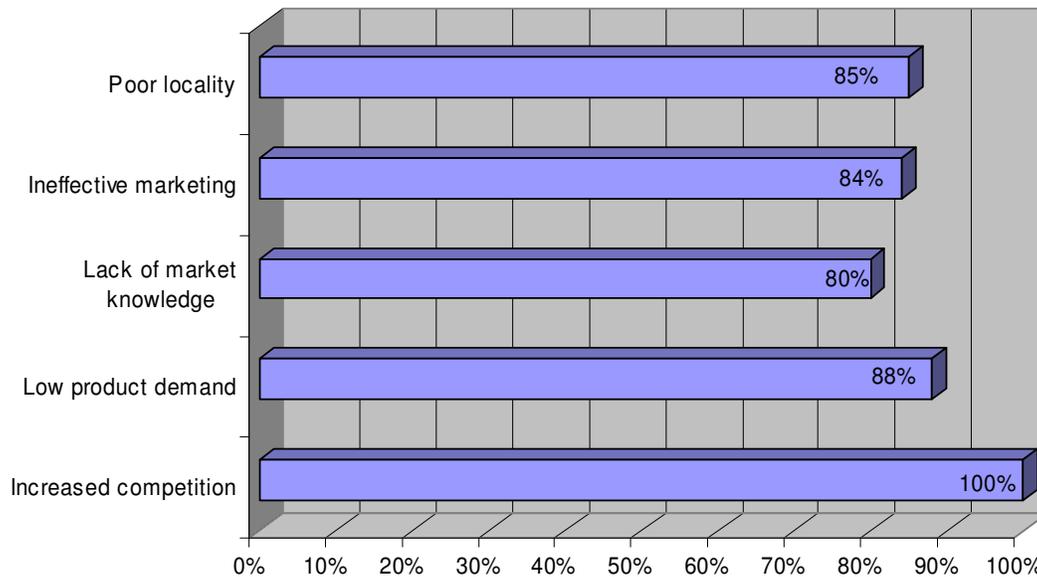


Figure 1. Impact of market related issues on business.

$$H_{01}: \mu_1 = \mu_2$$

$$H_{A1}: \mu_1 \neq \mu_2$$

## RESULTS

### The impact of market related issues on the business

The impact of market related issues on small business owners were measured in the questionnaire. Secondary research identified eight market-related issues, namely: Poor locality, ineffective marketing, lack of market knowledge, low product demand and increased in competition. The question tested whether any of the eight market-related issues had an impact on the respondent's businesses failure. The outcome of the survey findings is presented in Figure 1 which indicates that:

- i. One hundred percent of the respondents experienced increased competition;
- ii. Eighty-eight percent of the respondents complained of low demand of their products;
- iii. Eighty-five percent of the respondents complained of poor locality of their small business;
- iv. Eighty-four percent of the respondents complained of ineffective marketing their products; and
- v. Eighty percent of the respondents experienced lack of market knowledge.

The respondents believed that the above-mentioned factors positively affected the success of business. Increased competition indirectly decreased the small business income, which could lead to business failure.

### The impact of enterprise-based related issues on the business

The respondents were asked whether enterprise-based related issues such as managerial skills and business knowledge affected their business and what influence factors such as crime, economic factors, finance, labour and rent have on their business success.

Managerial skills and business knowledge are an indication of how well an entrepreneur can perform important tasks and activities related to the functions of a business. The respondents were asked in the questionnaire which managerial skills they lack to successfully run a business. They indicated the following managerial skills, namely: managing personal stress, managing time, performance appraisal, motivating employees, managing conflict, solving problems, marketing, bookkeeping, record keeping, writing business plan and pricing. Figure 2 presents the outcome of the survey findings. Figure 2 indicates that the respondents lack the following managerial skills:

- i. Thirty seven percent of the respondents had problems establishing prices of products and services;
- ii. Thirty one percent do not have the knowledge to record business transactions;
- iii. Thirty one percent could not write a performance appraisal;
- iv. Twenty nine percent experienced marketing problems;
- v. Twenty six percent had difficulty managing conflict in the workplace;
- vi. Eighteen percent had problems with time management;

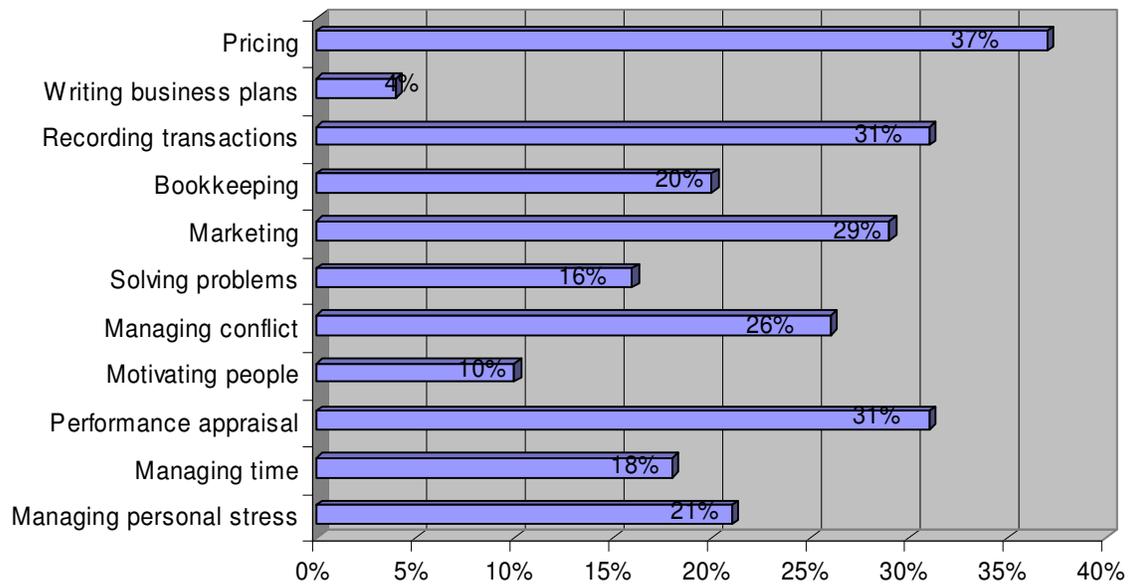


Figure 2. Managerial skills.

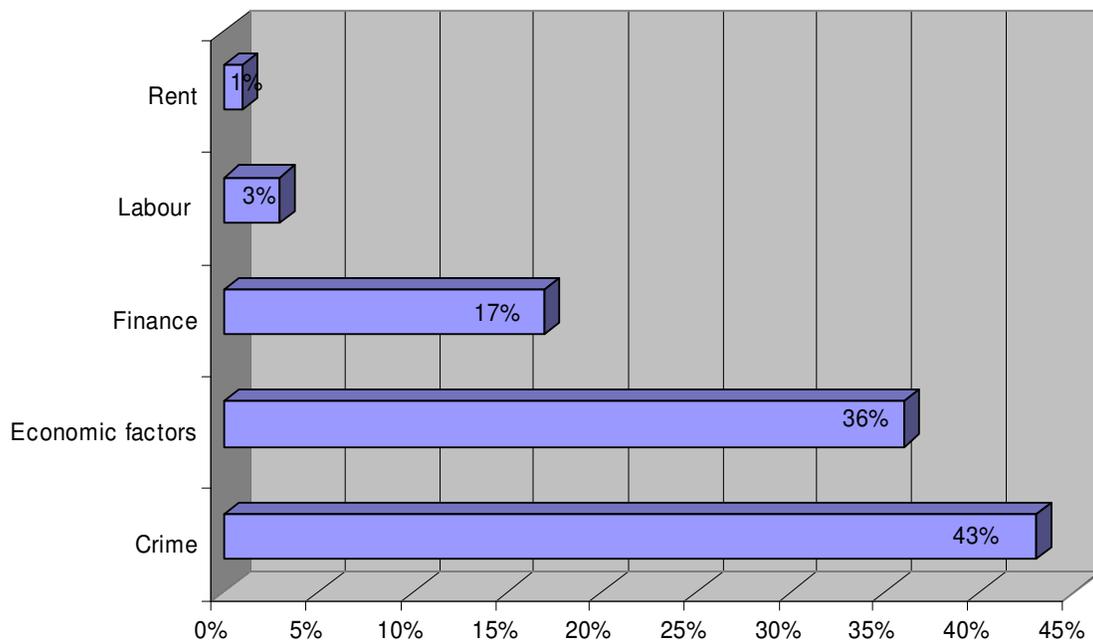
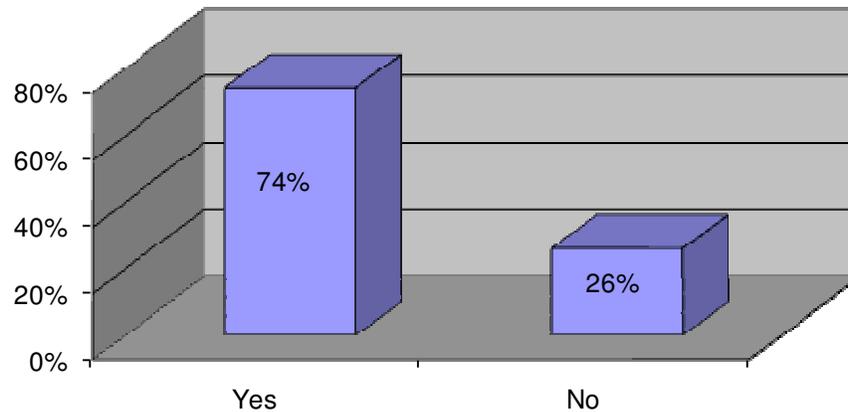


Figure 3. Problems faced by respondents.

- vii. Sixteen percent experienced problems solving problems;
- viii. Twenty one percent could not managed personal stress;
- ix. Twenty percent experienced problems with bookkeeping;
- x. Ten percent had problems motivating people; and

- xi. Four percent could not write a business plan.

The respondents were asked in an open-ended question to list the problems the faced. The following were listed as problems faced by the respondents, namely: crime, economic factors, finance, labour and rent. The outcome of the survey finding is presented in Figure 3.



**Figure 4.** Relationship between lack of marketing skills and business failure.

Figure 3 indicates that 43% of the respondents perceived crime as the biggest problem faced by them. At least two out of five enterprises are affected by crime. Some respondents indicated in the comments section that formal businesses with premises away from home and those that hold stock are at greater risk, since this makes them more vulnerable to crime (such as burglaries) outside business hours. Some respondents also mentioned 'off the record' that crime is a widespread problem in the black townships and imposes an additional premium on running a business there and that crime acts as an incentive to relocate elsewhere, outside of the black areas.

As indicated in Figure 3, 36% of the respondents perceived economic trends as an external factor causing problems to the business. Small businesses cannot control this external environment that harms them. Seventeen percent of the respondents with existing businesses regard finance as a problem. Only 3% of the respondents indicated that they experienced problems with employees. Only 1% complained about the rent they pay. Respondents agreed that crime and economic factors, negatively impacted on the success of their businesses.

### **Factors contributing to small business failure**

Factors contributing to the closure of small businesses that were investigated in the survey included: the reasons why businesses failed and whether there is a relationship between lack of marketing skills and business failure.

### ***Reasons why businesses failed***

The respondents gave the following examples of causes

for business failure: lack of marketing skills and financial problems. Ninety percent of the respondents were of the opinion that small businesses fail due to a lack of marketing skills. Seventy percent of the respondents, whose first business initiative failed, blamed financial problems for the business failure. The results suggested that the lack of money for running costs or capital items is a widespread problem facing small businesses therefore there is no money left to market the business.

### ***Relationship between lack of marketing skills and business failure***

The respondents were asked whether they believed that a positive relationship exists between lack of managerial skills of small business owners and business failure in South Africa.

As indicated in Figure 4, 74% of the respondents believed that a positive relationship exists between lack of marketing skills of small business owners and business failure in South Africa as appose to only 26%.

The aim of the research, as discussed was to investigate whether lack of marketing skills is the main cause of business failure. The hypothesis formulated for this research is:

**H<sub>0</sub>:** There is a positive correlation between lack of marketing skills and business failure in South Africa.

To achieve the objectives of the study,

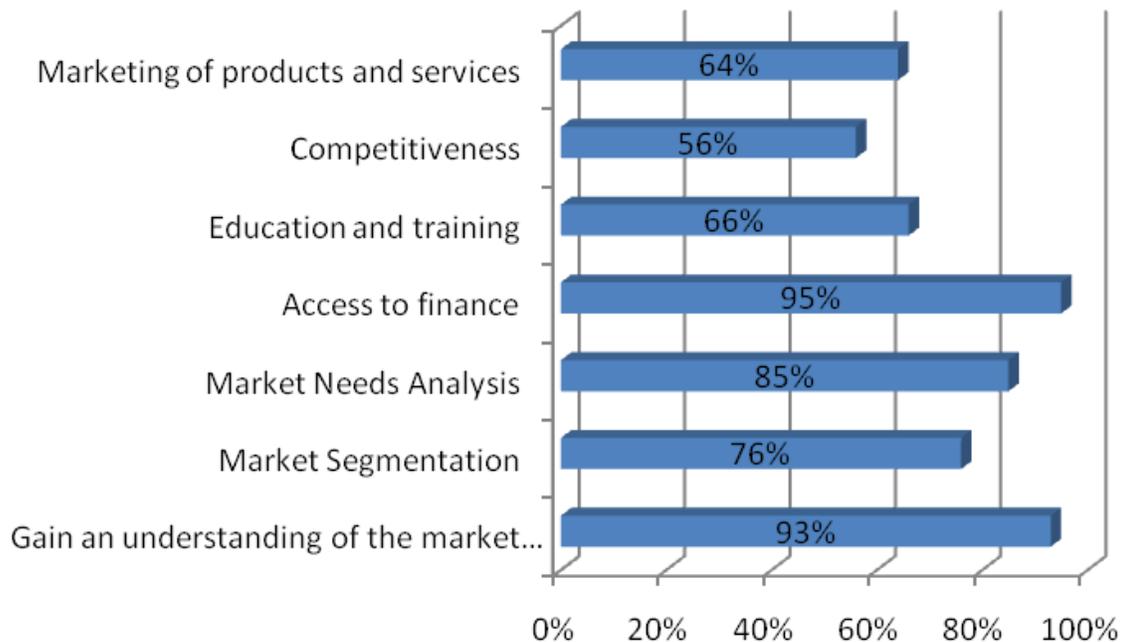
H<sub>01</sub>:  $\mu_1 \neq \mu_2$

H<sub>A1</sub>:  $\mu_1 = \mu_2$

The response of the hypothesis is shown in Table 2. Table 2 shows that the Pearson correlation indicates a perfect correlation of 1 at a significant level of 0.05 2-tailed. When conducting the z-test, H<sub>01</sub> was rejected

**Table 2.**The Pearson correlation

Variable		Lack of marketing skills	Total: Lack of marketing skills and business failure
<b>Lack of marketing skills</b>	Pearson correlation	1	0.073
	Sig. (2-tailed)	.	0.448
	N	157	156
<b>Total: Lack of marketing skills and business failure</b>	Pearson correlation	0.073	1
	Sig. (2-tailed)	0.448	.
	N	157	156

**Figure 5.** Marketing Skill Challenges.

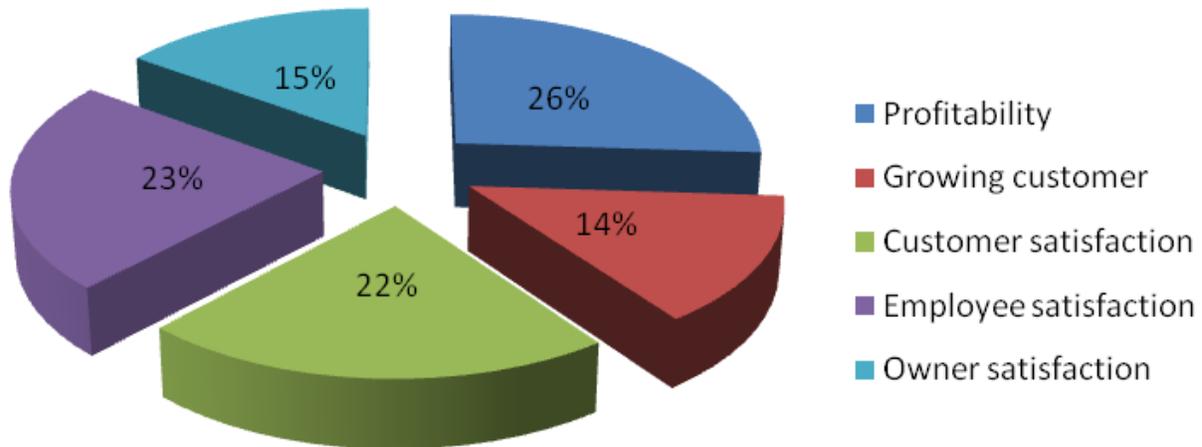
thus accepting Ha1. Therefore, by accepting Ha1, one may conclude that there is a positive correlation between lack of marketing skills and business failure in South Africa.

It is evident from the study that business owners lack certain managerial skills such as marketing, financial, and human skills to operate their businesses successfully. The research findings confirm that small business owners are in need of support services such as training, counselling, and financial assistance. It is equally evident that small businesses are constrained not only by financial factors but also specifically by non-financial factors such as lack of education, inadequate technical skills, poor access to markets, lack of information and unreliable infrastructure. The analysis also indicates that the marketing skills that the respondents possess, and those that they preferably should have, do not correlate.

### Marketing challenges of SMEs

The respondents were asked to indicate the marketing skills challenges they experience in South Africa. The results are shown in Figure 5 which indicates that the respondents experienced the following marketing skill challenges:

- i. Sixty four percent of the respondents experience marketing of products and services as a challenge.
- ii. Fifty six percent of the respondents consider competitiveness as a challenge;
- iii. Sixty six percent of the respondents experience education and training as a challenge;
- iv. Ninety five percent of the respondents experience access to finance as a challenge
- v. Eighty five percent of the respondents indicated to



**Figure 6.** Measurement criteria.

conduct a Market Needs Analysis as a challenge.

vi. Seventy six percent of the respondents experience Market Segmentation as a challenge

vii. Ninety three percent of the respondents experience understanding of the market and potential for growth;

It seems that 'access to finance as a challenge' and 'understanding of the market and potential for growth are considered as the main challenges for SMEs in South Africa.

### Measurements of successful SMEs

The success of SMEs can be measured with the following measures:

- i. Profitability is probably the first thing people think about when measuring success.
- ii. Growing customer base growing customer base is a sure sign that the SME is effectively reaching target markets.
- iii. Customer satisfaction is an indication that the SME is understands the needs of customers. 4) Employee satisfaction is another key indicator of business success.
- iv. Owner satisfaction.

In the questionnaire the respondents were asked to rate the different measurement criteria in order of importance. The result is shown in Figure 6.

As indicated in Figure 6, 26% of the respondents consider profitability as the most important measuring criteria for the success of a small business. Growing customer is indicated as the least important measuring criteria for the success of a small business.

While 22% of the respondents consider customer satisfaction; 23% of the respondents consider employee satisfaction and 15% of the respondents consider owner

satisfaction measuring criteria for the success of a small business.

### RECOMMENDATIONS

One of the greatest needs of managers of small businesses is to understand and develop Small Business Marketing Strategies for their products and services. Small business success is based on the ability to build a growing body of satisfied customers. Modern marketing programs are built around the "marketing concept," which directs managers to focus their efforts on identifying and satisfying customer needs - at a profit. It is emphasised that marketing skills and business knowledge are an indication of how well an entrepreneur can perform important tasks and activities related to the functions of a business. The marketing challenges of SMEs can be decreased by training marketing skills to SME owners and assist them to use the marketing concept more efficiently. The marketing concept rests on the importance of customers to a SME and states that:

- i. All company policies and activities should be aimed at satisfying customer needs, and
- ii. Profitable sales volume is a better company goal than maximum sales volume.

The conducted research recommends that SMEs use the marketing concept and determine the following:

- i. Determine the needs of their customers (Market Research);
- ii. Analyse their competitive advantages (Market Strategy);
- iii. Select specific markets to serve (Target Marketing), and;
- iv. Determine how to satisfy those needs (Market Mix).

SME managers should also audit their company's performance at least quarterly. The key questions to ask are:

- i. Is the company doing all it can to be customer-orientated?
- ii. Do the employees make sure the customer's needs are truly satisfied and leave them with the feeling that they would enjoy coming back?
- iii. Is it easy for the customer to find what he or she wants and at a competitive price?

The conducted research also recommends that SMEs managers should establish their unique selling proposition (USP) to achieve more success with marketing of their businesses.

### Conclusion

Surviving challenges of SME managers tend to overshadow the importance of marketing. SMEs managers do understand that they can grow profits through proper marketing. The conclusion is that a positive correlation exists between marketing skills challenges and business failure in South Africa. The conducted research also indicated that marketing in the SMEs is the responsibility of the business owner. Therefore the marketing concept that must be shared and lived by the entire business tends to be lacking which causes business failure. The research established that marketing challenges of SMEs contribute to high business failure rate in South Africa.

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