Chapter 2
MARKETING STRATEGY FOR SMALL BUSINESS:
THE ADVANTAGES

The Advantage and Disadvantage of Size

“Corporate giants once walked tall and proud, bestriding the globe, champions of this century’s miraculous economic growth. The growth of every ambitious company was to join them and, like them, be mighty enough to shrug off the blows which regularly toppled smaller rivals. But these are troubling times for the world’s biggest companies. Their presumption of invincibility is now in shreds. Spectacular failures at General Motors, IBM and Philips, once paragons of business success, have shown big firms to be frighteningly vulnerable to changes in their markets and to economic downturns. Hundreds of other big firms, from Japan’s Matshushita to Germany’s Daimler-Benz, are struggling to refashion themselves to avoid a similar fate.”

Large companies have been characterized as dinosaurs because of their inability to adjust to the changing market place. IBM, General Motors and Sears are three companies that have especially been singled out as poor performers. Together they lost a total of $32.4 billion in 1992. Although IBM, GM and Sears are unlikely to become extinct, they are having severe problems keeping up. All of the three companies exhibit the characteristics of large organizations - arrogance, bureaucracy and complacency. Not all large organizations have fallen into the same trap. Many are trying to instill small business behaviour in order to survive.

Jack Welsh, one of the most admired business leaders in North America and Chairman of General Electric, sets out the challenge for G.E. in an address to the shareholders at the company’s annual meeting.

“Our internal challenge was infinitely more complex and difficult. As we set out to make this big company with its power, resources, and reach, move and act like a small one, we tried to keep in mind the desirable characteristics the best small companies seem to share. First, they communicate better. Without the din and prattle of bureaucracy, people listen as well as talk; and since there are fewer of them they generally know and understand each other.

Second, small companies move faster. They know the penalties for hesitation in the marketplace.

Third, in small companies, with fewer layers and less camouflage, the leaders show up very clearly on the screen. Their performance and its impact are clear to everyone.

And, finally, small companies waste less. They spend less time in endless reviews and approvals and politics and paper drills. They have fewer people; therefore they do only the important things. Their people are free to direct their energy and attention toward the marketplace rather than fighting bureaucracy. To win externally during the 80s, we believed we needed to develop these internal characteristics. So we embarked on a mission: to keep the good things inherent in this big company we had, and there were many of those, but combine them with the attractive small company features I’ve just described.”

G.E. clearly wants to emulate small business and to capture the same vitality that surges through smaller organizations. There is a theory which suggests that success leads to eventual failure, and that the most difficult management task is to maintain success; and yet, history has demonstrated that successful companies are very prone to failure. Danny Miller has labelled this the Icarus Paradox, based on Greek mythology. G.E. has so far escaped this paradox. G.E. has moved from number seven in 1972, to number five in 1982, to number two in world-wide value of stock market evaluation. Neither GM. Sears, or IBM are in the top 20 in 1992, although they were on the list in 1972.
**Elephants vs Rats**

The label “dinosaur” is not really appropriate for many large companies. Dinosaurs are extinct, and it seems very unlikely that an organization like IBM will become extinct. If we are going to use the animal kingdom as our source of analogy, the elephant is probably a better example. The elephant is large, slow, ponderous, and seems unable to adjust quickly enough to the changing nature of the environment. What then of the smaller organization? Surely it is the rat that best describes the small business. The rat is small, fast, agile, and adjusts very quickly to the changing environment. Rats are plentiful, they are everywhere, and they are survivors. There is little doubt that the rat will survive environmental threats and changes far better than the elephant. The nineties will be the renaissance of the smaller organization. Often in the background and rarely seen as important by government and other institutions, the smaller business will finally flourish.

**The Advantages of Being Small**

1. Better service - because there is more direct customer contact. This closeness heightens the understanding of the customer’s needs. High quality service often leads to higher profits and deeper loyalties among customers.
2. Specialization - which is a must for many small organizations in order to compete, also allows a deepening of the customer relationship.
3. Flexibility is one of the key traits of the smaller organization - the ability to react to change quickly or “to turn on a dime.” This flexibility is reflected both in reacting to the internal (organizational) environment and to the external environment.
4. No committees - or the avoidance of the dead hand of the committee. H. Ross Perot, the Texas entrepreneur who founded EDS and later sold it to General Motors, contrasted the two cultures as follows: “The first EDSer to see a snake kills it. At GM, first thing you do is organize a committee on Then you bring in a consultant who knows a lot about snakes. Third thing you do is talk about it for a year.”
5. Better employee relations - being small affords the opportunity for more personalized treatment and more empowerment. In a small organization, you quickly discover that real communication is face-to-face.

**Trends Favoring Small Size**

1. Many trade barriers have been eliminated; for example, the U.S./Canada Free Trade Agreement and the European Common Market have resulted in large trading blocs without barriers recently created among countries in the bloc. These markets present new opportunities for the smaller organization now that expensive tariff barriers have been removed. It is now easier for a small Canadian company to compete in the U.S., or for a small Danish company to compete in France.
2. The concept of economies of scale holds less true today. Computers, CAD/CAM, automation, and flexible manufacturing are now available to smaller organizations at a low cost, enabling them to compete directly on a technological basis with the larger firm. Custom manufacturing now competes favorably with long-run manufacturing. Small advertisers compete favorably with large advertisers, thanks to Apple Computers’ Macintosh.
3. Administrative efficiencies - for example, payroll, accounting, logistics - are now possible with low cost technologies.
4. The world capital market seems to have developed an interest in the small to medium sized operation, making for a wider range of financing opportunities.
5. Service quality and product quality excelled among smaller organizations.
6. The consumers’ demand for greater variety has created numerous market niches. Smaller organizations can compete very effectively in smaller market spaces.
7. Brand loyalty and the power of large companies’ brands are on the wane. This makes it easier for the unknown brand to compete on other attributes, such as quality and service.
8. Innovation is no longer the territory of the larger organization. Many of the most creative products and services have emanated with start-ups and smaller organizations.

In the nineties, the power of the larger organization, both as a provider of products and services and as a provider of employment, is being eroded.
The Advantage of Change

Change is the one constant in the business environment. Markets are especially dynamic and require constant tracking. The capability to change and adjust to environmental conditions becomes a competitive advantage for the smaller organization.

The receptiveness to change is a function of the organizational culture. Every organization has a separate and distinct culture. Culture consists of the values of the organization, the way it does business, and its history and traditions. Culture in many smaller organizations is heavily influenced by the values and the type of leadership provided by the chief executive officer. Culture affects how the organization functions internally and how it reacts to external events. Culture accounts for how the customer is treated, how the employees are treated, how innovation is encouraged, how important quality is to the organization, and many other variables that are visible to the customer. It is often stated that a good organizational climate leads to happy employees, which leads to happy customers, which increases revenues and profits, which in turn leads to happy and motivated employees. Marketing is about generating positive attitudes, both internally and externally. Since it is difficult to hide in a smaller organization, the spirit or lack of it soon becomes evident to the customer. The smaller firm must be open to constant change. The smaller organization is in transition, always striving to become a medium, or in some cases a large company. Two marketing styles stand out; they are entrepreneurial and professional.

Entrepreneurial Style

This is a style of marketing that is opportunistic. The chief operating officer, often the owner or key shareholder, makes many of the sales and marketing decisions. He/she is often the main salesperson, selling and directing at the same time. No formal marketing planning exists, but the owner/manager usually has a good idea of the marketing attack plan. The control of the process is not rigid but social in nature, with a high level of face-to-face communication. Both marketing activity and results are evident to everyone. Success or failure show up rapidly. Marketing activity is diverse. The traditional philosophy is let’s try it and see if it works”. The chief marketer is more of an opportunity seeker trying to expand the company by capitalizing on as many opportunities as possible.

Professional Style

The company has grown and a hands-on approach is not as efficient. The marketing activity is characterized by plans, strategy, and the setting of objectives. Tasks are delegated to others by the chief operating officer or the owner/manager. Since marketing decisions and activities are not handled by a single person, control systems, such as meeting the set objectives, are instituted. Activities are compared to plans on a regular basis to see if the marketing effort is still on track. Marketing expenditures are estimated in the annual budget, and budget targets are reviewed on a quarterly basis. Meetings are frequent in order to evaluate marketing performance, but now they are more formal in nature and are usually attended by a larger group of employees. The company’s marketing strategy dictates what action will be taken.

Making the Transition

Recognizing the Need for Change

• The owner/manager has to realize that the organization needs a different system.

Developing the Human Resources

• In many cases the people are not available or do not have the skills to make the change.
• Training of present employees or the acquisition of skilled marketers is necessary. Often the whole skill set of the organization must be changed.

Delegating Responsibility

• Responsibilities must be changed and individuals must be empowered to carry out their new responsibilities.

Developing Formal Controls

• Formal planning of meetings and setting of objectives become the guides.

The Advantage of Getting Started

The advantage of getting a smaller organization to adopt the marketing philosophy is great. Some companies don’t know how to start, others face internal barriers that must be overcome, and still others face a culture that is foreign to marketing. For example, the High Tech R & D company has operated for five years as an R & D organization. The company is staffed by research engineers and has developed several products with patents, but up to now they have not given a lot of thought to marketing their products. They need a marketing structure and a marketing orientation followed by a marketing strategy. The
change will be enormous for this ten-person company whose whole culture has been research and development.

Lindberg and Cohn, in their book *The Marketing Book for Growing Companies that Want to Excel*, suggest four steps to getting started in marketing:

- Gaining acceptance of the function within the organization.
- Holding the first planning meeting.
- Organizing for marketing (structure).
- Building the marketing data base. 7

Lindberg and Cohn conclude that for the marketing function to gain acceptance with the company depends on the management style and type of leadership, the value system of the individuals involved, how profitable the company is, and the type of economy the company finds itself in. It is no doubt easier to get commitment to marketing in a growth economy than it is in a recession.

Faced with the task of producing a marketing oriented organization, the President of High Tech R & D turned to an outside marketing consultant. The consultant suggested two half-day meetings with the management of HTR & D. The objective outlined for the company was set out as follows: To develop a marketing strategy that will allow HTR & D to become a marketing organization. The strategy should include a plan and tactics or actions for the year 1993/94, along with the supporting structure. It is important to set objectives and to communicate these objectives to all participants.

The agenda for the two meetings, which were developed by the consultant, who would also act as a facilitator at the meetings, were as follows:

**First Meeting**
- Current status - Where are we now?
- Where do we want to be?
- Gap
- Markets to be served - ranking
- Options for support structure
- How to attack the market - sales, account management, positioning, image, communications
- Competitive advantage
- Market objective
- Review mission

**Second Meeting**
- Review - facts, assumptions, progress
- Focus on what markets?
- Structure - strategy
- Market plan
- Timing
- Investment
- Starting point

The outcome of these meetings should be a change in the culture and focus of the company, as well as a commitment from everyone to marketing. Leadership is probably one of the most important ingredients in the success or failure of this change process. As meeting number two winds up a marketing strategy should emerge, along with a new structure and a higher level of investment to be made in marketing.

The development of a marketing strategy is the first step of a longer journey. A detailed plan of execution will follow, along with objectives, and finally the most important aspect of the process - the implementation of the plan.

**Competitive Advantage**

Developing a competitive advantage is the hallmark of successful marketing. An advantage traditionally leads to good revenues and profits. There are many ways of gaining competitive advantage, ranging from good prices, lower cost, to a trusted name. The search, identification, and development of a competitive advantage is an ongoing quest; advantages have both short and long lives, some are sustainable, and some are not. Just as it is possible to develop an advantage, it is also possible to develop a disadvantage in the marketplace; for example, a poor location for a retailer will be a perpetual disadvantage. Winning marketing strategies are often based on sustainable competitive advantage. Part of the marketing strategist’s role is to identify opportunities for competitive advantage, analyze them, invest in them, and try to make them sustainable. The ability to “win the battle” is based on serving some type of advantage. John Czepiel 8 has developed a chart showing “the self sustaining nature of competitive advantage” (see Figure 2-1).

The organization develops an advantage based on a set of start up variables. The internal factors build on this, and together they create a competitive advantage which leads to higher profits. This, in turn, means that the organization can invest deeper into the resources and skills in order to create further competitive advantages.
Characteristics of Competitive Advantage

**Competence**
The core competence is often the foundation upon which the competitive advantage is built and executed. Competencies in many cases are the skills and resources that the competition either do not have or cannot match. Examples of competencies are:

<table>
<thead>
<tr>
<th>Competencies</th>
<th>How to develop</th>
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<tbody>
<tr>
<td>a brand name</td>
<td>advertising, brochure high profile</td>
</tr>
<tr>
<td>distribution</td>
<td>unique channels, sole distributors</td>
</tr>
<tr>
<td>technology</td>
<td>constant lookout for changes, invest in technology</td>
</tr>
<tr>
<td>R &amp; D manufacturing</td>
<td>make priority in organization, invest in the best equipment, train employees, empower</td>
</tr>
<tr>
<td>capability</td>
<td>constantly upgrade ways to service the customer</td>
</tr>
<tr>
<td>customer service</td>
<td>hire persons who fit with organization’s needs, invest in constant training and upgrading</td>
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Competencies must be of importance to the customer in order to be relevant. Ideally, they should lead to price premiums, which in turn lead to above-average profits.

**Sustainability**
For a competitive advantage to be of maximum value, it must be long lasting and not easily duplicated. This is a very difficult task since most advantages are shortly held and transitory in nature. This is why the effort must be relentless to search for new advantages and to invest in and improve upon current advantages. Technological advantages are often copied, although patents do provide some protection. Some advantages are easily copied, while others are not. Schnaars suggests that competitive advantage is about strengths and weaknesses; that is, aligning your strength against the competitor’s weakness. “It is about attacking their cavalry with your tanks.”

For example, pizza delivery companies are constantly searching for advantages, but few are sustainable. A memorable telephone number is soon copied by another, two for one becomes three for one. A small steel distribution company that has excellent selection and customer service and delivery is less easy to copy. An intangible such as service takes a lot of effort to sustain, but once the reputation is developed, it is difficult for others to overtake the reputation.

**Compatibility**
The competitive advantage must fit with the customer’s needs and the changes in the larger environment. Markets are dynamic and the competitive advantage must constantly be challenged to ensure that it is still an advantage and not a disadvantage. Not only does the market change, but so does the competition.

The small focused consulting firm that has developed a reputation for service quality design has trouble switching when the customers demand re-engineering. Many organizations that commanded premiums for products with an environmental twist are now finding less interest in this advantage among consumers.

**Ways to Win an Advantage**
The two key areas of developing competitive advantage are either against the customer or against the competition. Depending on the specific conditions one may be more important than the other, or both
Many competitive advantages result from servicing the customer better leading to a core of loyal customers. Servicing the customer better can be accomplished in several ways:

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<th>Services</th>
<th>Tactics</th>
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<tr>
<td>better value</td>
<td>lower price or higher quality</td>
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<tr>
<td>high customer</td>
<td>for same price</td>
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<tr>
<td>service quality</td>
<td>sales representatives who go the extra mile, free delivery and set up, 24 hour service</td>
</tr>
<tr>
<td>saving customers</td>
<td>price changes, on site service, free returns</td>
</tr>
<tr>
<td>money</td>
<td>building a better (durability, reliability) product</td>
</tr>
<tr>
<td>quality product</td>
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</table>
Services
guarantees
meeting customer
needs
speed
relationships
Other competitive advantages focus on the competition and include:
lower prices/cost
customer switching
costs
brand name
promotion budgets

Tactics
longer, more comprehensive
market research, customer focus groups, lots of customer interaction
get the product there faster, quicker claim service, no lineups
frequent sales calls customer involvement

(Can provide better value or higher margins.)
(If there are barriers to a change of suppliers, companies and consumers are less likely to change supplier.)
(The comfort and security of a brand name such as IBM is an advantage.)
(If the buying process is susceptible to marketing com-
munication, then it pays to have a large budget.)

distribution control
(new technology
(If you have a monopoly or right to certain channels, it stops the competition.)
(Patents, for example, provide a long term monopoly.)

Some companies fit better with the changes in the environment, thus flexibility, internal culture, and leadership become competitive advantages.

Research
One major study among strategic business units (small independent units of larger companies) from the Northern California area resulted in the outcome shown in Table 2-1. Some were small and medium sized firms in both the product and the service industries, but others were large firms. Although the results are not totally generalizable to the smaller organization, they have some relevance. According to this study, the key areas in which to gain a competitive advantage are service, quality, and image.

<table>
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<tr>
<th>Top Ten Sustainable Competitive Advantages of 248 Businesses 10</th>
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<tbody>
<tr>
<td>1. Reputation for quality</td>
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<tr>
<td>23</td>
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<tr>
<td>2. Customer service/product support</td>
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<tr>
<td>3. Name recognition/high profile</td>
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<td>4. Retain good management and engineering staff</td>
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<td>5. Low-cost production</td>
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<td>6. Financial resources</td>
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<td>7. Customer orientation/feedback/market research</td>
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<td>8. Product-line breadth</td>
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<tr>
<td>9. Technical superiority</td>
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<td>10. Installed base of satisfied customers</td>
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Endnotes