

PRODUCT STRATEGIES OF SME'S: FACTORS THAT INFLUENCE SME'S IN DECIDING WHAT PRODUCTS TO SELL

*Michael C. Cant**, *Professor Johannes A. Wiid***, *Ms Safura Mohamed Kallier****

Abstract

Deciding on the right products to offer to the market is a demanding and crucial task that requires understanding and insight into the customer's needs and wants. This task is even more important and crucial for SME's who in many instances have to rely on the knowledge and feeling of the owner/manager only to make these decisions. It is therefore important for SME's to have a well thought out strategy when deciding on what products to sell. This study aimed to identify aspects related to products that SMEs consider when selecting products to sell. Surveys were sent out to SME's around South Africa. The results indicated that SME's selected products based on the quality of the product and customer demand.

Keywords: SME's, Product, Strategies, Quality, Product Life-cycle

**Department of Marketing and Retail Management at the Department of Marketing and Retail Management, University of South Africa (UNISA)*

Tel: +27 (012) 429 4456

Email: cantmc@unisa.ac.za

***Department of Marketing and Retail Management, University of South Africa (UNISA)*

Tel: +27 (012) 429 3939

Email: jwiid@unisa.ac.za

**** Department of Marketing and Retail Management, University of South Africa (UNISA)*

Tel: +27 (012) 429 3758

Email: kallism@unisa.ac.za

1 Introduction

Selling the right product, to the right customers is what makes a business successful. A product is defined as a tangible or non- tangible good or service that is offered to the customer in exchange for some unit of value (Cant & van Heerden 2013: 164). The aim of the product is to satisfy the needs of the customer as a result of the direct use of the product (Cant & van Heerden 2013: 164). From a marketing perspective the product includes the features and attributes that are associated with the product and enhances the consumer's experience of the product. Each product goes through a life cycle, after which it must be either replaced or re-invented (The economic times 2014). The product lifecycle maps out the life span of the product and at each stage different product decisions and marketing tools are used to promote the product. The business identifies a strategy at each stage of the product lifecycle that will enhance the product to the consumer (Chandrasekar 2010: 8). The product life cycle consists of four stages which include the introductory phase, the growth phase, the maturity stage and the decline phase. Each of these stages has their own strategies and characteristics that the business must manage in order to produce a profit (Productlifecylestages. Com 2014).

At each stage of the product life cycle, there are different strategies that the business can make use of to gain an advantage in the market and gain greater profits. The product life cycle identifies the main product and marketing challenges that the product faces at each stage and the business is then able to develop alternative strategies to respond to these challenges (Sharma 2013:125).

2 Selling the right products

Selecting the right products to sell is critical for any business as the business is defined by the products that they sell (Rodriguez 2014).The products that the business sells must fulfil some need or satisfy a want for the consumer (Ramsey & Ramsey 2010: 132). It is thus important to know and understand the customers' needs and wants when selecting the products for the business. It is also important to consider the life-cycle of the product in relation to the type of customers the business is targeting. Consumers who are trendsetters and innovators will most likely be interested in the latest products whereas consumers who are late adopters will prefer to purchase a product only after their peers have recommended it (Edmund 2014).

Competition should also be considered when making a decision on the products to sell. The

business must determine who their competitors are, how similar their products are to the businesses products and what unique features does their products have (Rodriguez 2014). It is also important to consider the price of the product to be sold. Products that are priced low will provide high sales volumes, while products that are high priced will result in low sales volumes but higher gross profits (Edmund 2014). When considering the price of the product, it is important to take into account the brand image and position of the business in the market (Edmund 2014).

3 Literature review

Small business enterprises (SME's) are essential to any developing economy as they assist in the growth of the economy and the creation of employment opportunities in a country (Cant 2011:1107). In South Africa, SME's account for about half of the private Gross Domestic Product (GDP) of the country (Mutanda, De Beer & Myers 2014:153). SME's contributes to the economy at a social level as well, through ensuring the distribution of income, supporting monetary stability and encouraging innovation (Gomes, Moshkovich & Torres 2010: 21). Even though SME's play a huge role in the growth of the economy of a country, they have a high failure rate. Studies show that 40% of new businesses fail within their first year and 60% fail by their second year of operation (Cant 2012:1108). These failures are caused by factors such as changing economic climate of a country, competition and lack of demand for a product (Cant & Wiid 2013: 708).

The product strategies provide alternative options for the business depending on the market conditions. Product decisions and strategies in SMEs are developed differently compared to larger organisations. SMEs have fewer resources at their disposal, a limited amount of individuals to make strategic decisions and a smaller budget for marketing activities (Gomes et al., 2010: 21). Strategic decisions regarding products in SMEs are made mostly by the owner of the business and are usually based on the opinions of the owner (Gomes et al., 2010: 21). Decisions are more informal and the focus is on the short term, whereas decision making in big businesses are formal and are usually guided by a model (Gomes, et al., 2010: 22).

Previous research has focused on business and marketing strategies in SME's and on product innovation. Sharma (2011) found that SME's needed to develop and implement strategies to survive the tough competitive business environment. A study conducted by Hagen, Zucchella, Cerchiello & DeGiovanni (2011) concluded that firms that have a clear strategy are able to peruse international opportunities, expand successfully and grow. Leitner & Guldenberg (2009) aimed to identify the impact of generic strategies on the performance of SME's. Their study found that firms that followed a cost efficiency

or differentiation strategy performed equally well. They further found that firms that followed a combination strategy performed equally or even greater than firms following cost efficiency or differentiation strategy. It is evident that there is a lack of research regarding strategies used by SME's when selecting products to sell. This article thus aims to identify the strategies used by SME's when selecting products to sell and the various product aspects that are considered when deciding on products.

The next section will discuss the research objectives, methodology and findings of the research.

4 Research objectives

This study aims to determine whether SMEs develop product strategies in their businesses and if so what strategies do they consider when selecting products to sell. The study further aims to determine what product aspects SME's consider when deciding on what products to sell.

5 Methodology and findings

To determine whether SME's develop product strategies, and if so, what strategies, a sample of small business owners were asked to quantitatively rate how important they perceive different product aspects to be when they select products to sell in their business. The questionnaire was administered to various business owners within South Africa and a total of 105 usable responses were received.

5.1 Research findings

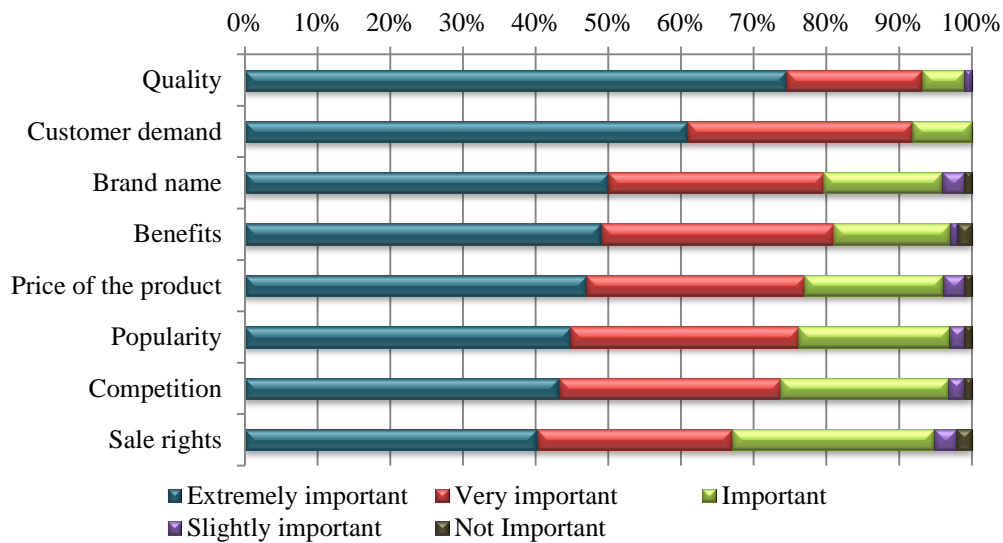
Small business owners were presented with a set of eight aspects regarding products that they could use to guide their selection of products to sell. They were asked to rate the importance of each aspect on a five point scale that ranged from not important to extremely important.

From Figure 1 and Table 1 it can be seen that product quality is the most important aspect that is considered when choosing products to sell with 93.1% of the respondents having rated it as either Very important (18.6%) or Extremely important (74.5%). This importance is confirmed by the mean importance rating (3.67) being the highest and the standard deviation (.635), an indication of variation in importance ratings, being the lowest. The second most important aspect is Customer demand with 81.0% of the respondents having rated it as either Very important (32.0%) or Extremely important (49.0%), also confirmed by the mean importance rating (3.53) being the second highest, accompanied by the second smallest variation (.647) among importance ratings. On average, Brand name (3.24) and Benefits (3.25) are equally important in third place.

Table 1. Importance ratings of product aspects

	Not Important (n)	Slightly important (n)	Important (n)	Very important (n)	Extremely important (n)	Total N	Mean (SD)
Quality	0.0% (0)	1.0% (1)	5.9% (6)	18.6% (19)	74.5% (76)	102	3.67(.635)
Benefits	2.0% (2)	1.0% (1)	16.0% (16)	32.0% (32)	49.0% (49)	100	3.25(.903)
Popularity	1.0% (1)	2.1% (2)	20.8% (20)	31.3% (30)	44.8% (43)	96	3.17(.902)
Customer demand	0.0% (0)	0.0% (0)	8.2% (8)	30.9% (30)	60.8% (59)	97	3.53(.647)
Price of the product	1.0% (1)	3.0% (3)	19.0% (19)	30.0% (30)	47.0% (47)	100	3.19(.918)
Competition	1.0% (1)	2.1% (2)	23.2% (22)	30.5% (29)	43.2% (41)	95	3.13(.914)
Brand name	1.0% (1)	3.1% (3)	16.3% (16)	29.6% (29)	50.0% (49)	98	3.24(.909)
Sale rights	2.1% (2)	3.1% (3)	27.8% (27)	26.8% (26)	40.2% (39)	97	3.00(1.00)

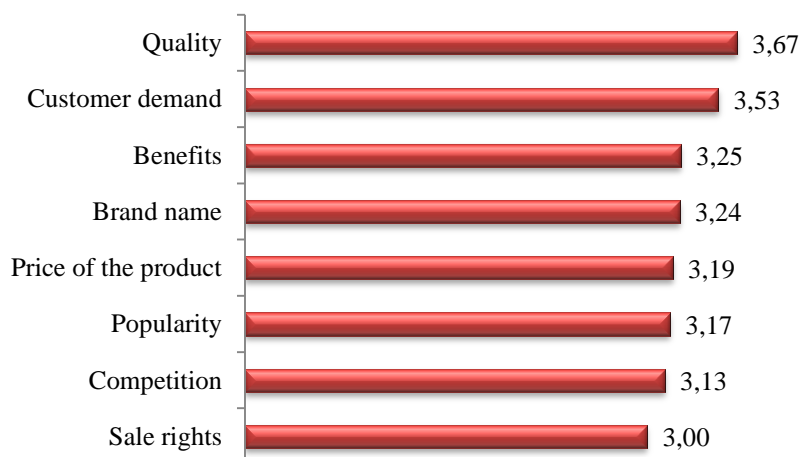
Figure 1. Importance ratings of product aspects



Although there is a clear ranking in perceived importance of the eight product aspects involved in selecting products to sell, all mean values are above the middle value (2) of the scale it was measured on (0=Not important to 4=(Extremely important), indicating that all aspects are considered important. This is also demonstrated by the fact that Quality and

Customer demand was not rated Not important by any of the respondents while the other aspects were rated Not Important by only one (Popularity, Price, Competition, Brand name) or two (Benefits, Sale rights) respondents.

Figure 2. Mean importance of product aspects



5.1.1 Dimension Reduction

To reduce the dimensionality of the set of aspects that could be important when deciding which products to sell and to see whether a higher level of classification of these aspects exist, the responses to the eight items were subjected to exploratory factor analysis using Principal Component Analysis (PCA) after the factorability of the correlation matrix was established. The Pearson's correlation matrix demonstrated a number of correlations of .3 and above, the Kaiser-Meyer-Olkin value was 0.810, well exceeding the recommended minimum value of 0.6 (Kaiser, 1970,

1974) and Bartlett's Test of Sphericity (Bartlett, 1954) reached statistical significance, $p < .001$.

PCA with Varimax rotation uncovered 3 latent constructs, cumulatively explaining 70.041% of the variance in the data. Each of the extracted factors demonstrates acceptable internal consistency as illustrated by the Cronbach's alpha coefficients listed in Table 2, indicating that items loading on a latent construct all do measure the same latent construct.

These latent constructs, the importance 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

	Reputation	Utility	Competitiveness	Overall
Brand name	.844			
Sale rights	.777			
Popularity	.645			
Quality		.892		
Benefits		.630		
Customer demand		.501		
Price of the product			.886	
Competition			.792	
Variance explained	28.03%	21.81%	20.20%	70.04%
Cronbach's alpha	0.742	0.638	0.705	0.824
Mean	3.140	3.474	3.139	
Standard deviation	.760	.571	.828	
Minimum	.67	2.00	0.00	
Maximum	4.00	4.00	4.00	

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

The three construct values were determined for each respondent by calculating the mean value of the items that load on them and from the construct mean values listed in Table 2, it can be seen that on average, on a higher level, the utility (3.474) of a product (quality, benefits, customer demands) is the most important compound construct when deciding which products to sell. Reputation (brand name, sale rights, popularity) (3.140) and Competitiveness (price, competition) (3.139) are less but equally important when deciding which products to sell. With the importance of these constructs being measured on a scale of 0 to 4, the mean values of each being between 3 and 4 is an indication that on average, they are all important when deciding which products to sell. From the minimum values listed in Table 2, the only construct for which at least one respondent indicated that both price and competition is not important is Competitiveness. The respondents' values for Competitiveness covers the whole range of the scale and explains why it has the largest variance (standard deviation) of the three higher level constructs. Utility has the smallest variation with no respondent having indicated that quality, benefits and customer demands is less than important.

5.1.2 Cluster Analysis

To establish whether there are distinct patterns among the respondents regarding how important they rated the various product aspects that may be relevant when deciding which products to sell, the eight aspect items were subjected to K-means cluster analysis.

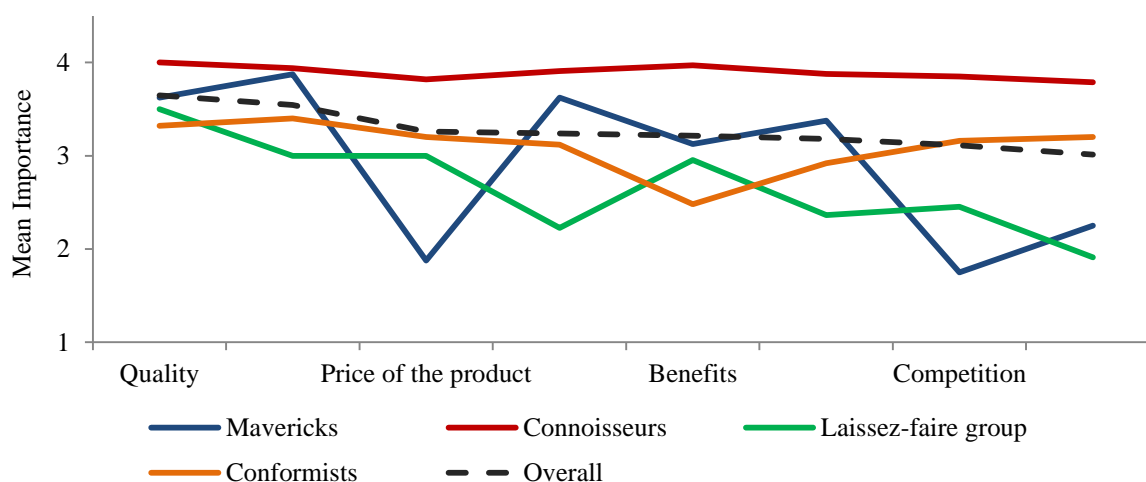
Four different groups were distinguished, indicating that respondents do have different opinions regarding which product aspects they consider important when deciding which range of products to offer. The cluster centre values of the separate groups are listed in Table 3 and how the distinguishing features differ per group is depicted in Figure 3.

5.1.3 Description of Clusters

On average, the respondents as a single group (overall) rated quality, customer demand and brand name as the most important aspects to consider when selecting products to sell.

Table 3. Final cluster centres

	Mavericks	Connoisseurs	Laissez-faire group	Conformists	Overall Mean
Quality	3.625	4.000	3.500	3.320	3.65
Benefits	3.125	3.970	2.955	2.480	3.55
Popularity	3.375	3.879	2.364	2.920	3.26
Customer demand	3.875	3.939	3.000	3.400	3.24
Price of the product	1.875	3.818	3.000	3.200	3.22
Competition	1.750	3.848	2.455	3.160	3.18
Brand name	3.625	3.909	2.227	3.120	3.11
Sale rights	2.250	3.788	1.909	3.200	3.01

Figure 3. Cluster groups

The Mavericks had the largest variation in their importance rating across the different product attributes, displaying strong opinion differences among the aspects. They tended to consider three of the aspects, quality, customer demand, and brand name, as very important and to a lesser extent they tended to consider popularity and benefits as important when selecting products to sell. This group echoed the quality, customer demand and brand name ratings of the group as a whole although the importance of customer demand and brand name is more pronounced. The importance rating of price, competition and sale rights on the other hand is much lower than that of the group as a whole.

The Connoisseurs judge all of the product aspects to be very important when deciding which

products to sell and rated them all above the overall average importance.

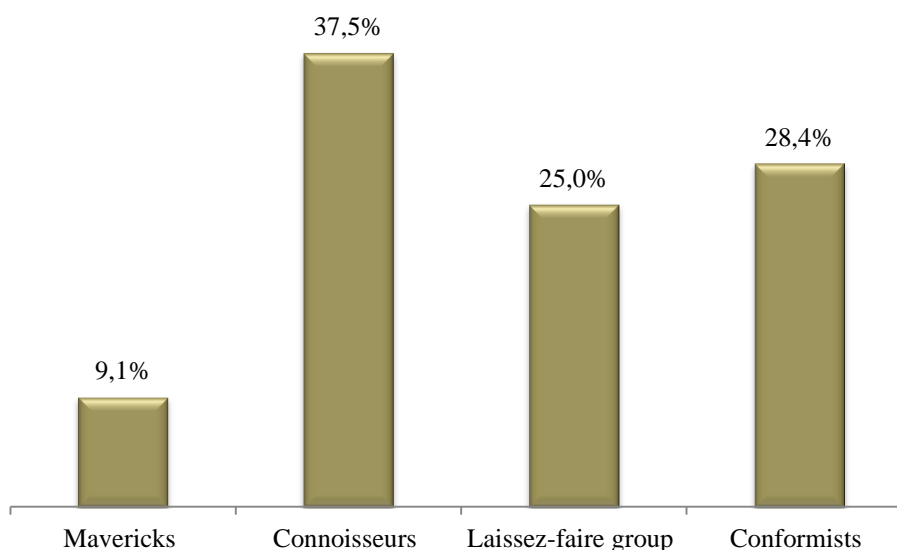
The Laissez-faire group rate all of the product aspects as less important than the overall average, with quality being the only aspect that they rated as more than just important when selecting products to sell. Customer demand and price are only just important to them while popularity, competition, brand name and sale right seem not to be considered when selecting a product range.

The Conformists tended to follow the overall average importance for all aspects except quality, benefits and popularity which they rated below the overall average importance. For them, benefits are the least important.

The only product aspect for which all groups are in relative agreement on is quality.

Table 4. Distribution of respondents among the four cluster groups

		N	Percent
Valid	Mavericks	8	9.1
	Connoisseurs	33	37.5
	Laissez-faire group	22	25.0
	Conformists	25	28.4
	Total	88	100.0

Figure 4. Cluster groups distribution

The largest proportion of the respondents are the Connoisseurs (37.5%, n=33), followed by the Conformists (28.4%, n=25), the Laissez-faire group (25.0%, n=22) and the Mavericks (9.1%, n=3).

Judging from the four different patterns of importance ratings of the different product aspects among the respondents that were uncovered with cluster analysis, it seems as though the respondents do have varying strategies regarding how they go about selecting products to sell.

6 Conclusions

The aim of any SME should be to satisfy the needs and wants of their customers through their product offering. Therefore selecting the right products to sell is essential as selling the wrong products can result in loss of profit for the SME. It is thus important for the SME to have a strategy when selecting the products to sell.

The study aimed to determine which aspects SMEs consider when deciding on what products to sell. Respondents were asked to rate the importance of various aspects that could guide their selection of what products to sell. Results indicated that quality and customer demand are the most important aspects that are considered when deciding on which products to sell.

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