FACTORS DETERMINING THE COMPETITIVEMARKETING STRATEGY OF SMES IN JAFFNA DISTRICT, SRI LANKA

[1]V.SATHANA., [2]T.VELNAMPY, [3]S.RAJUMESH

[1,2,3]University of Jaffna
E-mail: [1]svaikunthavasan@gmail.com, [2]tvnampy@yahoo.co.in, [3]rajumesh3@yahoo.com

Abstract - Small medium enterprises (SMEs) play prominent role in growth and development of Nation. The purpose of the study is to identify the determining factors of competitive marketing strategy of SMEs in Jaffna district. This research integrates competitive marketing strategy and resource- based view which have emerged in literature and model of marketing strategy.Data were collected from 296 owners of SMEs in Jaffna district by using questionnaires. Random sampling method was applied to select samples for this study. Researcher utilized exploratory factor analysis to confirm the factors of marketing strategy of SMEs. This study identified and confirmed four factors of competitive marketing strategy, namely differentiation strategy, focus strategy, pricing and promotion strategy and innovative marketing strategy. This research revealed that differentiation strategy had more emphasis on the marketing strategy of SMEs andderived from six items of SMEs.Next important factor waspricingand promotionmarketing strategy consist of fiveitems. The focus marketing strategy was third factor with five items. The innovative marketing strategywasalso last influencing factor with four items. Thesemarketing strategies are highly demanded for SMEs in Jaffna district.This finding induce the managers of SMEs to apply these above stated strategies to be successive in this competitive and dynamic world.

Key words - Differentiation strategy, Pricing and promotion strategy, focus strategy and innovative marketing strategy, SMEs

I. BACKGROUND

SMEs is the backbone in any economy through employments generation, contribution to Gross Domestic Product (GDP) embarking innovations and stimulation of other economic activities (ESBA, 2011).SME sector is envisaged to contribute to transform lagging regions into emerging regions of prosperity. Further this sector was seriously affected by nearly three decades of separatist war between 1983 and 2009 in Sri Lanka and post war environment contains destruction of infrastructure, poverty, regional imbalance, low income, poor education, psychological effects on society and women headed families. SMEs in Jaffna district have captured 99% of enterprises, at the same time low and fluctuating gross domestic product (GDP) contribution of Jaffna district which displays poor development of SMEs. Particularly SEMs have been facing local, national and international competitions. End of the local war in Sri Lanka, SMEs in Jaffna district have been facing complex competitive environment and struggling to develop their organization. At the same time SMEs have plentiful opportunities in the Jaffna district (NHREP, 2012).Effective marketing strategies reflect a rigorous understanding of competition and display greater sensitivity to the competitive nature of the market-place. Intelligent firms develop their business by applying proper marketing strategies, but impoverished firms fail to do so (Lazer & Culley, 1983).No one analyzedthe factors of competitive marketing strategies for SMEs in Jaffna district. There is need to study "what are the factors determine the marketing strategy of SMEs to managecompetitivesituation". Therefore, the main aim of this study is "to identify the determining factors of competitive marketing strategy of SMEs in Jaffna district".

II. LITERATURE

Marketing strategy is a marketing logic and leads to achievement of marketing objectives of business units (Kotler et al., 1999). McCarthy (1981) developed 4 Ps marketing mix strategiesinclude product, place, price, promotion and place.The competitive marketing strategy aims to deploy resources and capabilities to compete in the market (Yan and chew, 2010). Porter (1985) explained that organization can achieve competitive advantage over its rivals: cost advantage and differentiation advantage. Further he identified three strategies that businesses can use to tackle competition. They are cost leadership, differentiation strategy and focus strategy. Chen (2006) stress that large firms typically have the advantage due to economies of scale in fiercely competitive situations. Differentiation advantage is better and differentiated product services offered by organization than its competitors. Differentiation strategy through ancillary intangibles may prove effective to achieve success for small firms in China (Yan and chew, 2010).Focus strategy ideally tries to get businesses to aim at a few target markets and this strategy is often used for smaller businesses since they may not have the appropriate resources or ability to target everyone. Michael Porter's theory of the competitive advantage of nations provides a sophisticated tool for analyzing competitiveness with all its implications. Xu et al. (2008) argue that SMEs adoptinginnovation strategy would provide the management direction and guidance necessary to

ensure the correctfocus on customer value. Denis (1990) identified four dimension of competitive factors as product strategy, distribution strategy, promotion strategy and price strategy. Further Namiki (1988) concluded that exporting SMEs generally adopted competitive strategies, namely, marketing differentiation, segmentation differentiation andinnovation differentiation.Resource advantage theory is a general theory of competitionthat describes the process of competition(Hunt and Morgan,1995). R-A theory stresses the importance of market segments, heterogeneous firm resources, comparative advantages/disadvantages in resources, and marketplace positions of competitive advantage/disadvantage.R-A theory recognizes that many of the resources of firms within the same industry are significantly heterogeneous and relatively immobile. Firmscompete for comparative advantages in resources that will yield marketplace positions of competitive advantage for some market segment(s) and, thereby, superior financial performance. If SMEs have unique advantage resources, they will reach high position and gain superior financial performance

III. RESEARCH GAP

Concept of green marketing strategy for SMEs (Chahal, Dangwal and Raina, 2014), social network marketing strategies for SMEs (Vásquez and Escamilla, 2014), market oriented, cost controlling oriented and innovativeness for Chinese SMEs (Tang & Hull, 2011) and innovative marketing strategy for SMEs (O'Dwyer Gilmore and Carson, 2009) were proposed by earlier researchers.Competitive marketing strategy and relationship marketing strategy was empirically tested for Chinese SMEs (Yan and Chew, 2011). SMEs have comparative advantage in resources, at the same time limited financial resources, tangible resources and intangible resources. Resource-advantage based view was underpinned to deliberate the marketing strategy and to provide direction to strategy formulation. No one has not produced factors of competitive marketing strategy for SMEs in Jaffna district and this research try to produce a unique set of determining factors for competitive marketing strategy to manage competitive and dynamic world.

IV. METHODS

Quantitative analysis was conducted in this study. Population of this study is SMEs in Jaffna district. SME in Jaffna district is 2323 and micro, small and medium are 2066, 215 and 42 respectively (IDB report, 2016;).Respondents are owners or managers of SMEs. Data was collected from 286 SME in Jaffna districtand they are micro, small and medium with202, 63 and 21 respectively. The research instrument was questionnaire which was finalized after literature review and interviews with managers of SMEs.

The factors of competitive marketing strategy were derived from Reijonen & Laukkanen (2010); Yan & Chew (2011) ;Michael Porter (1979) ; Mumbau (2010) and Yan & Chew (2011).Five point likert scale was adopted in the research instrument. Researcher planned to collect data from 350 SMEs in Jaffna district and the respondents are the managers/ owners of SMEs. But 286 questionnaires were returned. Exploratory factor analysis utilized to confirm the factors of marketing strategyofSMEs with SPSS statistical package.

V. FINDINGS

Data survey planned to 350 respondents(SMEs), the response rate is 82% (286 respondents). The profile of samples were explained by the table 1.

Table 1: Demographic Profile of Samples

	Number of respondent	Respondent in %
Size		
Micro	202	71%
Small	63	22%
Medium	21	7%
Type		
Manufacturing	187	65%
Service	99	35%
Business registration		
Yes	262	91%
No	24	9%
Education of owners		
Ordinary level	21	7%
Advance level	146	51%
Graduate	43	15%
Postgraduate	12	4%
Diploma	64	22%

Annual income		
Below Rs 300,000	24	8%
Rs 300,000 ≤ 500,000	87	30%
Rs 500,001 ≤ 1,000,000	150	52%
Rs 1,000,001 ≤ 50,000,000	21	7%
Above Rs 50,000,000	04	1%

Descriptive statistic namely, mean score and standard deviation for items are listed in the table 2. Mostof the items had mean values above two, which indicates that respondents have favorable perception towards marketing strategy.

Table 2: mean and standard deviation of the items

	Mean	Std. Deviation
Product quality	3.25	0.899
product customization (tailor-made products)	2.71	0.984
Complex and inimitable products	2.50	0.864
Brand identification	2.27	0.861
Product range	1.29	0.764
Market knowledge	2.08	0.563
Strategically located	2.17	0.845
Suitable business timing	2.76	0.849
Size of order	1.64	0.621
Different prices to different customer groups and local situation	2.71	0.938
high quality beyond the requirements of clients	1.98	0.726
maintain market leadership in niche market	2.03	0.982
Price and quality match	2.02	0.908
Competitive pricing	2.27	0.804
Selected market	2.67	0.904
Innovate products/services to selected market	2.71	0.870
Marketing communication to different customer groups	2.35	0.796
Visibility and reputation: advertising	2.85	0.987
Technical and managerial expertise	2.73	0.789
Latest IT in operation	1.96	0.679
Innovation in operation mechanism	2.98	0.962
Competence in technology and process	2.34	0.874
Innovative and superior product features	2.92	0.872

The Kaiser-Meyer-Olkin measure of sampling adequacy tests were constructed for checking out the sample adequacy of the data.

Table 3: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	0.950
Bartlett's Test of Sphericity Approx. Chi-Square	5117.967
df	190
Sig.	0.000

The value of KMO came out to be 0. 0.950(Table 3) indicating that the factor analysis test can be proceeded correctly and the sample used is adequate the minimum acceptable value of KMO as supported by Othman and owen(0.5). Bartlett Test of sphericity and correlation were conducted to test the multidimensionality of the variables. The results of the Bartlett Test of sphericity turned out to be highly significant of 0.000 (Table 3) which indicate that the factor analysis processes were correct and suitable for testing multidimensionality. The correlation matrix also depicted adequate correlation among the variables certifying the suitability of application of factor analysis technique on the data.

Total twenty sixitems were considered for the marketing strategyof SMEs. Initially factors loaded for all items. Six items were low factor loading. They are, market leadership(0.094), Latest IT application(0.139),market knowledge(0.453), achieving high quality beyond the requirements of clients(0.241), product range(0.171) and size of orders(0.314). After deletion of sixitems, remaining twenty items were analyzed. Researcher used the Maximum likelihood Analysis Extraction method and varimaxrotation.Fourcomponents were extracted from these items.These factors explained 76.614% of total variance, which is very much acceptable for his loading procedure. These seventeen items and the variables loading on these factors have been summarized in Table 4.

Table 4: factor loading of variables

Factors	Factors name	Loading
Differentiation	Product quality	0.810
	product customization (tailor-made products)	0.784
	Complex and inimitable products	0.778
	Brand identification	0.776
	Strategically located2	0.709
	Suitable business timing3	0.660

Pricing and promotion strategy	Price and quality match	0.818
	Competitive pricing	0.814
	Visibility and reputation: advertising	0.790
	Scope of promotional effort	
	Participation in trade fairs	
Focus marketing strategy	Selected market	0.850
	Innovate products/services to selected market	0.818
	Marketing communication to different customer groups	0.814
	Invest in innovation and improvement of our products	0.790
	Different prices to different customer groups and local situation	
Innovative marketing strategy	Technical and managerial expertise	0.790
	Innovation in operation mechanism	0.776
	Competence in technology and process	0.722
	Innovative and superior product features	0.795

The first factor as differentiation strategy was explained 26.958% of the variance. This includes seven statements namely product quality, product customization, complex and inimitable products, brand identification, strategically located, suitable business timing and advertising and reputation.Another factor named as pricing and promotionwas explained by 22.608%. It consists of price to customer and location, price quality match, scope of promotional effort, Participation in trade fairs and competitive pricing. The third factor asfocus strategy was explained 17.421% of the variance. This includesfivestatements namely selected market, innovative product, invest in innovation and improvement of our products, different prices to different customer groups and local situation and marketing communication to different groups..The next factor accounted by the 9.627% of total variance. Four items were found to be significantly loading on this innovative marketing strategy.

CONCLUSION AND DISCUSSION

The present study was undertaken to identify thedetermining factors of competitive market strategy for SMEs in Jaffna district.The respondents are 286 owners/ managers of SMEs in Jaffna district. The findings confirm the four factors of marketing strategy of SMEs, namely differentiation strategy, pricing strategy, focus strategy and innovative marketing strategy.Differentiation marketing strategy has highly explained, second innovative marketing strategy also significant factor determining the marketing strategy, third focusstrategy, strategy and last pricingstrategy.

The finding ensures differentiation strategies are the major factor for marketing strategy of SMEs. Previous researchers also considered differentiation marketing strategy as major competitive advantage toll for exporting SMEs (Julien, and Ramangalahy, 2003). Further McCarthy (1960) and Julien and Ramangalahy(2003) also stressed that competitions among organizations are important issue for all types of organizations. Alderson (1937) suggested that marketing strategies are created to manage the competitive forces and presented competitive strategies for differential advantages.SMEs have limited resources and capacities and they are struggling to compete with large organizations (Yan and Chew,2011). Differentiation strategy also suggested as competitive advantage tool by Porter(1979). In addition earlier researchers supported and applied competitive differentiation marketing strategy for SMEs in Quebec(Julien, and Ramangalahy, 2003) in Kenya (Mumbua,2013) in China (Yan and Chew,2011). According to this research SMEs must highly consider product quality, product customization for selected market. Because 90% SMEs are micro entrepreneurs, they have focused market, get order and produce for selected customers with their limited capacities. Further SMEs made product with innovative features to selected customer group and try to have high market share in a niche market.

The niching strategy is a frequently advocated competitive strategy for SMEs (Lee et al., 1999). In addition this research reveals pricing strategy is also major dimension of competitive strategy for SMEs. Denis (1990) also supported the pricing and promotion strategy adaptation for SMEs. SMEs consider quality of product when pricing the product or services, and also consider the prices of competitors. Product awareness and its reputations are disseminated by SMEs through proper advertising. Participation in trade fair creates more national and international demand for product of SMEs. SMEs adopted sales promotional effort for their products.

IMPLICATION AND RECOMMENDATION

National and international competitions for SMEs creates challenging environment in Jaffna district. Measuring CMS is considered to manage these competitive pressure of SMEs. Our study findings have implications for theory development of SMEs and practice. Competitive marketing with the dimension of differentiation, focus, pricing and innovative strategies explains to SMEs the means to compete their rivals. By applying these dimension of competitive marketing strategy, SMEs can take competitive advantage and develop SMEs in the perspective of finance and market. The SMEs efforts in the CMS are established in the study but cost leadership cannot be successful by limited resource capacity of SMEs. .

REFERENCE

[1] Alderson, W. (1937). A marketing view of competition. Journal of Marketing, 1(3), 189.

[2] Chahal, H., Dangwal, R. and Raina, S. (2014). Conceptualization, development and validation of green marketing orientation (GMO) of SMEs in India: a case of electric sector. Journal of Global Responsibility, 5(2), 312-337.

[3] Chen J (2006). Development of Chinese small and medium-sized enterprises. J. Small Bus. Enterpr. Dev., 13(2):140 – 147.

[4] ESBA (2011). Micro and small Business in the EU, European Small Business Alliance, derived from

[5] Hunt, S.D. and Morgan, R.M., 1995. The comparative advantage theory of competition. The Journal of Marketing, pp.1-15.

[6] Irina, P. 2008. Key Development Strategies for Small and Medium Enterprises in the Context of European Integration. Annals of the University of Oradea, Economic Science Series, 17.

[7] http://www.esba-europe.org/

[8] IDB, (2016). Internal Reports of Industrial development Board.

[9] Julien, P.A. and Ramangalahy, C. (2003). Competitive strategy and performance of exporting SMEs: An empirical investigation of the impact of their export information search and competencies. Entrepreneurship Theory and Practice, 27(3), 227-245.

[10] Kotler, P., Armstrong, G., Saunders, J., & Wong, V. (1999). Priciples of Marketing (Second European Edition ed.). Upper Sadle River: Prentice Hall Inc.

[11] Lazer, W., & Culley, J. D. (1983). Marketing Management: Foundations and Practices. Houghton Mifflin Company.

[12] Lee, K.H. (2009). Why and how to adopt green management into business organizations? The case study of Korean SMEs in manufacturing industry. Management Decision, 47(7), 1101-1121.

[13] McCarthy, E.J. (1981), Basic Marketing: A Managerial Approach, Richard D. Irwin, Homewood, IL.

[14] Mumbua,M,S. (2013), Competitive strategies applied by small and medium-sized firms in mombasa county, kenya. Research Publication, University of Nairobi

[15] NHREP. (2012) Small and Medium Enterprises (SME).html http://www.nhrep.gov.lk , 15-11-2011, accessed on 18,04 2015

[16] O'Dwyer, M., Gilmore, A., & Carson, D. (2009). Innovative marketing in SMEs. European Journal of Marketing, 43(1/2), 46-61.

[17] Porter, M. E. (1985). Competitive advantage: creating and sustaining superior performance. 1985. New York: FreePress, 43, 214.

[18] Tang, Z., & Hull, C. E. (2011). The strategy configuration of Chinese SMEs. Journal of Enterprising Culture, 19(03), 229-259.

[19] Vásquez, G.A.N. and Escamilla, E.M., (2014). Best practice in the use of social networks marketing strategy as in SMEs. Procedia-Social and Behavioral Sciences, 148, 533-542.

[20] Xu, Z., Lin, J., & Lin, D. (2008). Networking and innovation in SMEs: evidence from Guangdong Province, China. Journal of Small Business and Enterprise Development, 15(4), 788-801.

[21] Yan, S. and Chew, D.A., (2011). An investigation of marketing strategy, business environment and performance of construction SMEs in China. African Journal of Business Management, 5(6), 2396.

★★★