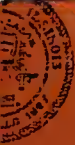




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The Marketing Concept: Its Dimensions for the "Big" Small Firm

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The Marketing Concept: Its Dimensions
for the "Big" Small Firm

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Abstract

Fifteen Illinois firms with annual sales of between one and thirty million dollars were interviewed. Findings from these interviews suggest that marketing is very important for these firms but that formal marketing planning is given low priority. While many of the marketing programs were of high quality, marketing expertise was mainly acquired "on-the-job." Customer service and flexibility were the two most important marketing strengths, and for the manufacturing firms survival depends on a close relationship with a small set of customers.

Is the smaller firm different? And in particular, is marketing practiced differently by the smaller firm? Intuitive arguments can be made to support either side of this question. But, unfortunately, little is published to support either side of the question. This paper reports the findings from structured interviews with fifteen "big" small firms. The study had two objectives: to gain insight on how a wide variety of "big" small firms viewed and practiced marketing and to gain an understanding of the marketing concept for this size firm.

From the outset, it should be clear that this paper is not concerned with the marketing practices and problems of the very small firm generally referred to as "moms and pops." Rather, this study is focused on firms with annual sales of between one and thirty million dollars and with no more than 500 employees. With the increasing interest in entrepreneurship, this size firm will be of considerable interest to the researcher because a quick review of the literature reveals only one study that recognizes that this size firm may have different marketing orientations and practices than either the small mom and pop or the large firm (McNamara 1972).

STUDY DESIGN

A convenience sample of firms was selected in three regions of the state of Illinois: Chicago suburban, Rock River valley including Rockford and East Central Illinois. No attempt was made to pre-screen cooperating firms except to select firms that would represent the widest range of industries and situations possible. The author was only familiar with one of the firms in the sample prior to the study.

Regional offices of the University of Illinois were the primary source of contact along with recommendations by several people heavily involved with the problems of the smaller firm. All firms were approached initially by letter with a follow-up telephone call. All co-operating firms (only two firms contacted refused to cooperate) were sent an outline of the protocol to be used during the personal interview. All interviews were held in the offices of the co-operating firm and lasted from two to three hours. No statistical data was gathered other than annual sales volume and number of employees. A distinct limitation of this study is that what is reported in this study is qualitative and potentially subject to the perception of the researcher. However, by the use of a structured protocol and extensive note taking during the interview, potential problems were minimized. The industries represented in the study are:

Agricultural chemicals	Lumber Yard/Tract Developer
Concrete products	Poultry Distributor
Drop forging (two firms)	Photographic Supply
Electrical Equipment Manufacturing (two firms)	Publishing/Printing
Highway Equipment Manufacturing	Retail Food
Hydraulic Equipment Manufacturing (specialized)	Wholesale Musical Instrument
Industrial Supply	

FINDINGS

While it was not the purpose of this study to judge the success of these firms and how well managed they appeared, it was inevitable that

such judgements were made. Several of the firms were truly exceptional, while, unfortunately, several were marginal in both success and management. Some of the firms were run by true entrepreneurs, some by professional managers, others by family members. None were a part of any larger organization and none were high technology based. The degree of success, and type of management is generally not reflected in the findings that follow.

Information obtained in the interviews is reported in the following sections. The information is organized into three categories: planning, marketing mix, and market research. This, is then followed by a discussion of the marketing concept as it applies to this size firm.

Planning

Of the five essential managerial functions, planning is the most basic of all management functions (Koontz and O'Donnell 1976 p. 125). The reasons, of course, are, or at least should be, obvious. Furthermore, Drucker has clearly stated that we live in an age of discontinuity (Drucker 1969). Therefore, all firms, but especially the smaller firms, must plan for the future rather than assuming that tomorrow's business will be like today's. This of course, is the foundation stone of the strategic planning concept.

Two types of planning were addressed in this study: total firm and marketing. To assess total firm planning, questions were asked to ascertain the history of planning in the firm, current practices, inputs and benefits. Another paper is in preparation that discusses total firm planning in more depth. However, it is useful to note that of the

fifteen firms, five have formal written plans, two use yearly budgets as plans and one is actively moving toward incorporating planning into the regular activities of the firm. For the other eight firms, planning either doesn't exist in any formal sense or is very much a seat-of-the-pants orientation or reaction orientated. One firm reported that formal planning was formerly carried out, but was no longer written. It was currently in the head of the owner.

Of the five firms reporting formal planning, planning is a relatively new process and is somewhat correlated with MBA's now occupying top management positions. Information for planning comes from trade shows, historical data, secondary market research, trade associations, government data and close contact with customers and suppliers. Limited use of primary market research was reported by two firms.

The only identifiable factor distinguishing firms that engage in formal planning and those that do not seem to be the commitment or lack of commitment to planning. None of the firms using formal planning appears to be open to survival threatening factors. However, two of the eight firms not engaged in planning are facing severe threats that are neither being acknowledged or planned for.

Tesar offers research evidence that smaller firms that plan for market development are clearly different than those that do not (Tesar, 1976). Specifically, Tesar reports, "Firms that plan for market development have a broader orientation and are concerned with fundamental marketing concepts such as new product development, efficient marketing techniques, and dynamic sales forces. Firms that do not have plans for

expanding their markets are primarily interested in competing on the basis of price (Tesar 1976, p. 558).

To assess the type and extent of marketing planning firms in this study were asked to specify if they had a market plan and if so, was it any different than their total firm plan. With one notable exception, all firms were vitally concerned with marketing. Some of their programs were judged outstanding, most average and several in need of strengthening. However, two consistent observations illustrate differences between overall firm plans and marketing plans for this size organization. Of the five firms reporting total firm plans, these plans were largely marketing plans. The largest firm included in this study was beginning to sense the need for separate marketing plans for several of its divisions. While the remaining ten firms professed to have some type of marketing plans, none of them had written plans. In approximately five firms, there really were no marketing plans. New ideas were tested and events were reacted to without much evidence of planning. In the remaining five firms, evidence was present that the owner or manager had done planning, but had not written it down.

The Marketing Mix

In general, the overall approach to the marketing mix for these firms is based on an intuitive and often intimate relationship with their customers. Of course, there were obvious exceptions. It appears reasonable to assume that, except for the two firms that are in potential danger, the marketing mix of these firms is reasonable. Otherwise, it is doubtful that they would have grown beyond the "mom

and pop" stage and survived. Specific questions were asked concerning the overall marketing approach, product, price and promotion.

A useful way to describe the basic approach used by these firms in devising their marketing mix is to rate them on the degree of aggressiveness. Passive would describe a firm that largely waited for business to come to it and was not actively looking for new customers or products. Very aggressive would describe a firm that is organized to aggressively identify and secure all the business that can be had at a profit. Impressions of aggressiveness were gained by looking at how the elements of the marketing mix were conceived and implemented.

Three firms in this study were judged as passive. One of these reported a sales decline of over ten per cent, yet was assuming that everything would recover next year. Another, was seemingly so entrenched in its position, that it was not seeking new markets or new applications for its existing products.

At the other extreme, three firms were judged as very aggressive. The factor that seems to best explain this aggressiveness is a good sense of market segmentation. This allowed them to define their markets and to allocate resources to the achievement of goals within these market segments. For instance, one firm had identified 362 potential customers for their products, of which only 200 were actual customers. Plans were being formed to reach the 162 non-customers. In another, the firm felt it was a supplier to 90% of the potential purchasers and was interested in both reaching the 10% non-customers as well as increasing sales with current customers. The third firm

had a clear objective of dominating their market and to take the necessary action to do so.

The other nine firms can best be described as moderately aggressive. In general, these firms were very good at one part of the marketing mix, but only average or weak in the other areas. Typically, this meant either very good products with less attention to price or advertising, or a good customer oriented roles effort with average attention to the other elements of the mix.

Product

One key to understanding this size firm is to examine how they develop new products or decide what products to offer if they are a distributor or retailer. Only one or possibly two of these firms were run by true entrepreneurs who were constantly inventing new products or processes or developing new business approaches. The other firms fell into three categories. The first is the job shop in which the firm offers its expertise in working with a particular type of material. The two forge companies are examples of this. The second is the firms who are closely tied to several major customers and develop new products and processes to meet the needs of their customers. The third, is the firm that watches trends and introduces change as trends develop. With one exception, all the companies in this study were judged to be offering above average products or merchandising in a way that gave them competitive advantage.

Price

Small "mom and pop" firms are notorious for inconsistent and not well thought out pricing policies. Not so for this group of firms.

While two firms reported a rather simplex cost plus pricing system, the remaining firms fell into two categories. The first of these is some variation of cost plus pricing that sets profit goals. The second category of firms takes into account market factors and price to be competitive in certain market segments. This latter approach of course, is a relatively sophisticated approach. Variations of this approach were reported by six firms.

Several firms had clearly superior cost data for each operation in their manufacturing facilities and were able to use this data to make estimates and bid on contracts. Several firms priced at the same level as their competitors as their pricing strategy. These firms seemed to have a geographical monopoly that was maintained by relatively high levels of service, i.e., non-price competition.

None of the firms in this study competed strictly on the basis of price. However, all these firms had to be competitive on price. Consequently, price was not the most important variable. However, since poultry has many of the characteristics of a commodity, very close attention was given to price by the poultry distribution. Even for this firm, however, price was not used as the most important variable. Rather, great pains were taken to be competitive on price, but differentiate on other non price variables.

Promotion

With only one exception, these firms clearly understand the value of and need for promotional activity. That doesn't necessarily imply that it was done well at all firms. In fact, in almost all of the

firms in this study, promotion was the weakest component of the marketing mix. This may be attributable to the "product" orientation of these firms. Or possibly it may be related to the lack of formal training in this area. And, in general, these firms are not large enough to use and to benefit greatly from the services of sales management consulting firms or sophisticated advertising agencies. But, even within these limitations, there is much room for improvement. This was mentioned by several firms as one of their top priorities for the future.

Not including the food retailer, all except one of the remaining firms had their own sales force or made use of manufacturers representatives. There was no way to learn about the effectiveness or efficiency of these sales people. With two outstanding exceptions, training and motivation was minimal and appeared very ad hoc. Both of these firms had sales managers positioned at top levels of the firm. The sales forces of these two firms would probably be judged as professional as those of firms considerably larger. However, two other firms that had sales managers would not be evaluated so favorably. These latter two seemed to suffer from over involvement by the owner manager who, in both cases was operating in a mode very similar to that of a much small firm.

In the firm with no sales force, the owner/manager was responsible for most of the personal selling. Unless the business expanded or was redefined, that probably was appropriate. In three firms, the owner/manager also served as a sales person. In all the other firms, the

owner/manager was mainly involved in supporting the sales people, calling on very large accounts and attending trade shows.

Several firms reported the use of advertising agencies. And consequently some of the advertising appeared to be very appropriate and well placed. However, most advertising was judged as just "average" and placement and/or timing in several instances was questionable.

Two firms clearly understood the objective and task approach to advertising budgeting. They set clear goals to be accomplished by advertising and then budgeted accordingly. Three firms used the percent of sales approach. Possibly because of a feeling that advertising is not all that important or it was viewed as some kind of "necessary evil," the remaining firms had no plan except to do what had been done the year before or on some kind of arbitrary basis.

An important promotional tool for several of these firms is the catalog and brochure. The quality and appropriateness of these varied from superior to just average. The trade convention and show was also an important selling situation for three of these firms.

Physical Distribution

In the classical sense, only eight of these firms had the need to be engaged in physical distribution. The other seven were either regional or local firms or had a geographical monopoly. Next to the product itself, this was the most important element in the marketing mix for these eight firms. By and large, these firms differentiated themselves from competitors by a combination of product and service orientated distribution practices. With one exception, the distribution function not only received much attention, but seemed to be well

conceived and executed. The one exception had recently taken strong, positive steps to improve their distribution.

Market Research

Twelve of the fifteen firms in this study reported regular or occasional use of market research. With one exception, all these firms used secondary data, mostly from trade associations with some limited use of government reports. One firm reported the use of primary market research techniques and another made regular use of data contained on returned warranty cards.

But, after interviewing these firms, it is very clear that the majority of these firms have a good to very good working knowledge of their customers and markets gained by their close relationship to customers and markets.

THE MARKETING CONCEPT

In their review of the marketing concept, Barksdale and Darden point out differences between the marketing concept as philosophy and practice (Barksdale and Darden 1971). While a high proportion of responses to their survey gave positive endorsement to the concept, a lower proportion endorsed it as guiding day to day decisions. And in particular, "executives from consumer product companies express more positive attitudes than do those from industrial product companies" (Barksdale and Darden 1971, p. 36). In particular reference to the small firm, Brannen has explored the applicability of the marketing concept to this size firm (Brannen 1978). His call is for more study of the smaller firm and their actual practices. The following observations are consistent with this call.

The success of firms in this study is almost exclusively attributable to the practice of the marketing concept. If we define the marketing concept as a firm viewing "its products and services as the adaptation of their resources, processes, and marketing activities to the characteristics and wants of prospective buyers," (Carman and Uhl 1973, p. 7) then, broadly speaking, all of these firms practiced such a concept. Understandably, some firms gave more attention to it than others. And some were better at it than others. But, whether by intuition, experience or design, the marketing concept was given practical versus lip service.

It is useful, given the background of the preceding sections, to examine the actual practice of these firms against the marketing concept. The marketing concept has three central elements: customer orientation, integrated effort and profit direction (Bell and Emroy 1971, p. 39).

Consumer Orientation: This implies a thorough knowledge and understanding of the customer, his needs, wants and behaviors directed towards developing products and services for that customer (Bell and Emroy 1971, p. 39). The customer orientation of firms in this study can best be examined by dividing them into firms primarily engaged in distribution and those primarily engaged in manufacturing.

With two exceptions, those firms primarily engaged in distribution had acquired at least an adequate knowledge of their customers. However, these firms were usually deficient in understanding the needs and wants of their customers. They knew who their customers were and had some understanding of why they were customers. But underlying

motivations, needs for other products and sensitivities for new services was not something most of these firms were regularly acquiring. In fact, several firms felt that the role of distributors was mainly to supply what their customers wanted and that when the demand became evident, they would supply the product or service. Under some circumstances, this more limited role of the marketing concept may be adequate. But in other more dynamic situations, this is a potentially dangerous viewpoint.

But for firms primarily engaged in manufacturing, the findings are very different and revealing. As mentioned previously, it is very common for these firms to know each customer intimately. But the degree to which this intimacy is carried out suggests that this is the ultimate practice of the marketing concept. As practiced by most of the manufacturing firms in this study, the marketing concept is less identifying a need and then designing a product or service to fulfill that need, but more, much more, working in close cooperation with one's major customers to solve problems primarily identified by the customer or to adapt the firm's processes or techniques to a customer's problems. A similar relationship would not be unexpected in many larger manufacturing organizations. However, this type of relationship is almost impossible for consumer orientated or distribution orientated firms. But, for the size of firm included in this study, this relationship and its successful implementation seems to be the key to success.

Integrated Effort: For the manufacturing firms in this study, it is very clear that all efforts must be directed toward protecting the

relationship with one's customers, especially the larger ones. And that was the case for the manufacturing firms in this study.

Not necessarily so for the distribution orientated firms in the study. Three firms seemed to be offering their product in somewhat of a shotgun manner. They seemed to be hoping that if their sales force made enough calls or businesses on which they depended bought enough, things would work out. And generally it did. But it was not because of the integrated effort of research and the marketing mix.

Profit Direction: Direct evidence was not included in this study to address this aspect of the marketing concept. However, whether due to size or design, these firms universally seemed to be focusing on profit rather than on sales volume. No profit figures were available for any of the firms in the study, but past experience would suggest that firms of this size are usually modestly to exceptionally profitable.

CONCLUDING OBSERVATIONS

The following five observations are ones that most clearly seem to distinguish these firms from the smaller mom and pop firm and from their bigger cousins. Since most of these firms are rather mature and managed by professional managers, founders and second generation family members, these observations most likely will not apply to the highly entrepreneurial, rapidly growing or high technology based firm. But, combined with the data reported in the previous sections, they do offer a view of the marketing orientation and activities of the "big" small firm.

1. For firms of this size, marketing is very important. The marketing activity of these firms consumes a large share of the total firm's resources and attention. Using a subjective criterion, the more successful the firm in this study, the more attention given to marketing. This is clearly contrary to the findings of Wilbourn for "tiny" firms. His conclusion after studying 70 small manufacturing firms, is that "relatively little time or attention is devoted to the marketing process" (Wilbourn 1979).
2. With the exceptions noted, formal marketing planning is given low priority and in several cases is largely non-existent. Not only does this lead to a reactive practice of marketing, but it allows potential opportunities to be overlooked and threats to develop without adequate preparation.
3. Marketing expertise is mainly acquired through "on-the-job training," by observation and experimentation. While often creative, planning and implementation reflect the lack of formal training. In particular, many decisions are made without using market data other than that obtained in the day-to-day operations of the firm. The concept of segmentation is not well understood even though many firms are practicing it in some form. This lack of formal training does not necessarily suggest that these firms are ineffective or have poor marketing programs. But, in almost every firm visited, a person with formal marketing training would be able to make useful and profitable contributions. Several of the larger firms in this study had introduced MBA's into the organization or other professionally

trained professionals. However, these formally trained professionals seem to be primarily assigned financial tasks. The one exception, as mentioned previously, is the manufacturing firm who acquired a professionally trained sales manager. Therefore, unless by some stroke of fate or the inclinations of the owner/manager, this size firm is unlikely to have trained marketing professionals. It is hypothesized that the introduction of trained marketing professionals takes place as firms approach the thirty million annual sales level. The firms open to the marketing professional idea were also those firms closest to the thirty million sales level.

4. Each firm in this study considered customer service and flexibility as its two most important marketing strengths second only to the product or service provided. Each of these firms was in a highly competitive industry and with one exception, all had considerably larger and better financed competitors. While a regional or local monopoly was the basis of service and flexibility for several, the other firms seemed to clearly understand and take pride in their ability to adapt better and more quickly than their larger competitors.
5. In the case of the manufacturing firms in this study, the ideal of the marketing concept is realized. Manufacturing firms of this size seem to survive by having a close relationship with a relatively small number of customers who account for a very large proportion of their sales volume. For these firms, then, the nature of the marketing concept, seems to be less identifying

a need and then meeting it, but rather working closely with their major customers to supply them with the needed products and services. While in some cases the difference between the traditional marketing concept is subtle and almost non-existent, in many cases the customer specifies the need and even supplies technical assistance to the smaller manufacturing firm.

This study leaves many questions unanswered. It also indicates that the mature "big" small firm is very different than the stereotype of the small mom and pop firm. It seems apparent that the traditional assumptions about the lack of attention to marketing by small firms do not apply to "big" small firms.

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