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A prospective study on online marketing of Small and Medium enterprises (SMEs) of services sector in India

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Abstract

Small and Medium Enterprise (SMEs) play a pivotal role in Indian Economy with their contribution in industrial output, exports, employment and production for Indian and international market. This paper focuses on existing marketing media for SMEs in services sector and looks for scope of online marketing. Reviews have been done based on the type of services organisations in SME sector who use online media for marketing. Researches reveal that SMEs who are especially in services, work for a niche market. With the span of time online media has gain importance in marketing and it can be an ideal medium for SMEs success in marketing. Online media allows to acquire, nurture and accumulate leads to engage with them based upon referrals and recommendations. Researches have also shown that online marketing is cost effective and helps in broaden & manage customer database for SMEs.

Keywords: SMEs, Social Media, Online Marketing, SMEs Marketing.

Introduction

This paper investigates online marketing prospects of SMEs of services sector in India. Researches reveal that there are very few studies on online marketing of SMEs looking for perspective to make an entry in global market place. Marketing of business and enterprise has come a long way from the era of production to era of relationship marketing. Therefore online marketing of SMEs is important for research as they are important source of employment, growth and economy. Economic development of a nation truly depends upon the industrialization with the help of adequate resources, technologies and responsive government policies. For a developing economy like India, an agriculturist economy in beginning (Patnaik 1979) ^[26], SMEs offered a great deal of success in process of Industrialization (Uma 2013) ^[31]. In the late 20th century with discovery of internet, enterprises witnessed a radical change in business operations and marketing by going beyond transactional marketing and towards relationship marketing (Brodie *et al.* 2008) ^[4].

Significance of SME in Indian Economy

SMEs are enterprises of growing importance and engage in the growth of emerging nations by providing employment and directing economic development (Kula & Tatoglu 2003) ^[19]. It is an estimated suggestion that SMEs are more than 95% of enterprises around the world, which accounts for approximately 60% of private sector employment (Ayyagari *et al.* 2011) ^[2].

In India, there is a separate Act, responsible for promotion and development of Micro, Small and Medium Enterprises (MSME) i.e. Micro, Small and Medium Enterprises (MSME) development Act, 2006 which came into existence on 02nd Oct, 2006. Office of Development Commissioner works as the nodal Agency under the Ministry of Micro, Small and Medium Enterprises (MSME). It supports for export promotion, joint ventures, marketing and distribution, technology transfer and in other required areas. It has also made its presence in various countries to support the SMEs and identifying the collaboration opportunities in Africa, North and South America, European countries, Japan and Gulf countries. The MSME act classifies enterprises broadly into manufacturing and services and defines in terms of their investment in plant, machinery and equipments as follows.

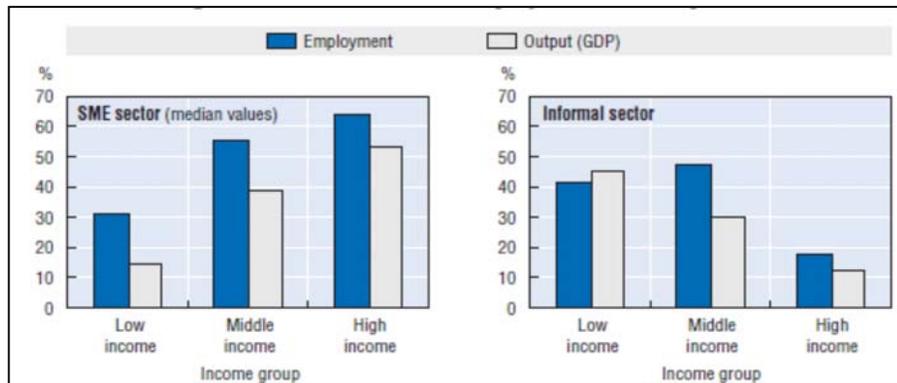
Table 2: Definition of MSME in India

Description	Manufacturing Enterprises Investment in Plant & Machinery INR	Service Enterprises Investment in Equipments INR
Micro Enterprises	Upto Rs. 25Lakh	Upto Rs. 10Lakh
Small Enterprises	Above Rs. 25 Lakh & upto Rs. 5 Crore	Above Rs. 10 Lakh & upto Rs. 2 Crore
Medium Enterprises	Above Rs. 5 Crore & upto Rs. 10 Crore	Above Rs. 2 Crore & upto Rs. 5 Crore

Source: Small and Medium Business Development Chamber of India.

SMEs play a pivotal role in growth of Indian economy. As per census of MSME reference year 2006-07, there are more than 36 million MSMEs in India and it adds approximately 8% to India’s GDP. It contributes 45% in industrial output, 40% in exports, offers 42 million employments by creating one million jobs every year. It produces more than 8000

excellent quality products for the domestic and international markets. If we look at the number of enterprises in developing countries, most of them are SMEs and these are a major source of employment, domestic earnings and export benefits.



Source: World Bank Policy Research paper 3127, 2003.

Fig: 2.1 Contribution to employment and output

SMEs & Services Sector

The SME sector plays an important role in development of economy, poverty reduction and employment generation in developing economies (Hallberg, 2000) [17]. Services sector is an integral part of SMEs. The services sector has shown around 57 % contribution to the GDP and emerged as largest and fastest growing sector of Indian economy. According to Economic Survey (2013-14) [11], India has second fastest growing services sector in the world showing a compound annual growth rate of 9 per cent, just below China's 10.9 per cent, during 2001 to 2012. Among other sectors of SME, services sector holds a key percentage of shares.

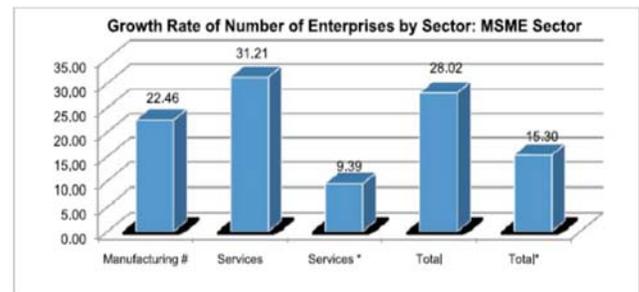
Table 3: Share of leading industries in MSME sector

Industry	Share inpercentage
Retail trade & repair of personal and household	39.85%
Wearing Apparel and dressing	8.75%
Food products & beverages	6.94%
Hotels & restaurants	3.64%
Furniture manufacturing	3.21%
Sale,Maintenance & retail of Automotive	3.57%
Other service	6.20%
Other business activities	3.77%
Manufacture of Textiles	2.33%
Manufacture of fabricated metal products	2.33%
Others	19.40%

Source: Annual Report MSME-2013

For the financial year 2013-14 the growth rate of services sector was 6.8 percent which is greater than 4.7 percent, the overall GDP growth in 2013-14. Services sector also witnessed a boost from FDI inflows and transnational firms

in last few years. India’s share of world service export has also hiked from 1.1 percent in 2000 to 3.3 percent in 2013. According to annual report-2013-14[1] for all India census of MSME 2006-07 registered services units were 5.14 lakh and 241.61 lakh units were unregistered. Available employability in both registered and unregistered sector was 485.17 lakh. Growth rate in number of service enterprises recorded was 31.21% during the period of 2001-02 to 2006-07 and expanded coverage of the sector was 9.39% on strictly comparable basis.

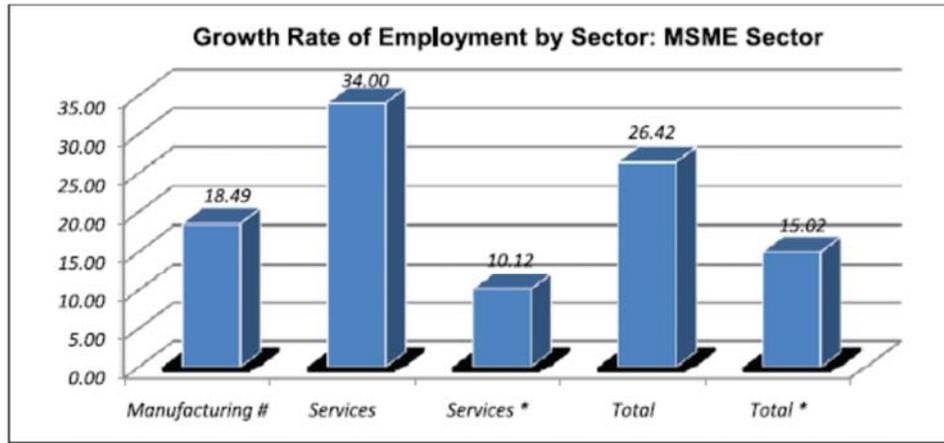


- In view of the fact that the activities excluded in the coverage pertaining to service sector only, there is no change in growth rate of manufacturing sector
 * - Excluding growth on account of expansion of coverage.

Source: Annual Report MSME-2013

Fig 4: Growth rate of number of enterprises by Sector.

Share of employment has decreased in agriculture and increased for services in last two decades. Services sector growth rate in estimated number of employment recorded was 34% during period of 2001-02 to 2006-2007 and expanded coverage of the sector was 10.12%.



- In view of the fact that the activities excluded in the coverage pertaining to service sector only, there is no change in growth rate of manufacturing sector.

* - Excluding growth on account of expansion of coverage.

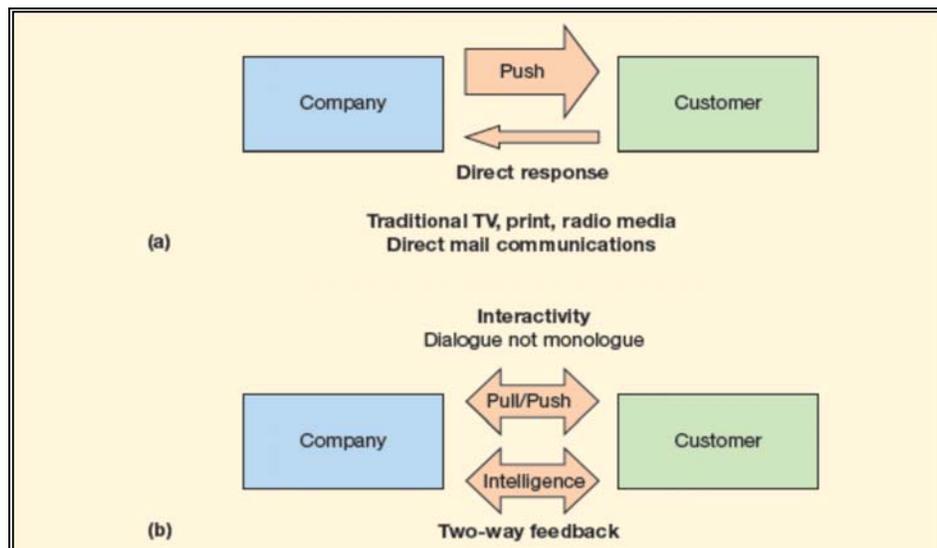
Source: Annual Report MSME-2013

Fig 5: Growth rate of employment by sector.

Online Marketing in Global Market

Online marketing is an activity of marketing which uses web services or internet for communication, advertising and sales promotion activities focused towards national and global consumers and business partners irrespective of national boundaries. In the present paper the term online marketing has been used as an umbrella phrase which encompasses marketing through email, social media, online branding, web communities, blogs. Online marketing is an important constituent element of Internet Communication Technologies (ICT). These are the areas which have been discussed by Chaffey, Chadwick, Johnston and Mayer (2006) [8] in their book Internet Marketing: Strategy, Implementation and

Practice. The wide employability of Internet facilitates superior opportunities to improve efficiency and effectiveness of the enterprises. It benefits firms by cost reduction, increased market potential, and business opportunities (as cited in Mohamad & Ismail 2009) [24]. It differs from traditional marketing in terms of interactivity, intelligence, individualization and integration. It provides personalized interaction and feedback, personalized message to each customer and integration among customer, company and intermediaries of business. Traditional media tends to apply a push strategy where as new media practices both push and pull strategy of marketing communication.



Source: Internet Marketing: Strategy, Implementation and Practice (2006).

Fig5: (a) Traditional model and (b) New model of communication

Online marketing of SMEs in Literature

Reviews have been done with the help of research papers related to Internationalization of SMEs, introduction of ICT in SMEs and Internet marketing of SMEs. Traditional marketing media like newspapers, news websites, radios, and television are all about delivering a message for SMEs.

Online marketing not only passes the message but also receives and exchanges perceptions and ideas in short span of time (Dury 2008) [10]. Small and medium enterprise (SMEs) represents a very heterogeneous group since it includes different firms and operates in various markets, social and political environments. Kiran, Majumdar, &

Kishore (2013) ^[18] found that globalization has encouraged enterprises to grow more towards international market in comparison to domestic market.

In current scenario the situations has changed for SMEs in India and the challenges posed before the enterprises by business environment has become more competitive than before (Todd. P. R. & Javalgi. R. G. 2007) ^[29]. Reducing barriers for global commerce the integrated world economy draws attention towards internationalization of SMEs (as cited in Todd & Javalgi 2007) ^[29]. Growth in technological capabilities and usage are resulting in greater global interconnectivity and can be used as a media for expansion of SMEs (Tseng *et al.*, 2004) ^[30]. In the age of international business small firms engaged in exporting can also benefit from Internet marketing. Sparkes. A. and Thomas. B. (2001)^[28] suggested for enabling small agri food firms to access the internet, create user friendly websites and link to international markets for a long term customer base supported by ICT.

Use of Internet media depends upon choice, knowledge and personality (O'Dwyer, Gilmore. & Carson 2009) ^[21] of management. Rangriz. V. (2012) ^[27] confirms that the use of Internet medium is also influenced by the objectives of leadership and interest in exporting. Esselaar *et al.* (2008) ^[12] found that lack of computer literacy is also affecting the use of internet and online sources of communication. In study of SMEs of 14 African countries Esselaar (2008) ^[12] found that ICTs are significant input factors for both formal and informal SMEs and can contribute positively to revenue generation. It is also evident in the literature that SMEs find some difficulty in addressing the investment costs, benefits and risks associated with use of IT but they also excel in business once they are able to adopt it to exploit online marketing potential (as cited in Lin. C., Huang. Y. & Tseng S. W.2007) ^[20].

L. & Mochrie. R. (2005) ^[14] concluded that slower adoption of web based marketing due to difficulties of access may tend to decrease the economic performance of the business. Citing a case of Renault motor in his research paper, Caemmerer. B. (2009) ^[5] stated the internet as a key role player in gaining customer confidence over particular feature of the product. Mochoge. O. C. (2014) ^[22] found that perceived ease of use, usefulness and cost significantly influences decision of a customer to use online marketing by SMEs. Owners or managers can use online media to grow their network area as Gilmore. A., Carson. D. & Grant. K. (2001) ^[15] emphasized on marketing by networking which is done by the owner or managers with help of their networking skills. Centeno. E. & Hart. S. (2012) ^[7] found that multiple marketing approaches are adopted to communicate different message depending upon time and customers. SMEs generally follow transactional approach for marketing. In such a situation ICT is useful for market information search and to create long term customer relationships (Moen, Madsen & Aspelund 2008) ^[23].

Opportunities and Challenges in adoption of online marketing by SMEs

Online marketing offers multiple opportunities to services sector SMEs in areas of:

- a. Understanding the new markets for global business of services sector.
- b. Convenience of online store for products and services round the clock.

- c. Identifying the core competencies of SMEs in global market.
- d. Products in demand and manufacturing strategy.
- e. Marketing and sales strategy targeted towards the global market.
- f. Targeting international buyers and participation in international trade fairs.
- g. Knowledge about customization of products and services up to global standards.

Some of the challenges that SMEs faces in adopting online marketing are found to be:

- a. Security threats.
- b. Lack of training.
- c. Inadequate technology skills.
- d. Slow adoption of Internet Technologies.
- e. High initial investment in Internet Technologies.
- f. Lack of awareness about online marketing among SMEs operating from rural areas.
- g. Government inability in funding and providing training to SMEs.

Suggestions

Promoters and owners of SMEs are responsible to take first step towards implementation of internet technologies and online marketing in order to make global presence. As Dibb, Simões & Wensley (2014) ^[9] said that marketing practice is located within the department as well as outside and it is also carried out by professionals as well as others within the firm. Therefore it is required for promoters and owners to gain a sound idea of internet technologies. Furthermore a good financial plan is also required for investment in ICT tools at initial phase of inception. It may seem to be a large investment initially but in due course of time no investments are required. It is also found that technology can be clubbed with tradition as Paul. P. (1996) ^[25] mentioned that companies should adopt internet marketing as well as traditional marketing.

SMEs must draw on external sources of information, knowledge and technology with help of online marketing. SMEs access should be improved to information about networking and marketing opportunities through social media websites which offers content generation and promotion of product and services offered by SMEs. Sparkes and Thomas (2001) ^[28] suggested that a range of incentives to promote SMEs should be provided by local and central government agencies since they adopt marketing activities within their resource availability and business environment (O'Dwyer. *et al.* 2009) ^[21].

Concluding remarks

Business globalization has opened ways for SMEs to become a part of global value chain system by means of trade activities. Despite their high enthusiasm and inherent capabilities to grow, SMEs in India are also facing a number of problems like sub-optimal scale of operation, technological obsolescence, increasing domestic and global competition, change in manufacturing strategies and turbulent and uncertain market scenario. To survive with such issues and compete with large and global enterprises, SMEs need to adopt innovative approaches in their operations. Online marketing has become one of the important factors that have an impact on the business, survival and development of SMEs. Research finds that adoption and evaluation of IT investment should be taken

care during the planning and implementation stages of SMEs as it is also suggested by Lin, Huang & Tseng (2007) ^[20]. Several SMEs are lagging behind in application of communication technologies because of lack of awareness and presence of short sighted outlook (Gabrielli and Balboni 2010) ^[13]. Such SMEs seem to be far from integration of marketing communication.

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