

## Marketing Challenges Small and Medium Enterprises (Sme) Are Facing In South Africa

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**Abstract:** The aim of the research was to establish which marketing challenges SMEs are facing and whether these challenges contribute to the high business failure rate in South Africa. The conducted research has established that lack of marketing skills knowledge of the following marketing factors: analysing competition; establishing product demand; poor location of the small business; ineffective marketing of products and lack of market knowledge are causing business failure in South Africa. The conclusion is that a positive correlation exists between lack of marketing skills and business failure in South Africa. This research undertook quantitative research design as the purpose of this study was to establish marketing skills challenges facing South African SMEs. A sample of 1 000 small business owners was randomly selected from a list supplied by the Department of Trade and Industry. The South African challenge is to improve the marketing skills of SME owners as small businesses are considered to be the panacea for South Africa's unemployment problems. SMEs contribute significantly to job creation, social stability and economic welfare and it is therefore important that their marketing skills be developed with training their marketing skills.

**Keywords:** South African SMEs; Marketing challenges SMEs; Lack of marketing skills

### Introduction

SMEs have long been acknowledged as fundamental contributors to the economic health of countries. SMEs has an exceptionally high failure rate, as a staggering 70% of the country's SMEs fail in their first year – placing South Africa the country with the highest business failure rate in the world (SBP Alert, 2014). Apart from this, the latest universal financial crises experienced left SMEs in a particular harsh environment and increased competition. Dockel & Ligthelm (2010) indicate that very little marketing is actually undertaken by SME owners which may be a contributing factor for the high business failure.

Bateman & Snell (2010) observe that the basic principles of marketing are universally applicable to large and small businesses but Chaston & Mangles (2012) and Siu & Kirby, (2008) indicate that the study of marketing in SMEs has been recognized as a problematic area for researchers for more than 20 years. In effort to explain SME marketing, Simpson & Taylor (2012) developed the Role and Relevance of Marketing model which relates the role of marketing within the organization to the relevance or need for marketing demanded by the external business environment. It is also a fact that marketing determines in the long term whether the SME will succeed or fail. Gem (2012) argues that marketing in SMEs is fundamentally different because planning and strategy can be less important than marketing implementation. It is questionable whether small businesses need to practice marketing at all to survive and grow. However, the study by Hogarth-Scott et al (2006) concluded that small business owner were often generalists, not marketing specialists and complex marketing theories may

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not be appropriate for small businesses and probably would not aid in the understanding of their markets. Nevertheless, it seems that marketing was practiced to some degree by small businesses.

Apparently, they have difficulties managing marketing challenges such as market segmentation; conducting needs analysis; marketing of products and services successfully. SME marketing is because of lack of marketing knowledge applied haphazard and informal. They make most marketing decisions on their own and respond to current opportunities and circumstances with little marketing knowledge (Scase & Goffee, 2009). Most SMEs do not know how to market their small business and it seems that marketing is an overwhelming concept. Secondary resources (Bateman & Snell, 2010; Bowler, Dawood & Page, 2010; Government Gazette, 2013; Kroon & Moolman, 2010) acknowledge that SMEs cannot implement conventional marketing models because of resource limitations.

Secondary and primary sources were used to gather information to establish marketing skills challenges of South African SMEs. The main sources of secondary sources were journals, articles, press reports, books, and research studies. This research undertook quantitative research design as the purpose of this study was to establish marketing skills challenges facing South African SMEs. A sample of 1 000 SME owners was randomly selected from a list supplied by the Department of Trade and Industry.

## **Literature Review**

### **The Importance of Marketing for South African SMEs**

Bateman & Snell (2010) observe that the basic principles of marketing are universally applicable to large and small businesses but in addition secondary resources (Chaston & Mangles, 2012; Siu & Kirby, 2008) indicate that the study of marketing in SMEs has been recognized as a problematic area for researchers for over 20 years. In effort to explain SME marketing, Simpson & Taylor, (2012) developed the Role and Relevance of Marketing model which relates the role of marketing within the organization to the relevance or need for marketing demanded by the external business environment. It is also a fact that marketing determines in the long term whether the SME will succeed or fail. Gem (2012) argues that marketing in SMEs is fundamentally different because planning and strategy can be less important than marketing implementation. It is questionable whether small businesses need to practice marketing at all to survive and grow. However, the study by Hogarth-Scott et al (2006) concluded that small business owner-managers were often generalists, not marketing specialists and complex marketing theories may not be appropriate for small businesses and probably would not aid in the understanding of their markets. Nevertheless, it seems that marketing was practiced to some degree by small businesses.

### **Perceptions of South African SMEs Marketing**

Marketing factors such as poor location of SME, insufficient marketing of products, inability to conduct marketing research, misreading the market trends, offering poor products or service, poor service, misreading customer trends and needs were identified to also impact on the success of SMEs. Secondary research indicates that SME owners' perception on marketing related challenges is that they do not have time or money to invest in research to establish their target markets, customer trends and marketing in general.

## **Marketing Skills Challenges of SMEs**

Murphy (2010, pp. 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 challenges in the small business sector. Some of the marketing challenges have been addressed in the various studies on SMEs. These can relate to the following:

Gain an understanding of the market and potential for growth;

Market Segmentation;

Market Needs Analysis;

Education and training;

Competitiveness;

Marketing of products and services;

## **Research Findings**

### **Marketing Products/Services**

The respondents were asked if they made efforts to market their products/services, and how often that happens, if at all. The respondents reflect the following findings:

- 20 per cent of the respondents said they never made efforts to market their products/services;
- 67 per cent indicated that they sometimes do made efforts to market their products/services;
- While 13 per cent said they often made efforts to market their products/services.

*SMEs* are also challenged by the marketing skills level of owners. While marketing skills of owners as a shortcoming could be overcome by hiring more skilled marketing managers the respondents have highlighted the difficulty of paying them.

### **The Impact of Market Skills Challenges on the SME Business**

The impact of market skills challenges on small business owners were measured in the questionnaire. Secondary research identified five market-related challenges, namely: Poor locality, ineffective marketing, and lack of market knowledge, low product demand and increased competition. The question tested whether any of the eight market-related issues had an impact on the respondent's businesses failure.

Respondents indicated the following factors they believe which impact on their business because of their lack of marketing skills:

- 100 percent of the respondents experienced increased competition;
- 88 percent of the respondents complained of low demand of their products;
- 85 percent of the respondents complained of poor locality of their small business;
- 84 percent of the respondents complained of ineffective marketing their products; and

- 80 percent of the respondents experienced lack of market knowledge.

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

### Factors Contributing to Small Business Failure

Factors contributing to failure of SME that were researched 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. 90 percent of the respondents were of the opinion that small businesses fail due to a lack of marketing skills. 70 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 marketing skills of small business owners and business failure in South Africa.

The conducted primary research indicated that 74 percent 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 percent. Marketing skills in this paper refer to competition; low demand of products; poor locality of the small business; ineffective marketing of products; and 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.

### Marketing Challenges of SMEs

The respondents were asked to indicate the marketing challenges they experience in South Africa. The results are shown in figure 1.

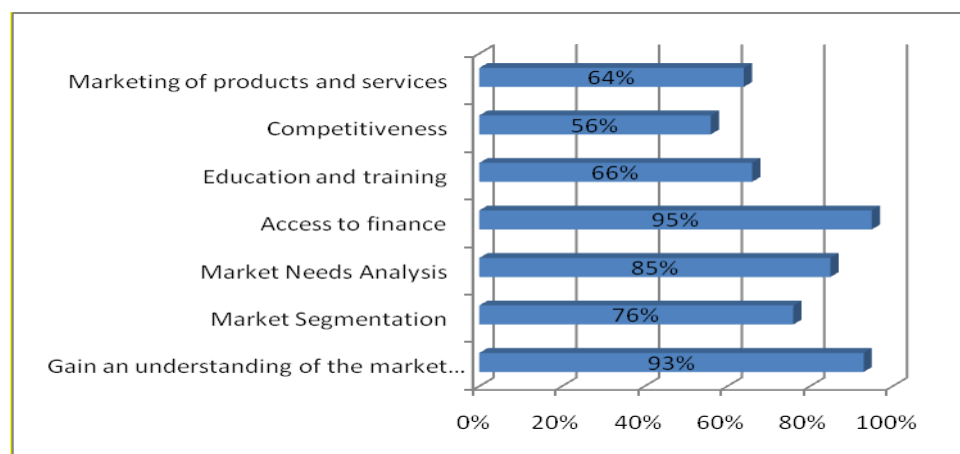


Figure 1. Marketing Challenges

Figure 1 indicates that the respondents experienced the following marketing challenges:

- 64% of the respondents experience marketing of products and services as a challenge;
- 56% of the respondents consider competitiveness as a challenge;
- 66% of the respondents experience education and training as a challenge;
- 95% of the respondents experience access to finance as a challenge;
- 85% of the respondents indicated to conduct a Market Needs Analysis as a challenge;
- 76% of the respondents experience Market Segmentation as a challenge;
- 93% of the respondents experience understanding of the market and potential for growth.

Although they mention “access to finance as a challenge” that is not a marketing challenge. It seems that “understanding of the market and potential for growth” are considered as the main marketing challenges for SMEs in South Africa.

This article aims to research whether lack of marketing knowledge of the following: analysing competition; establishing product demand; poor location of the small business; ineffective marketing of products and lack of market knowledge cause business failure in South Africa. The following five hypotheses were formulated:

H1 = There is a positive correlation between analysing competition and business failure of SMEs.

H2 = There is a positive correlation between establishing product demand of their products and business failure of SMEs.

H3 = There is a positive correlation between poor location of the small business and business failure of SMEs.

H4 = There is a positive correlation between ineffective marketing products and business failure of SMEs.

H5 = There is a positive correlation between lack of market knowledge and business failure of SMEs.

The hypotheses were empirical tested then by using Cronbach’s coefficient alpha and Pearson Correlation analysis. Cronbach’s coefficient alpha is probably the most commonly reported measure of reliability. The alpha is a measure of the internal consistency of a composite or summated scale. Statistically spoken, a Cronbach value of between 0.6 and 0.8 is of an acceptable level (the internal consistency is adequate) and a value of between 0.8 and 1.0 is considered good. Kent (2008) recommends that the minimally acceptable reliability for preliminary research should be in the range of 0.5 to 0.6. Table 1 indicates the results of the research.

**Table 1. Cronbach’s Alpha Coefficient**

	Factors	Cronbach’s Alpha Coefficient values
F1	Competition	0.892
F2	Establishing product demand	0.685
F3	Poor location small business	0.823
F4	Ineffective product marketing	0.945
F5	Lack of market knowledge.	0.963

Table 1 indicates the Cronbach’s Alpha Coefficient values. The alpha is a measure of the internal consistency of a composite or summated scale. Statistically spoken, a Cronbach value of between 0.8

and 1.0 is considered good. Table 1 shows that H2 to H6 have values above 0.8 therefore the values are good.

### Correlations between the Factors

Correlation is a measure of linear association between 2 variables. A correlation coefficient of 1 indicates perfect correlation, and a correlation coefficient of 0 indicates a total lack of any linear association.

**Table 2. Pearson Correlation test between the variables**

Data		
Correlation between competition and business failure of SMEs.	Pearson Correlation	.047
	Sig. (2-tailed)	.348
Data		
Correlation between product demand and business failure of SMEs	Pearson Correlation	.048
	Sig. (2-tailed)	.356
	N	801
Data		
Correlation between poor location of the small business and business failure of SME	Pearson Correlation	.045
	Sig. (2-tailed)	.335
	N	801
Data		
Correlation between ineffective marketing their products and business failure of SMEs	Pearson Correlation	.0443
	Sig. (2-tailed)	.345
	N	801
Data		
Correlation between lack of market knowledge and business failure of SMEs.	Pearson Correlation	.043
	Sig. (2-tailed)	.326
	N	801

In analysing  $H_{02} -_{06}$ , the researchers conducted a Pearson Correlation test between the variables; consumer price knowledge and gender. From the results indicated in table 3, it shows that there is a significant relationship between the variables as the p-value is 0.047 for both at a 0.05 significant level. When conducting the z-test,  $H_{02} -_{06}$  was rejected therefore accepting  $H_{a2} -_{a6}$ . Therefore, by accepting  $H_{a1}$ , one may conclude that there is a significant correlation between competition; product demand; poor location of the small business; lack of market knowledge; ineffective marketing their products and business failure of SMEs.

### Recommendations

The South African challenge is to improve the marketing skills of SME owners as small businesses are considered to be the panacea for South Africa's unemployment problems. SMEs contribute significantly to job creation, social stability and economic welfare and it is therefore important that their marketing skills be developed with training their marketing skills. The marketing challenges of SMEs will then be decreased and more SMEs will be successful. Small business owners would effectively equip to make better-informed marketing decisions and to steer their business away from known marketing pitfalls.

## Conclusion

The aim of the research was to establish which marketing challenges SMEs face in South Africa and whether these challenges contribute to high business failure rate. The research has formulated six hypotheses to establish whether a correlation between the variables exists. The main hypothesis of the research tried to establish whether there is a positive correlation between lack of marketing skills and business failure of SMEs. The conclusion is that a positive correlation exists between marketing skills and business failure in South Africa.

In order for the researcher to identify whether all of the marketing challenges contribute to business failure the main hypothesis was divided in five secondary hypotheses. The research has established that there is a significant correlation between competition; low demand of their products; poor locality of their small business; lack of market knowledge; ineffective marketing their products and business failure of SMEs.

It seems that SME owners have so many challenges in their business that these challenges tend to overshadow the importance of marketing. Although the SMEs owners do understand that they can grow profits through proper marketing, they lack the marketing skills to conduct effective marketing. The conducted research also indicated that marketing in the SMEs is the responsibility of the SME owner. This means that the marketing concept that must be shared and lived by the entire business tends to be lacking which also causes business failure. This study concludes that SMEs play a significant role in the economy, especially in poverty relief, work force, and economic growth of South Africa.

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