

MARKETING CAPABILITIES AMONG MALAYSIAN SMALL AND MEDIUM ENTERPRISES (SME) IN THE AGRO-BASED INDUSTRY

Azhar Ahmad*

Abstract

Studies have shown that one of the major problems in developing the small and medium industries is marketing. The problem becomes more critical among agro-based producers because of the nature of the products. Agro-based products have shorter life span and require special and careful treatment in the production process. In addition, agro-based products require good marketing practices in order to increase sales. Hence, this study highlighted the marketing capabilities among the agro-based companies in Malaysia. The factors include target market, situation analysis and marketing mix including product, price, place, and promotion. The main objective of the study is to analyse the marketing management of the SMEs and their business performances. The study was conducted on 237 agro-based producers in Malaysia. As a whole, only 20 SMEs are considered to be successful due to their ability to market their products and has good sale performance.

Keywords: Situation analysis, marketing mix, targeting, agro-based products and performance.

* PhD., School of Management, Faculty of Economics and Management, Universiti Kebangsaan Malaysia

Introduction

Compared globally, Malaysia's sales of agricultural products are still low. Much of this is attributed to the low ability of local entrepreneurs in producing a quality and competitive agro-based products. As noted in Daily Express (May 19, 2006), Malaysian products are still weak in sales and marketing. In addition, Bumiputra (people of the soil) participation in this sector is still in the initial stage. Hence, the focus of the Third National Agricultural Policy (DPN3) is to ensure better marketing delivery and strengthening network through strategic alliances (www.mtc.com.my)

In Malaysia, small and medium enterprises comprise more than 99% of business establishments and 80% of them are categorized as micro level (Department of Statistics, 2005). In addition, local SMEs are currently involved in low value-added activities such as producing products for local consumption and in small amount. Consequently, the Third Industrial Master Plan (IMP3) highlighted the need to push these small entrepreneurs to become major players in the agro-based industry. With great potentials of agro-based products, several issues need to be overcome in order to sustain the local industry and enable the entrepreneurs to remain competitive. Among the issues and challenges faced by the industry as highlighted by Agricultural Department and other government agencies are; 1) lack of marketing and distribution capabilities to penetrate the regional and global market, 2) low quality packaging and labeling of herbal products, 3) low productivity among the small entrepreneurs and 4) low participation of bumiputera entrepreneurs (Sofian Salleh, 2005).

Therefore, this research is conducted to assess the marketing practices of local SMEs on agro-based products in relation to their business performance. Understanding the key factors would benefit the local entrepreneurs to improve their business especially in relation to the marketing and supply chain aspects.

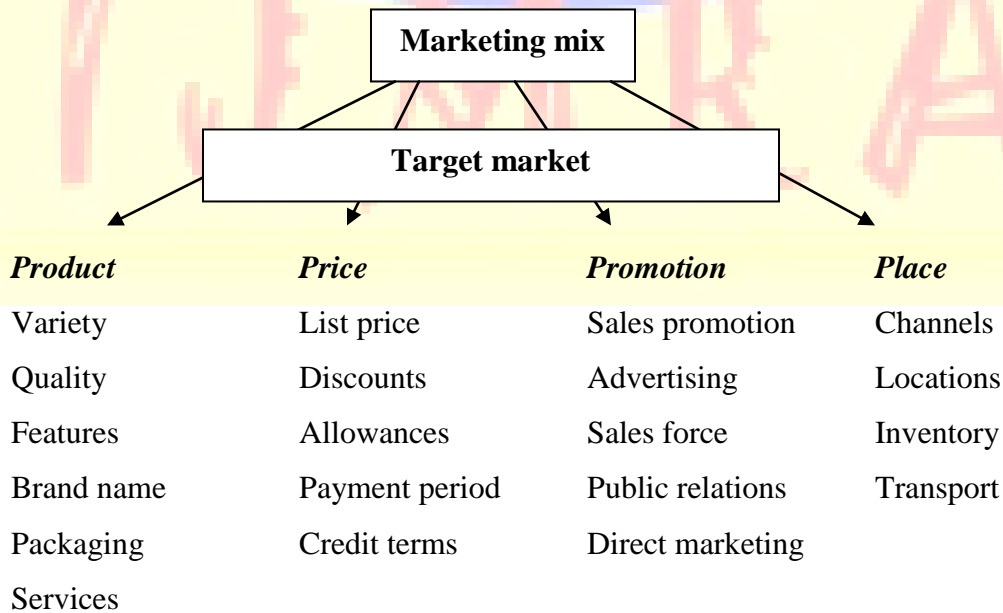
Literature Review

Marketing Management

Financial success of an organization often depends on its marketing ability. The American Marketing Association defines marketing as an organizational function and a set of process for creating, communicating, and delivering value to customers and for managing customer relationships that benefit the organization and its stakeholders (www.marketingpower.com). Thus, the organization’s task is to devise marketing activities and programs to create, communicate and deliver value for the consumers. McCarthy (1964) simplified these marketing activities into four broad groups of 4 Ps: product, price, place and promotion. In a nutshell, marketing management refers to the ability of an organization to manage the product, price, place and promotion of a particular product or service.

For agro-based products, marketing mix decision must be made by considering the marketing variables under each P. As shown in Figure 1, variables under *product* include quality, branding and packaging. This means decisions on brand name and packaging of the products are important in marketing of any agro-based products.

Figure 1: Four P Components of the Marketing Mix



As competition grows and customers become more discerning, a key goal of marketing is to develop deep, enduring relationships with all people or organizations that affect the success of the firms' marketing activities (Kotler & Keller, 2007). Relationship marketing aims at building mutually satisfying long-term relationship with key parties – customers, suppliers, distributors and other marketing partners. Therefore, in order for agro-based entrepreneurs to earn and retain their business, they need to build strong economic, technical and social ties among the parties. This includes working together with marketing partners such as financial and advertising agencies, government bodies and university scientists.

SMEs in Malaysia

The classification of the small and medium enterprises is adopted from Bank Negara based on the number of workers and annual sales of the firm. Table 1 shows the classification of SME.

Table 1: Classification of SME in agro-based sector

Classification	Micro	Small	Medium
No. of staff	Less than 5 people	5 – 19 people	20-50 people
Annual sales	Less than RM200,000	RM200,000 – RM1 million	RM1 million – RM5 million

Source: National SME Development Council, Central Bank of Malaysia (2005)

Agro-based products have received great demand from the consumers for various reasons such as health concerns. However, much of the local market is being dominated by the imported products especially from our neighboring countries like Thailand, Myanmar and Indonesia. This shows that local industry lack the marketing and distribution capabilities to penetrate the market. In addition, most local products are manufactured by small firms and cottage industries which carry various brand names and product forms. In addition, these entrepreneurs are scattered throughout Malaysia and each firm offers small quantity of products. These products are mainly manufactured manually or using semi-automated machines which resulted in low quality packaging and labeling. Thus, low production of agro-based products often occur due to poor supply chain practices by these small scale entrepreneurs.

Methodology

The data was collected through surveys conducted on the local agro-based SMEs. Structured questionnaire was used as the research instrument. Section A of the questionnaire illicit the background of the company and the respondent's profile. Section B looks into the capabilities of the entrepreneurs including marketing practices of the SME and Section C analyzes the performances of the company. The questionnaire was developed based on the integrated questionnaire used by SMIDEC to calculate SCORE parameters in measuring firms' performances. The performance of the firms is indicated into three categories; successful, moderate and not successful.

Field investigations are done on the local agro-based entrepreneurs using listing of entrepreneurs compiled from the Ministry of Agriculture, Fishery Department and FAMA. The respondents were entrepreneurs who own a registered company and produce agro-based products in the fresh form. Producers of processed agro-based products are not considered. The respondents were categorized according to sub-sectors and located throughout Malaysia including Sabah and Sarawak. The primary sub-sectors are aquaculture, livestock, fruit and vegetables, horticulture, palm oil and rubber. From a total of 300 questionnaires distributed, 237 usable questionnaires were collected and analysed.

Findings

Marketing Capability of SMEs

Marketing capability of the respondents is analysed according to their perceptions toward target market, product, price, distribution and promotion. Table 2 summarizes marketing capabilities of the firms.

Table 2: Marketing Capability of SMEs in Agro-based Industry
(N = 237)

Statements	Strongly disagree (%)	Disagree (%)	Not sure (%)	Agreed (%)	Strongly agree (%)
Product for our market is dependent on the consumers' demand	0	3.4%	8.0	51.5	34.6
Marketing objective of our company is to provide value and satisfaction to consumers	0.4	5.1	5.1	40.1	46.8
Company conduct marketing plan to ensure objectives are carried out efficiently	0.8	5.9	7.6	46.0	37.1
Company analyses marketing environment to identify opportunities and obstacles that will affect the value potential of our products	0.8	8	6.8	52.7	28.7
Our company focuses our product on specific group of consumers	1.3	58.6	7.6	25.3	4.2
Branding of our products is able to give positive affect on our business	20.7	3.4	16.9	37.6	16.9
The packaging of our product are designed effectively and of the latest technology	23.2	28.2	10.5	26.2	7.2
Continuous promotions are conducted by the company to increase sales of our products	9.3	9.3	6.8	51.1	21.1
Price of our products are set after taking into consideration the cost of producing the product to consumers	1.7	3.8	2.5	59.9	27.4
Price setting of products are consistent with the current and competitor's price	0.8	0.8	5.1	59.1	30.8
Our product are also available in other places such as shops or through intermediaries	11	11.8	6.3	34.6	31.2
Our company always monitor the behaviour of the competitors as an effort to withstand business competition	0.4	6.3	11.8	60.3	17.3

i. Target Market

Most of the SMEs acknowledged the importance of knowing the demand of the market. Almost all companies (86.1%) said that their products were produced based on the demands of their

customers. In addition, the aim of the companies is to provide satisfaction and values to their companies (86.9%). Consequently, the companies conducted marketing plan (83.1%) and analysed the opportunities and threats of the marketing environment (81.4%). Overall, most of the SMEs analysed their customers. Hence, most of them (77.6%) said that they monitored the behaviours of their customers.

ii. Product

In terms of product, the agribusiness companies mainly produced their product for the mass market. Only 29.5% of them produced for a specified target customer while almost 60% of them produced for the general market. For branding and packaging, the SMEs perceived them as the less important for agribusiness products. For instance, 51.4% of them said they either used normal packaging or no packaging at all. Also, about 43% of them used no brand or did not realised the importance of branding to their products.

iii. Pricing

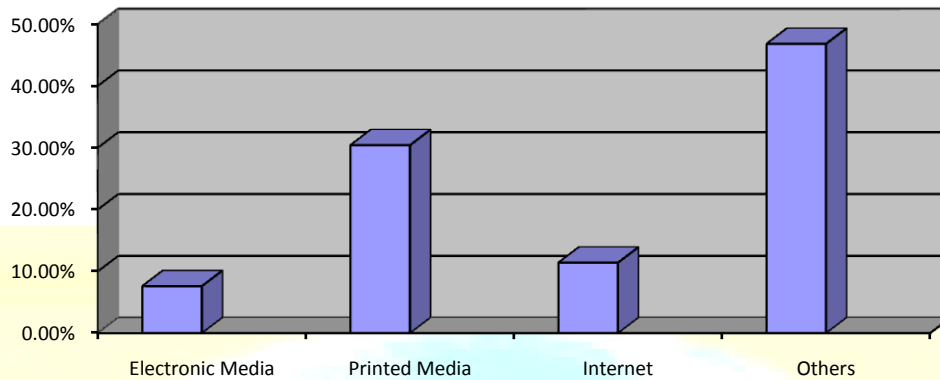
Much of the agriculture and agro based products are priced according to the market rate. Hence, 89.9% of the SMEs considered the current market and competitors' rate when setting the price on their products. In addition, these companies set the price after considering the cost involved in producing the products to customers (86.3%).

iv. Distribution channel

Majority of the SMEs are categorised under "micro size company" which have less than five full time workers. These companies were not able to distribute the products to the final customers by themselves. As a result, almost 66% of them said that their products are distributed by middle men such as sundry stores whereas only 11.6% sold their products at their premise.

v. Promotion

The companies noticed the importance of promotion to communicate or inform the customers about their products. This is shown when 72.2% of them said they conducted continuous promotion in order to make sale. However, the research shows that the promotion techniques used by these SMEs were still poor. As shown in Figure 3, only 7.6% of them used electronic, 30.4% of them used printed and 11.4% utilised Internet as the promotional media. Nearly half of them still used the traditional ways of promotion such as distributing hand-outs and banners.

Figure 3: Advertising Methods

Conclusions and Discussions

Marketing Aspect

As a whole, the majority of the respondents are able to include some marketing aspects in their business. The SMEs offered products that are demanded by their customers. In addition, the prices are set based on the current market and promotions are made to inform the customers of their products. However, only few companies sell their products in established retail outlets.

However, several considerations are needed to improve the companies' performance. With the growth of population in Malaysia, the demand of food especially agro-based products will increase. These opportunities would also bring challenges to the SMEs which include;

- To generate more sales, companies could no longer produce goods that are for the local market.
- The products should be available conveniently to the market such as at supermarkets and well-known retail outlets.
- The companies will have to produce goods that are well packaged and with proper branding.
- Proper promotional tools are needed to communicate the products to the market such as the Internet and direct marketing (use of data based).

Success Factors

From the sampled respondents, only 20 companies were categorised as successful SMEs. The analyses from these companies were also conducted to provide valuable inputs on their business performance. Among the distinctive features of their success are;

- 80% of them (agreed and strongly agreed) have good contacts with their competitors
- 90% of them have good relationship with their suppliers
- 75% of them maintain good relationship with government and financial agencies
- 80% of them have strategic networking
- 45% of their products are distributed in shops and other retail outlets
- 20% of them promote their products through the Internet.

The study provides valuable inputs on the current scenario of our local agro-based SMEs. In conclusion, the results show that more efforts are needed in order to support the government intention of developing our agriculture sector as the third engine of growth.

References

Dato' Sofian Mohd Salleh (2005). Peranan IKS Sebagai Penjana Ekonomi Maju Berasaskan Pertanian. Paper presented at Seminar Selangor, Model Islam Sebuah Ekonomi Maju on March 26, 2005.

Kotler, P. & Keller, K. (2009). *Marketing Management*. Singapore: Pearson Prentice Hall.

McCarthy, J. (1964). The Concept of the Marketing Mix, *Journal of Advertising Research*, June, pp 2-7

Census of Establishment and Enterprise (2005). Department of Statistics, Malaysia.

Malaysian Businesses Lack Promotional Skills *Daily Express*, (May 19, 2006).

Ninth Malaysia Plan To Strengthen Agriculture And Agro-based Industry, MTC retrieved on 8 June, 2010 from <http://www.mtc.com.my/info/index.php?>

