MARKETING CHALLENGES BY SMEs IN KENYA

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Abstract

The paper acknowledges that SMEs (small and medium-sized enterprises) cannot do conventional marketing because of the limitations of resources which are inherent to all SMEs and also because SME owner/managers behave and think differently from conventional marketing decision-making practices in large companies. In this context the discussion focuses on SME characteristics and how these impact upon marketing characteristics within SMEs. This paper searches for "alternative" marketing approaches which are applicable to Kenyan SMEs. A global outlook is sought to try and find out variables which warrant a probe in a Kenyan situation. This exposes networking; innovative marketing and word of mouth communication as the tools or approaches for carrying out meaningful marketing for SMEs in Kenya.

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Introduction

Small and medium enterprises (SMEs) are among the main constituents of developing countries and represent the most widespread type of business organization in Africa and particularly Kenya (RoK, 2011). According to Vision 2030, Kenya aims to increase gross domestic product (GDP) growth rates to an average of 10% over the vision horizon. Achieving the 10% growth will require a dedicated campaign to alleviate existing constraints to future growth and in particular to use Kenyan resources more efficiently. Delivering Kenya's ambitious growth aspirations will require that the informal sector through SMEs, be supported in ways that raise productivity and distribution so that we may increases jobs, owners' incomes and public revenues.

A lot is being done by the government of Kenya in Support of SMEs through the Ministry of Industrialization. In the budget for 2012/2013 financial year, the government announced the creation of the Growth and Enterprise Market Segment (Gems) at the Nairobi Securities Exchange which would allow small businesses to list at the bourse. The enterprises will not be subjected to stringent listing rules that big corporations face while seeking to float their shares at the stock market. In order to boost the 'Mitumba industry' (second hand clothes), the government directed to offer a tax incentive. The incentive is geared towards reducing taxes for imported second hand clothes from 1.9 million Kenya shillings per 20 foot container to 1.1 Kenya shillings million. The government has also provided various groups with **funds to spur**

entrepreneurship and hence enhance the growth of SMEs in the country.

The government has enhanced the Youth Enterprise Development Fund by Ksh550 million and the Women Enterprise Fund by Ksh440 million. These funds are given to groups of 10 individuals at a cost of 8% interest per annum. The government also plans to deepen business regulatory reforms to enhance access to credit and modernise the regulatory regime for SMEs in order to amplify their multiplier effect on employment opportunities. In the 2012/2013 FY budget, the finance minister hinted that the law that would help enforce a directive by the President, that small and medium businesses be given priority in government tenders. All these are deliberate efforts that show how the government recognizes the vital role that SMEs play to the economy. In fact, vision 2030 aims at strengthening SMEs to become the key industries of tomorrow by improving their productivity and innovation. Despite these noble efforts, the government of Kenya has not gotten into a full realization of the real issues which would facilitate a permanent attraction, retainance and the sustainability of such enterprises. This can only be achieved with the realization that, *there is need to instil marketing practices to SME entrepreneurs in Kenya.*

Traditionary, SMEs based their competitiveness on a number of factors, such as: their tendency to concentrate in particular regional areas, and their high degree of specialization and flexibility resulting from their informal organization, wherein the entrepreneur usually represents the sole decision maker (Marcati, Guido & Peluso, 2006). In the last few years, due to emerging drivers of market change (e.g. the markets' internationalization, the increasing global competition and the diffusion of ICT) their traditional factors of success i.e. specialization and flexibility; have lost their strategic relevance in favour of other key factors e.g. innovation and marketing orientation (Guido *et al,* 2006).

The authors of this article focus on coming up with SMEs' situational marketing solutions to their marketing challenges in Kenya. The article therefore challenges Kenyan SMEs to focus on the intangible attributes of their offers, by integrating goods with services, thus providing psychological benefits and consumption experiences to customers, in order to achieve a competitive advantage of differentiation. To this end, a marketing orientation becomes crucial for enabling local firms to reach better performances and a sustainable competitive advantage in the long run. The literature is explored with specific reference to the characteristics of SME marketing and challenges in business to help identify the nature of entrepreneurial marketing by SMEs in Kenya.

Global and Regional trends of SMEs

The small and medium enterprise (SME) sector is generally considered the backbone of the economic structure in many developed and developing countries. SMEs are important to the growth of both regional and national economies because they create employment, contribute to economic growth and are a transitional model for the emergence of larger enterprises (Hak-Su, 2005). The gradual lowering of trade barriers is forcing companies, large and small, to think globally, and it is becoming increasingly necessary for them to be internationally minded and competitive in order to be effective in their domestic markets. This suggests that, for SMEs to be successful, they must adapt their strategy to accommodate the realities of a freer trade.

According to UNIDO (2005a), SMEs in developing countries play a different role in the division of labour than in industrialized countries. In developed countries, SMEs complement rather than compete with large firms in that they produce for specialized, niche markets. In contrast, SMEs in developing countries are "employers of the last resort, operating at the margins of a modern division of labour" (UNIDO, 2005b). In fact, they contribute little to economic growth, very little to export and almost nothing to technological development. However, UNIDO (2005a), states that "they are the only realistic employment opportunity for millions of poor people throughout the world". Therefore it is considered important, by the majority of the organizations that are dedicated to helping them that SMEs in developing countries need to prosper. To do so, according to Lukacs (2005), they need to have both conducive business and regulatory environments, access to capital, basic infrastructure, knowledge about market opportunities, and connectivity to international markets.

SMEs in developing countries contrary to developed ones are faced with the increasing costs and erosion of their competitiveness. Baltac (2005) points out that, there are discrepancies among developed and developing countries in information and communication technology (ICT) infrastructure, accessibility and affordability of internet access, all of which are favouring developed nations. Generalized ability to use ICT – both in terms of literacy and cost – is a problem for low-income countries.

The importance of SMEs to a country's and, indeed, the world's economic growth is evidenced by the number of bona fide organizations around the world dedicated to helping them succeed. Organizations such as the Organization for Economic Cooperation and Development (OECD), the US Small Business Administration, and the Asia-Pacific Economic Cooperation (APEC) are all dedicated to helping existing SMEs grow into successful employers.

Challenges of SME marketing and how they can be overcome

SMEs have unique characteristics that differentiate them from conventional marketing in large organizations (Carson *et al,* 2001). These characteristics may be determined by the inherent characteristics and behaviours of the entrepreneur or owner/manager; and they may be determined by the inherent size and stage of development of the enterprise. Such limitations can be summarized as: limited resources (such as finance, time, and marketing knowledge); lack of specialist expertise (owner-managers tend to be generalists rather than specialists); and limited impact in the marketplace. In addition, SME marketing is haphazard and informal because of the way an owner-manager does business; they make most decisions on their own, respond to current opportunities and circumstances and so decision making occurs in a haphazard and apparently chaotic way, according to personal and business priorities at any given point in time (Scase & Goffee, 1980). Clearly such limitations will influence, indeed determine, the marketing characteristics of an SME. SMEs do not conform to the conventional marketing characteristics of marketing textbook theories; instead their marketing is characterized by the limitations outlined above. Thus, SME marketing is likely to be haphazard, informal, loose, unstructured, spontaneous, reactive, built upon and conforming to industry norms.

According to Verhee and Meulenguberg (2004), SMEs tend to be more reluctant to adopt a marketing approach mainly because of lack of resources and skills. In particular, since SMEs usually lack marketing specialists and their owners/managers (i.e. SME entrepreneurs) are usually the sole decision makers, their choice to adopt (or not) a marketing approach lies on what they think marketing is and their expectancies about consequences of the adoption of such an approach in their organizations. This means that its use is evaluated subjectively, according to the entrepreneurs' perceptions, contexts and mental schemes about marketing (Guido *et al,* 2001).

Many researchers have stressed the importance of the inherent characteristics of SME entrepreneurs in their choice to adopt (or not) a marketing approach. The more adaptive (i.e. conservative and less innovative) entrepreneurs are likely to reject the adoption of the marketing approach in their organizations since it would represent an innovation in itself and as such, may be perceived as too risky (Marcati, Guido & Peluso, 2006).

On the other hand, also due to the peculiar characteristics of SMEs, (such as organizational flexibility, specialization, lack of resources, lack of marketing knowledge and skills), SME entrepreneurs who choose to adopt the marketing approach tend to be simple, informal, instinctive and thus different from the theoretical paradigms developed in the managerial literature. Some authors (Carson *et al,* 2001) have referred to this "haphazard" marketing approach often adopted by SMEs as *"entrepreneurial marketing"*, thus stressing its intuitive and situation – specific nature, as well as its implementation without pre-planning activity. Simpson and Taylor (2006), share a feeling that although marketing is an important business function, its role within the organization and its relevance with regard to the business environment in which the company operates is a complex relationship. In fact, it is so complex that many other strategies and orientations seem to be equally successful in SMEs.

Simpson and Taylor (2006) developed a unique model of the role and relevance of marketing and applied it to the situations of SMEs. The model goes some way in explaining the reasons for SMEs adopting different strategies regarding marketing. The model offers a new topology of SMEs in terms of their marketing efforts and the external business environment. The model provides a diagnostic tool for the current situation and a selection of strategies to achieve the future goals of the company. Many researchers argue that, owner - managers of small firms tend to view marketing narrowly. The role and potential of marketing is regarded often from a narrow operative perspective that is close to sales management (Miles & Darroch, 2006). It is even argued that SME marketers may consider marketing as a synonym of either selling or advertising (Marcati et.al. 2006). Despite the differences, it has been noted that the basic marketing concepts such as segmentation, customer orientation, targeting, positioning and seeking for competitive advantage apply to small as well as large enterprises (Hogarth – Scott et.al. 1996).

Models of SME Marketing

Given the lack of well-accepted theories of SME marketing, most authors use case study methods to build relevant theories. Case study research is especially useful for building theory. The probing, qualitative nature of case study research is particularly a rich way of understanding marketing behaviour in a situation that has not previously been well articulated or generalized. The resulting lack of formal and conventional marketing concepts can be misconstrued as a lack of marketing in some instances, whereas much of the literature on SME marketing identifies the presence of a form of marketing which is unique to small firms (Miles & Darroch, 2006), subject to entrepreneurs adapting general marketing concepts, practices and theories to suit their own purposes (Carson, 1993), while maintaining a process-focus and concentrating on incremental innovations (Miles & Darroch, 2006).

Gilmore and O'Dwyer's Innovative Marketing Model

SME literature acknowledges that small firms cannot compete using economies of scale; therefore, their competitive advantage lies in the development of innovative products or processes, which is reliant on accurate market and customer information (Forrest, 1990; Low & MacMillan, 1988). Creative, alternative and instinctive marketing practices may flourish even under financial resource constraints. From an SME perspective, innovation commonly refers to new products or processes which address customer needs more competitively and profitably than existing solutions (O'Regan and Ghobadian, 2005; Zahra *et al.*, 1999), and comprise a key SME success factor (O'Regan and Ghobadian, 2005; McEvily *et al.*, 2004; Banbury and Mitchell, 1995).

The principal source of successful innovation is the knowledge and experience of people within an SME, in particular, the owner/manager (O'Regan and Ghobadian, 2005). However, innovative individuals must be able to manage the process from opportunity recognition to product or service production to exploit the concept (Kleindl, 1997). In addition, the innovation process is enhanced by the integration of systems, flexibility of the SME, effective use of technology and adaptation of solutions used in other applications (Miles & Darroch, 2006). Such innovative ability gives SMEs their competitive advantage, a key element in capturing market success and inter-firm competitiveness (Mole and Worrall, 2001; Conrad, 1999) which enables them to exploit new products and markets while improving their cost base and pricing policies (Mole and Worrall, 2001). Innovative new businesses create new competencies based on current and future market trends and customer demands; they are driven by a profit seeking mission.

Chance or luck helps small companies to recognize and take advantage of an opportunity (Cummins *et al.*, 2000; Bjerke, 1997). Less formal organizational structures, such as those within SMEs, have been identified as being conducive to innovation, as they encourage a corporate culture which enables participation, networking, inclusion, and experimentation throughout the organization (Lukas, 2005). Moreover, the environmental uncertainties and challenges faced by SMEs may prompt an innovative response to establish competitive advantage (Baltac, (2005). Furthermore, in an investigation of innovation in firms, (Lukas, 2005), discovered that firms innovate in response to two factors, limited growth conditions and an appropriate business environment. “Small firms have been found to have higher rates of innovation compared to their share of sales or number of employees” (Hak-Su, 2005). However, such innovative behaviour only occurs when there is a match between the external environment, organizational goals and an individual's personal values (Kleindl *et al.* 1997). The more diverse and uncompromising the environment such as those encountered by SMEs, the higher the level of proactive innovative behaviours (Baltac, (2005). However, Martin and Rana (2001), found that in instances where small firms lack resources, innovation might suffer. Innovation is evidenced through the production of a unique concept pieced together from existing ideas and concepts (Baltac, (2005). Therefore, its success is determined by its newness, the extent of its adoption (Simpson and Taylor (2006), and its translation into an exploitable opportunity for the SME. Thus, *i*nnovation in SMEs can be categorized in terms of the nature of innovation, continuity of innovation, digress and attributes of innovation (Hak-Su, 2005).

Carson’s model of Networking in SMEs

His empirical study highlighted that there is considerably more communication between the SME owner/manager and his/her competitors than is widely reported in the literature. Owner/managers may communicate with competing firms and often are quite supportive of each other. Indeed, many owner/managers claimed to know their competitors personally, and would have no hesitation in contacting them for help or advice. For example, some owner/managers describe relationships with their main competitors as follows:

… there’s a lot of openness between people like ourselves and (the biggest competitor) … We share jobs … we work together. To a certain degree we are still competitive but if he has too much work on, he’ll send me some of the work to do for him; and if we have too much on, or we’re given a job that we don’t specialize in and he does. We’d give it to him and things like that. A high level of co-operation seemed to exist between some competitors. The reason for such collaboration in many cases was to prevent the client taking the work to a company outside the domestic market, “It would have to go outside of (local region), that’s the difficulty”.

In other cases one company might engage in a joint arrangement with a competitor if a particular project is too large for either to complete on their own, or if one company requires new resources or skills. For example: … at times we would realize we are not going to get this (business) on our own, so we would ask one of our competitors, “Would you fancy having a go at this with us”? Especially if it was an area in which we felt we were under-resourced. So it’s not difficult to work with our competitors… Many SME owner-managers recognize the advantage of maintaining good relations with competitors for the overall good: … we do try to improve professionally. I suppose, when you think about it, it’s bound to be for the good of everyone. I suppose that’s inherently what it’s about. Trade associations or institutes often provide the ideal forum for managers to meet: such bodies, most would claim that they inform of general developments within the industry, which includes what other firms are doing and how buoyant their business is relative to their own. For example: … to find out what exactly is going on … on a daily basis you know. … when I talk to other (practitioners) locally and I’d say, “how are things going…”? Or perhaps you’re very busy, then you find out what the trends are from talking to these people…. … there is one annual general meeting held in (city) … where all the members come together and we would talk … … and after the after-dinner speaker, we retire to the bar and then people talk among themselves.

Trade associations act as a means for the manager to become known to his peers within the industry. While occasions such as exhibitions or committee meetings ensure a certain degree of formality, they create the opportunity for more social encounters: It's not a confrontational group. We all meet professionally and are reasonably supportive of one another. Whilst we compete on service and on price, we don't disagree with each other, we don't bad-mouth one another. That's how I get to know the partners in the other firms; I would know them socially and professionally. So while competitor collaboration does take place, it is balanced with caution when it is felt that the benefits enjoyed by each party are proportionate to their respective inputs. Managers will guard against speaking too freely about certain things, especially any plans they might have for substantial changes to the firm or its direction. However, in doing all of this, SME owner/managers rely heavily on using their networks and their networking skills for all aspects of marketing in the context of competitor activity. Carson concludes his model by stating that, at whatever stage of refinement or development, it is argued that SMEs do marketing by networking and this MBN can be developed proactively as an approach for marketing which is wholly compatible with the characteristics of SMEs.

Simpson and Taylor's Role and Relevance of marketing model

It is believed by academics that a firm with a marketing orientation will perform better than another, similar firm, without such an orientation. Guido *et al,* (2006) define market orientation as the "organization culture that most effectively creates the necessary behaviours for the creation of superior value for buyers and thus continuous superior performance for the business". The role of marketing within an organization can be viewed as an internal focus on the use of marketing by the organization. So that, if marketing plays a big role in the organization, then marketing would be expected to be included in all business plans, and to be used as a way of generating strategies and planning the future of the organization. Marketing would be expected to take up a significant amount of the time spent by senior managers both in planning and implementing marketing activities. It would also be expected that the organization would have a marketing orientation with the trappings of a marketing department with sufficient staff, resources and a reasonable budget. Marketing strategies and plans would be developed, monitored and evaluated in a systematic way by organizations where marketing plays a major role within the organization.

The relevance of marketing examines the need for marketing by the organization when operating within the company's particular business environment. The focus of attention here is on the external need for marketing so that the company can remain competitive within its business environment. For example, in a highly competitive industry, or a very dynamic industry, a company would need a major marketing effort in order to compete and maintain market share. A company not doing this would soon lose market share or be overtaken by changes in the market which were not anticipated. However, in a less competitive and stable industry marketing would be less relevant to the future of the organization. This is especially true if the organization has little or no ambition or ability to grow. It may be that these limitations are artificially imposed, but so long as the market remains stable then the relevance of marketing may be regarded as minor.

Selection of Variables that would warrant a probe in a Kenyan Scenario

The main thrust of entrepreneurial marketing is an emphasis on adapting marketing to forms that are appropriate to small and medium-sized enterprises (SMEs), acknowledging the likely pivotal role of the entrepreneur in any marketing activities. Successful entrepreneurs undertake marketing in unconventional ways. They tend to focus first on innovations, and only second on customer needs. They target customers through a bottom-up process of elimination, rather than deliberate segmentation, targeting and positioning strategies. They rely on interactive marketing methods communicated through word-of-mouth, rather than a more conventional marketing mix. They monitor the marketplace through informal networks, rather than formalized market research (Miles & Darroch, 2006). In Kenya, these variables have successfully been utilized in different organizations. Rather than concentrating on variables which are more western friendly, Kenyan entrepreneurs had better take notice of the ones which are more successful and those that suit most business operations and norms based on Kenyan environment and circumstances.

SME marketing by networking

Networking is a naturally inherent aspect of SME owner-manager decision making, particularly those decisions relating to marketing. This is because owner/managers must go outside the businesses' physical confines in order to do business and this business is marketing-led activity. Thus, SME owner/managers are doing marketing through their natural and inherent networking activity, through all their normal communication activities, such as interacting and participating in social, business and trade activities. Some of the characteristics of "marketing by networking" are that it is based around people-orientated activities, it is informal, often discreet, interactive, interchangeable, integrated, habitual, and can either be passive or proactive.

Marketing by networking is done through personal contact networks (PCNs), carried out with people with whom the owner-manager has had a relationship – either in the past or currently. The way in which marketing by networking is carried out is often pre-determined by industry behaviours and norms through regular or irregular meeting occasions and industry activities or in just doing business. The frequency and focus may vary depending on the nature of the markets in which the company operates; for example, international networks may be more focused than domestic networks because of the need to plan ahead, whereas contact with domestic markets may be more frequent than with international markets because of convenience. For SME owner-managers, the costs of networking are implicitly hidden because any explicit costs or expenses are low in the immediate term. For example, the cost of networking will include minor expenses such as a club or trade membership, the cost of dinner at trade functions, or the cost of entrance fees to exhibitions. Therefore owner-managers do not consciously need to consider the cost of this "intangible", difficult to access and measure aspect of their marketing activity as opposed to the more tangible, easier to measure aspects of conventional marketing activity. This inherently fits comfortably with SME owner-managers' way of doing business. Networking occurs as a natural and inherent entrepreneurial activity. An SME owner-manager's personal contact network will be represented by people who can help the entrepreneur in arriving at decisions for the wellbeing of the enterprise. The SME owner-manager/entrepreneur will be the focal point of this network – although it may not always seem so in practice. The network will change according to current circumstances, one of the most documented examples being that of a "start-up" network compared with a network belonging to an established entrepreneur of some years. Also, networks will change according to need; for example, new people may be enlisted into a network when some new area of real or potential interest becomes paramount.

In Kenya, most clothing exhibitions whose entrepreneurial nature are Micro, Small and Medium Enterprises (MSMEs), owner/managers use networks to satisfy their customers' demand. An entrepreneur who lacks an item would use his/her networks to get from the next shop where it may be available. Kenyan tour and travel companies book their excess clients to their competitor companies. This instills customer confidence and enhances customer satisfaction. Owner/managers will not stop at anything until their customers are satisfied; thanks to networking which is a facilitator. Some individuals may serve the entrepreneur's network as regular advisers, for example, close friends, family, the company accountant or bank manager, others may simply form part of an ongoing and inadvertent information-gathering process. The entrepreneur may not necessarily appear to be the focal person but rather someone who is part of a broader social gathering of peripheral activity.

In addition to being a natural activity, networking can be an acquired skill or competency for the SME owner/manager. That is, owner/managers can develop networking skills or competencies over time; they can learn from experience who or where to network and how to do it effectively. Sometimes entrepreneurs will consciously seek out information from certain individuals believed to have a contribution to make; on other occasions information will be gleaned subconsciously.

Communication through word-of-mouth

Entrepreneurs rely on interactive marketing methods communicated largely through word-of-mouth, rather than a more controllable and integrated marketing mix. Reliance on word-of-mouth marketing is no bad thing for many entrepreneurs as it is more suited to the resources of their business. Referrals incur few, if any, additional direct costs; most owner-managers prefer the slow build-up of new business which word-of-mouth marketing implies because they would be unable to cope with large increases in demand for their services. Word-of-mouth marketing has disadvantages: It is self-limiting: reliance on networks of informal communications restricts organizational growth to the limits of those networks. If a small business is dependent on recommendations for new customers, its growth is limited to those market areas in which its sources of recommendations operate; it is non-controllable: entrepreneurs cannot control word-of-mouth communications about their firms. As a result, some perceive there to be few opportunities to influence recommendations other than providing the best possible service. In practice, successful entrepreneurs find ways of encouraging referrals and recommendations by more proactive methods. Equity bank has become Kenya's household name through the positive word-of-mouth from the target market. Equity which started as a small micro finance SME has substantially spread its wings into being a bank to recon in the Kenyan market because of positive word-of-mouth.

Innovation

SME literature acknowledges that small firms cannot compete using economies of scale; therefore, their competitive advantage lies in the development of innovative products or processes, which is reliant on accurate market and customer information (Forrest, 1990; Low and MacMillan, 1988). From an SME perspective, innovation commonly refers to new products or processes which address customer needs more competitively and profitably than existing solutions (O'Regan and Ghobadian, 2005), and comprise a key SME success factor (O'Regan and Ghobadian, 2005; McEvily *et al.*, 2004; Banbury and Mitchell, 1995). The principal source of successful innovation is the knowledge and experience of people within an SME, in particular, the owner/manager (Knight, 1995; Cummins *et al.*, 2000). However, innovative individuals must be able to manage the process from opportunity recognition to product or service production to exploit the concept (Kleindl, 1997). In addition, the innovation process is enhanced by the integration of systems, flexibility of the SME, effective use of technology and adaptation of solutions used in other applications (Knight, 1995; Rothwell, 1994). Such innovative ability gives SMEs their competitive advantage, a key element in capturing market success and inter-firm competitiveness (Mole and Worrall, 2001; Conrad, 1999) which enables them to exploit new products and markets while improving their cost base and pricing policies (Mole and Worrall, 2001). Innovative new businesses create new competencies based on current and future market trends and customer demands; they are driven by a profit seeking mission. Chance or luck helps small companies to recognize and take advantage of an opportunity (Cummins *et al.*, 2000; Bjerke, 1997). The craft industry is Kenya's one of the most innovative industries of small and medium enterprises. Their unique quality products are much differentiated that they are very competitive in the international market.

Conclusion

This paper has discussed the characteristics of SME marketing illustrating that SMEs embrace marketing within the context of their resource constraints and business environment. In general, SME marketing activities are driven by owner/managers and their personalities and are defined in terms of tactics to attract new business, focusing on competitors, customers, and the business environment. In Kenya, network marketing; innovative marketing and word of mouth communication has been found to be the most significant factors that can be used by SMEs to compensate for any disadvantages experienced because of their size and nature of their business.

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