

CATEGORIZING SOUTH AFRICAN SMES ACCORDING TO CUSTOMER RELATIONSHIP BUILDING PRACTICES

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Abstract

It is becoming increasingly important for small and medium enterprises (SMEs) to build relationships with their customers. Relationship building is supported by collecting up to date information on the customer, the service rendered and the satisfaction with the product. Recent previous literature on customer relationship management seem to focus on how technology can assist with relationship building but there is a gap in the knowledge as to how South African SMEs go about building relationships and collecting feedback from customers. Quantitative self-administered online survey was sent to small business owners that are registered with an official state institution for SME's in South Africa. Based on the results SMEs can be categorised as average presumers, passive respectors or do-it-all-right'ers based on how they build relationships and collect feedback from customers.

Keywords: Relationship Building, Relationship Management, Customer Satisfaction, Customer Loyalty, SMEs, South Africa

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1 Introduction

Relationships with customers in today's digital age are more important than ever. It is not only important for big corporations but also for small businesses. With the high failure rate of small businesses and the increasing environmental pressure that is placed on them, they need to ensure that they have strong relationships with their customers. Small businesses should provide excellent customer service and listen to what existing customers have to say about their products and services in order to retain them. In previous research conducted by Reicheld (1996) it was shown that a minor increase in the retention of customers (5%) can result in the net present value delivered by customers increasing by 95%. Retention is however not the only reason why small businesses should consider building relationships with customers. The more knowledge a small business has of their consumers the easier it is to customise products and services to suit their particular needs.

Previous research on customer relationship management in small businesses focus more on CRM readiness, e-CRM and the adoption of customer relationship technology (Vallabh, Radder & Venter, 2015; Newby, Nguyen & Waring, 2014; Nguyen & Waring, 2013; Harrigan, Ramsey & Ibbotson, 2012; Viljoen, Bennet, Berndt & van Zyl, 2005). How small businesses build relationships with their customers are not clear from the literature available. The purpose of this article is to categorise small business according to their relationship building practices.

In the sections following the South African small business sector will be briefly sketched, wherafter

customer relationship management will be discussed. The method utilised will be explained and the results obtained will be presented. The article will conclude with comments on the implications of the study for marketing practice, theory and research.

2 Literature review

In South Africa, the small and medium enterprises (SME) industry account for 91% of formal businesses and contribute about 57% to the South African GDP (Abor & Quartey, 2010:218). In South Africa, SMEs contribute to the economy by creating employment, increasing production and exports and presenting opportunities for innovation and entrepreneurship (National Credit Regulator, 2011:7). This is the case for most developing countries including Brazil and Asia. The great importance of SMEs in economic growth of a country is evident, but they are often confronted with sustaining long-term performance (Ates, Garengo, Cocca & Bititci, 2013). Five out of seven new small business in South Africa fail within the first year and despite overall economic growth, small business growth has stagnated between 2003 and 2012 (Entrepreneur, 2015). There are numerous SMEs seen closing their doors for business every year. This is not necessarily due to unpredictable or unstable external conditions but due to management not being able to react and make correct decisions with regard to the blows from the external environment (Williams, 2014:91). It is thus of utmost importance that SMEs build solid relationships with their customers in order to stay in business in the long run.

2.1 Customer relationship management

As with large organisations, the importance of customer relationship management for small businesses cannot be ignored. Due to the high failure rate of SMEs it is important that small businesses keep their customers and increase business from them; as survival is not only dependant on attracting new customers (Kotler & Keller, 2012).

Customer relationship management's objective is to manage comprehensive customer information to gain maximum loyalty and to improve the business's capability to reach the ultimate goal of retaining customers in order to achieve a competitive advantage (Kotler & Keller, 2012; Newby, Nguyen & Waring, 2014). Small business should thus follow a customer focused strategy in order to keep customers. By following a customer focused strategy and investing into CRM it illustrates to existing customers that they are just as important as new customers (Berndt & Tait, 2014:7). There are various ways in which relationships can be built with customers. It need not be a complicated and expensive exercise. Small business owners can start small by asking customers for feedback and listening to them. It is however important to not just listen to the feedback but also act on it (Kotler & Keller, 2012). By doing this the process of relationship building is set into motion.

This feedback can be stored in a customer database to gain insight into the customer and can be used for customer relationship management (Berndt & Tait, 2014:25). To develop a comprehensive database regular interaction is required to collect all the necessary information. The types of information that can be collected range from demographic information, contact information, customers' transactions with the business and preferences to name a few. There are also two levels of CRM, namely (Berndt & Tait, 2014:25):

Analytical CRM. This level of CRM makes use of customer data to inform long term planning and assist with decision making.

Operational CRM. This level of CRM uses captured day-to-day customer based activities such as enquiries and orders to improve processes and systems.

Zeithaml, Bitner and Gremler (2006) indicated that a business will likely pursue a closer relationship with a customer as their relationship value increases. This makes the primary goal of relationship management to build and maintain a base of committed customers who are profitable to the organisation (Zeithaml, *et al.*, 2006). The main decision makers in SMEs have close connections with their customers making relationships particularly prominent within SMEs (Newby, Nguyen, & Waring, 2014).

The elements of CRM are widely contested and no formal list exists of what should and should not be seen as part of CRM. For the purpose of this study

customer satisfaction and two-way communication will be considered as important elements of CRM.

2.1.1 Customer satisfaction

Consistent customer satisfaction should lead to customer loyalty, the intention to repurchase a product or service, as well as positive word-of-mouth from consumers who in turn pay less attention to competing brands (Boshoff, 2014; Okharedia, 2013; Helgesen, 2006; Seiders, Voss, Grewal & Godfrey, 2005; Curtis, Abratt & Rhoades, 2011; Cant & Van Heerden, 2013). It is a well-known fact that a satisfied customer will tell less people about his or her good experience than a dissatisfied customer will. This can result in loss of reputation for the organisation. When customers feel satisfied with a product or service, they will refer potential customers to the organisation. By measuring customer satisfaction, the small business will know exactly how they are perceived.

2.1.2 Two way communication with customers

The best way to know if customers are satisfied with your business, product and or service is to ask for their feedback. Goodman (2012: 26) indicates that as a small business owner, huge crises are usually known and handled effectively. It is the smaller things that bother customers that will not be known unless feedback is asked. Feedback can be collected in various ways. It can be done via an online or paper survey, a courtesy call or an email to a customer. These small gestures can result in a strong relationship with customers.

The main benefit of having long term relationships with customers is the increase in profits. Godson (2009:155) also indicates that knowledge gathered about customers can assist with categorizing them to assist with future customer recruitment. It is evident from the preceding literature that building relationships with customers is an important activity for any business, especially smaller businesses. What is more important is managing and maintaining these relationships in such a manner that the business and the customer benefits from it.

3 Methodology

In an effort to categorise SMEs regarding their relationship building practices, a sample of South African small business owners registered with an official state institution for SME's were asked to indicate the extent to which they agree that a list of statements regarding customer relationship building and how they measure customer satisfaction of their customers and how often they measure customer satisfaction.

Quantitative questions were sent to small business owners in the form of a self-administered online questionnaire allowing small business owners

to indicate their relationship building practices and frequency of their efforts to measure satisfaction levels of customers. The questionnaire was administered randomly to SME owners in the provinces of Gauteng and KwaZulu Natal in South Africa. The combined contribution of these provinces to the national GDP is 50% (Gauteng 33.9%; KwaZulu Natal 16.1%) and can therefore be regarded as representative of SME's in South Africa (Anon, 2015). An adequate amount of surveys were distributed at a confidence level of 95% and a confidence interval of 10. Of the surveys distributed 105 usable responses were returned, which means a

95% confidence level and a 9.26 confidence interval at 50% was achieved.

4 Results

The small business owners were presented with a set of eleven aspects regarding attitudes and actions which deal with customer relationships. They were asked to rate the extent to which they agree with each aspect on a four point scale (1=strongly disagree; 2=Disagree; 3=Agree; 4=strongly agree) They were also given the option of selecting N/A if they felt that the aspect was not applicable to them.

Table 1. Mean level of importance of customer relationships

	N	Mean	Std. Deviation
Our way of doing business is customer friendly	99	3.43	.592
Our procedures are customer friendly	98	3.42	.608
We ask for feedback and comments from customers	95	3.21	.728
We analyse feedback and comments from customers	94	3.22	.764
We respond to feedback and comments from customers	91	3.24	.735
Our customers are satisfied with our business	99	3.32	.683
We measure customer satisfaction	90	3.12	.832
We find out why customers leave	84	3.00	.836
We use feedback on why customers leave to improve our service	86	3.06	.802
Low/Good prices will keep customers	92	2.74	.900
Customers are used to average service	93	2.42	.936

From Table 1 it can be seen that the aspects that the respondents feel most strongly about involves customer friendliness. On average, they feel that their procedures ($M = 3.42$, $SD=.608$) and way of doing business ($M = 3.43$, $SD .592$) is conducive to creating a customer-friendly experience for their customers. They also feel that their customers are satisfied with their business ($M = 3.32$, $SD=.683$). The standard deviations for these aspects are the lowest, indicating that there is the least variation among the agreement levels of respondents regarding these aspects. It is then not surprising that the next highest average agreement score indicates that the respondents tend to respond to feedback and comments from their customers ($M = 3.24$; $SD .735$), followed by the fact that they also analyse feedback from their customers ($M = 3.22$; $.764$) and specifically ask for feedback and comments from their customers ($M = 3.21$; $SD .725$). It can be presumed that in general, the respondents do make an effort to maintain good relationships with their customers.

The wording of the last two aspects is such that lower average agreement scores could have a positive reflection on their businesses since it will indicate that they do not underestimate the quality and service needs of their customers. With these two aspects having an average agreement level around the middle value of the response scale (low or good prices will keep customers (2.74) and customers are used to average service (2.42)) it can be assumed that the respondents are, on average, divided in terms of

underestimating the quality and service needs of their customers and this is reflected by the standard deviations that are the highest in the list.

4.1 Dimension Reduction

To reduce the dimensionality of the set of aspects regarding customer relationships, the responses to the eleven items were subjected to exploratory factor analysis using Principal Axis Factoring (PAF). The factorability of the correlation matrix was confirmed with the Pearson's correlation matrix containing of a number of correlations with a magnitude of .3 or higher, the Kaiser-Meyer-Olkin value exceeding the recommended minimum value of .6 (Kaiser, 1970, 1974) and the Bartlett's Test of Sphericity (Bartlett, 1954) reaching statistical significance, $p<.001$). PAF with Varimax rotation⁴ resulted in identifying 4 latent constructs, cumulatively explaining 74.025% of the variance in the data. As can be seen in Table 2, the internal consistency of three of the factors exceed .7, the generally accepted lower limit of Cronbach's alpha (α). The fourth factor, with only two aspect items loading on it, demonstrated a Cronbach's alpha of .6 which will, for the purposes of this exploratory research, be considered adequate (Hair et al., 2006, p137). Since the factor solution serves only to

⁴ Orthogonal rotation was chosen since the analytical procedures are better developed than those of Oblique rotation. Varimax specifically was chosen since it results in a clearer separation of factors (Hair et al., 2006, p126).

demonstrate higher order dimensionality in the data, this latter factor was retained in the interest of data reduction to aid in the interpretability of the cluster solution discussed in the next section. Having suppressed aspect loadings of .4 and lower on the factors, one of the aspects loads acceptably on two of the factors and it was decided to allow it to contribute to the *Create customer-friendly business environment* factor rather than the *Analyse and respond to*

customer feedback and comments factor. For each respondent, values were assigned to the four factors by calculating the mean value of the aspect items that load on them, thus retaining the range of the original response scale (0 to 4). These latent factors with the stakeholder relationship aspects that load on them, the amount of variance they explain, their internal consistency, mean and standard deviation are listed in Table 2.

Table 2. Latent construct characteristics

	Analyse & respond to customer feedback and comments	Investigate customer attrition	Create customer-friendly business environment	Underestimate service and quality expectations of customers	Overall
We respond to feedback and comments from customers	.876				
We analyse feedback and comments from customers	.863				
We ask for feedback and comments from customers	.808				
We find out why customers leave		.890			
We use feedback on why customers leave to improve our service		.887			
We measure customer satisfaction		.614			
Our procedures are customer friendly			.919		
Our way of doing business is customer friendly			.794		
Our customers are satisfied with our business	.458		.505		
Customers are used to average service				.651	
Low/Good prices will keep customers				.569	
Variance explained	25.548%	21.153%	19.329%	7.996%	74.025%
Cronbach's alpha	0.941	0.907	0.845	0.600	0.867
Mean	3.226	3.073	3.387	2.583	
Standard deviation	0.697	0.739	0.548	0.787	
Minimum	1.00	1.00	1.67	1.00	
Maximum	4.00	4.00	4.00	4.00	

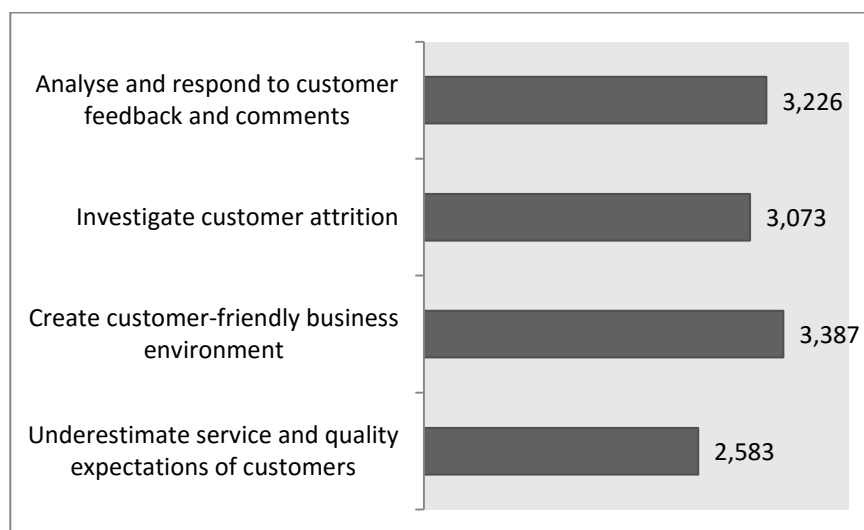
Extraction Method: Principal Axis Factoring.

Rotation Method: Varimax with Kaiser Normalization.

From the mean factor values in Figure 1, it can be seen that on average, on a higher level, creating a customer-friendly business environment is what the respondents feel most strongly about with a mean agreement score tending towards the maximum value of the response scale (3.387). The respondents thus

seem generally to be pro-active in creating and maintaining good stakeholder relationships with the average scores for analysing and responding to customer feedback and comments (3.226) as well as investigating customer attrition (3.073) also above 3.

Figure 1. Mean importance of customer relationship aspects



With a mean value almost at the middle value of the response scale and having the largest standard deviation, the respondents' perceptions varied the most with respect to whether they are underestimating customers' quality and service expectations in their businesses. On average however, they tend considerably less towards doing so than their efforts to build positive relationships with their stakeholders.

4.2 Natural groupings among respondents

To establish whether respondents can be grouped according to their own perceptions regarding the level of effort they put into different aspects of building

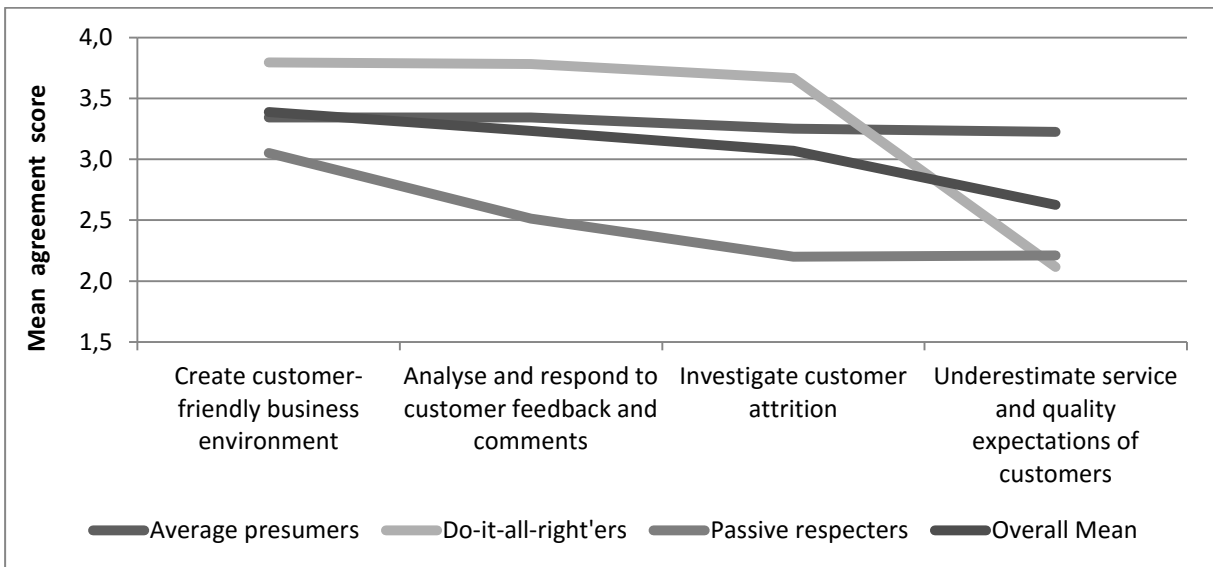
customer relationships in their businesses, the four latent factors that resulted from PAF and discussed in the previous section, were subjected to K-means cluster analysis. The same patterns of respondent groupings as a result of the K-means clustering method were also found with a two-step clustering method.

Three different groups emerged, indicating that respondents do differ regarding their relationship building attitudes and behaviour in their businesses. The cluster center values of the separate groups are listed in Table 3 and how the distinguishing features differ per group is depicted in Figure 2.

Table 3. Final cluster centers

	Average presumers	Do-it-all-right'ers	Passive respector	Overall Mean
Analyse and respond to customer feedback and comments	3.3417	3.7821	2.5128	3.2319
Investigate customer attrition	3.2500	3.6667	2.1987	3.0707
Create customer-friendly business environment	3.3417	3.7949	3.0513	3.3877
Underestimate service and quality expectations of customers	3.2250	2.1154	2.2115	2.6250

Figure 2. Customer Relationship Building groups



On average, the respondents as a single group (overall) indicated in order of level of agreement that they tend to create a customer-friendly business environment, analyse and respond to customer feedback and comments, investigate customer attrition and to a lesser extent, underestimate service and quality expectations of their customers.

Average presumers has cluster means that are close to the overall mean for “Analyse and respond to customer feedback and comments”, “Investigate customer attrition” and “Create customer-friendly business environment” while having a cluster mean that is considerably higher than the overall mean for

“Underestimate service and quality expectations of customers” On average, these respondents seem to mimic the group as a whole regarding their active involvement in influencing and monitoring customer behavior but they tend to underestimate the service and quality expectations of their customers.

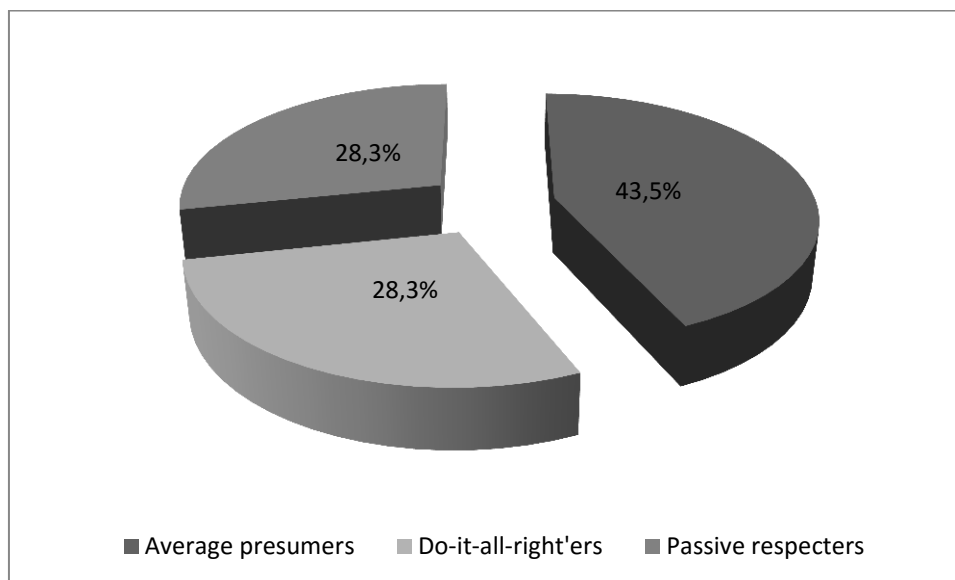
Do-it-all-right'ers has cluster means that are relatively close to the maximum values for “Analyse and respond to customer feedback and comments”, “Investigate customer attrition” and “Create customer-friendly business environment” and the lowest (lower than the middle of the scale) cluster mean for “Underestimate service and quality

expectations of customers”. Thus, on average these respondents seem to understand stakeholder relations and the fact that actively facilitating a pleasant customer experience and keeping in mind their customers’ service and quality expectations will contribute to customer loyalty.

Passive respecters has cluster means that are lower than the overall mean for “Analyse and respond to customer feedback and comments”, “Investigate customer attrition”, “Create customer-friendly

business environment” and “Underestimate service and quality expectations of customers”. On average this group tends to create customer-friendly business environments to promote customer loyalty but tend to neglect to analyse and respond to customer feedback and comments and to investigate customer attrition behaviour. These respondents also tend to respect their customers’ service and quality requirements and seem to rely on attracting new customers with their customer-friendly business environment rather than to ensure that they retain their existing customers.

Figure 3. Customer relationship building group distribution



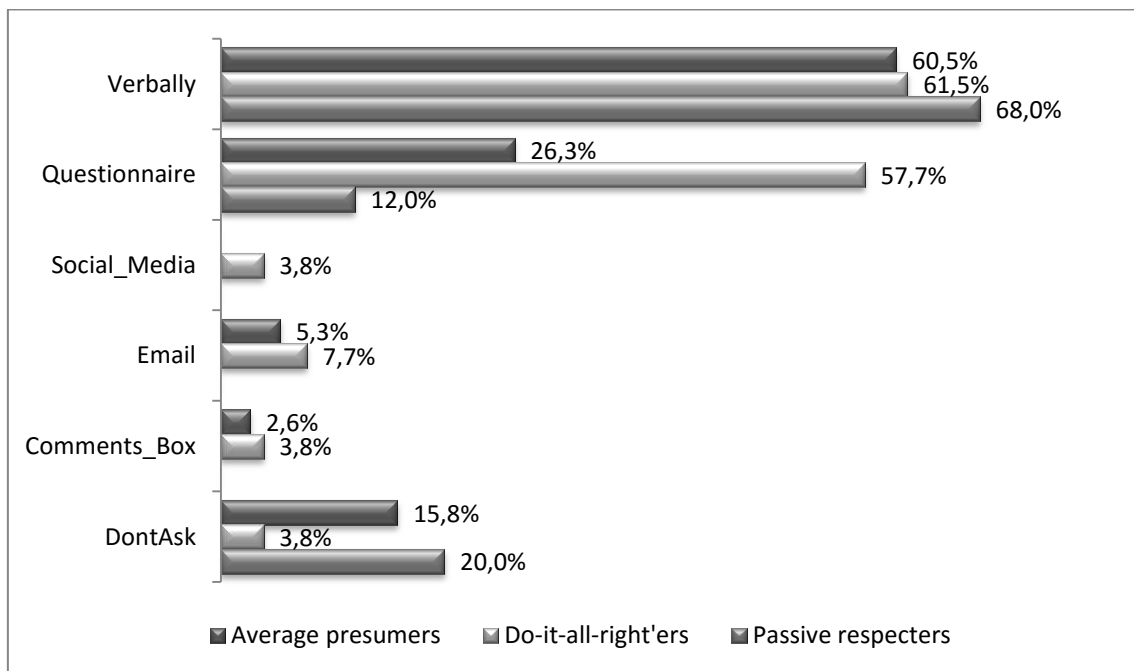
As can be seen in Figure 3 above, the largest proportion of the respondents are the Average presumers (43.5%, n=40). The rest of the respondents are equally distributed between the Do-it-right'ers and the Passive respecters (28.3%, n=26).

All the respondent groups seem to consider creating a customer-friendly business environment to be most important. The respondents however do vary considerably regarding the other three customer relationship aspects. The Do-it-all-right'ers and passive respecters tend to respect the service and quality expectations of their customers while average presumers, even though considering all the other factors to be reasonably important, tend a lot towards underestimating the service and quality expectations of their customers.

5. How do respondents ask for feedback from their customers?

The small business owners were presented with a list of six different ways to ask their customers for feedback and were asked to indicate which of these methods they use to communicate with their customers, allowing multiple selections from the list of options.

On average, each respondent selected 1.14 options from the list of possible communication methods. Asking their customers for feedback verbally is by far the most popular method and was selected by 61.6% of (n = 61) the respondents, followed by 29.3% (n = 29) indicating that they use questionnaires to collect feedback from their customers. Just over 14% (n = 16) of the respondents indicated that they do not ask customers for feedback.

Figure 4. Communication methods used by relationship building groups

From Figure 4 one can see that verbally is the most popular way of asking for feedback from customers for all the groups, with the largest proportion of respondents being from the Passive respecters group. The Do-it-all-right'ers group is the only one utilising all the listed modalities for obtaining feedback from customers and is in fact, even if only a small proportion, the only group that uses social media to do so. Of those that do not ask for feedback, Do-it-all-right'ers make up the smallest proportions and Passive respecters make up the largest. Questionnaires are used by more than half of the Do-it-right'ers group but not many of the other groups make use of them.

6 Conclusions

This study aimed to determine if SMEs measure customer satisfaction, how they collect feedback from customers and how often they measure customer satisfaction. This research contributes to SME literature in South Africa by introducing groups into which businesses can be classified according to how they approach customer satisfaction and feedback.

Based on the findings of this exploratory study that considered only a limited set of aspects that could be involved in building stakeholder relationships, it is clear that these aspects can be classified into higher order latent constructs. Furthermore, using these constructs to find natural groupings among the respondents, revealed that SME's tend to differ in terms of their attitudes and actions towards building customer relationships and that they can be classified into different groups based on these differences

namely average presumers, do-it-all righters and passive respecters.

Future research could build on these findings by possibly extending the set of aspects with all dimensions that are involved in building stakeholder relationships and possibly developing a scale for measuring the extent to which different constructs are attended to by the respondents in their relationship building efforts in their businesses and relating this to the level of success they have in keeping their customers satisfied. This could lead to developing a classification model for businesses that can be used for assessment with accompanying guidelines for improving such relationships if it is deemed necessary.

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