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AUTHORS

K.M. Makhitha

ARTICLE INFO

K.M. Makhitha (2016). Do small craft businesses need strategic marketing to survive?. *Investment Management and Financial Innovations*, 13(2-2), 399-404. doi:[10.21511/imfi.13\(2-2\).2016.15](https://doi.org/10.21511/imfi.13(2-2).2016.15)

DOI

[http://dx.doi.org/10.21511/imfi.13\(2-2\).2016.15](http://dx.doi.org/10.21511/imfi.13(2-2).2016.15)

RELEASED ON

Thursday, 14 July 2016

JOURNAL

"Investment Management and Financial Innovations"

FOUNDER

LLC “Consulting Publishing Company “Business Perspectives”



NUMBER OF REFERENCES

0



NUMBER OF FIGURES

0



NUMBER OF TABLES

0

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K.M. Makhitha (South Africa)

Do small craft businesses need strategic marketing to survive?

Abstract

The purpose of this paper was to determine if small craft producer businesses need strategic marketing to survive. Existing literature on strategic marketing and the craft industry in South Africa (SA) was used to answer the following question: do small craft businesses need strategic marketing to survive? Since craft producers lack access to the market, they face major challenges in marketing their products successfully. Secondary research was used to determine the need of strategic marketing by craft producers in SA. Strategic marketing is crucial since craft producers must research changes developments taking place in the market and to be able to develop an appropriate marketing strategy to sustain their businesses. This will enable craft producers to identify customers and to formulate an appropriate marketing strategy to reach their chosen target market. The research revealed it enables them to identify customers and to formulate an appropriate marketing strategy to reach their chosen target market. The study revealed that craft producers do need strategic marketing to survive in South Africa.

Keywords: strategic marketing, craft businesses, small and medium enterprises (businesses) (SMEs), marketing strategy.

JEL Classification: M13.

Introduction

The craft industry contributes to the alleviation of poverty in SA (Department of Labour, 2011, p. 7). The industry is a leading component of economic growth, employment, trade, innovation and social cohesion in most developed countries (Deloitte, 2012 p. 67). It offers monetary benefits and can be used to prevent the intensification of poverty. It enables the crafter to work from home, thereby becoming his or her own boss. It provides opportunities for women to earn a living and also to keep alive traditional products, processing techniques and knowledge (Shackleton, Shackleton, Buiten & Bird, 2007, p. 705).

The global trade in crafts increased at an average annual rate of 8.7 percent between 1996 and 2005 (Deloitte, 2012). The global art and craft market was worth \$32, 323 billion in 2008. The industry grew at a rate of 8.7 percent from \$17.5 billion in 2002 to \$32.3 billion in 2008. The developing economies have the highest share, with \$20, 715 billion, followed by the developed economies with \$11, 443 billion in trade. Crafts are the most important creative goods, accounting for 65 percent of the world market for creative goods and services (UN, 2010). This is an indication that there are growing market opportunities for craft producers, both locally and internationally. However, such opportunities cannot materialise unless craft producers are competitive. Craft producers need strategic marketing to identify and capitalise on the opportunities available in the market, especially the craft retail market. This requires craft producers to understand trends and developments taking place in the market, factors affecting their businesses, to identify competitors, to

understand what the market is looking for and, more specifically, how the market buys and why. The key to any business's success is its ability to respond to market needs. Market success can be achieved through the use of strategic marketing, which will enable the business to anticipate trends and demands in the market in order to stay responsive to market needs.

According to the Department of Economic Development (2009, p. 3), the craft industry has abundant human capital in terms of crafting skills, yet it is underperforming in terms of return on investment (ROI). A well-developed craft industry could create more employment opportunities in the disadvantaged areas of South Africa. The domestic market is a significant driver of the growth in craft businesses. However, the industry is facing limited growth in the local market relative to external markets because of the low purchasing power of end consumers. The majority of craft businesses are of a survivalist nature because of the oversupply of craft products that do not meet market demands (Rogerson, 2010, p. 133). The industry's retail activity is also seasonal in nature, since it is closely linked to tourism, which is also affected by seasonality of demand (Kaiser & Associates, 2005, p. 28). Therefore, strategic marketing could enable craft producers to understand the market behavior and study changes in consumer behavior taking place in the market, the buying power of consumers and other market issues that would enable them to remain competitive.

Craft trade, and particularly trade in traditional crafts, is a major source of income for disadvantaged members of society, especially rural women (Perreira et al., 2006, p. 478). There are low entry barriers, making it possible for crafters to enter an industry which requires minimal capital. However, the market is saturated with unscrupulous agents and importers.

Although it is believed that craft producers understand the needs of local markets they have little understanding and knowledge of how to make contact with buyers or of the quality of materials and the quantity required by the buyers. This has resulted in a lack of access to the market, creating over-dependence on the middleman, thereby leading to the exploitation of craft producers (Shackleton et al., 2007, p. 705). It is for this reason why this research will investigate if craft producers need strategic marketing in order to survive. The objective is therefore to determine if craft producers in SA need strategic marketing to survive. The next section will focus on the importance of marketing in small businesses followed by a section discussing strategic marketing.

Small businesses and marketing

Marketing has been associated with large businesses, yet a number of studies have focused on small businesses and have illustrated the importance of marketing in the success of small businesses (Zontanos & Anderson, 2004, p. 230; Simpson, Padmore & Taylor, 2001). It has been widely published that marketing is underutilised and misunderstood by owner-managers of small businesses (Zontanos & Anderson, 2004 p. 230). Small businesses lack the ability to conduct formal marketing research and segmentation studies, which limit marketing and selling in small businesses (Tang, Wang & Zhang, 2007). Yet, small businesses need marketing, since they have to implement marketing activities in order to grow and survive.

Marketing plays a leading role, when compared with other organizational functions, in overall planning. Marketing is especially important for craft producers in SA who still struggle to gain access to – and face competition from – other African countries and global craft producers. While marketing is applied differently by large and small producer businesses, such application might not be different for the small informal producer businesses. For example, Dlodla (2005) reported that informal roadside craft producers practice some marketing by applying the same pricing methods and location decisions as other formal producer businesses. However, Dlodla (2005) indicated that the informal producer businesses still lack the ability to market their products effectively (which is an indication of their inability to apply strategic marketing).

Understanding strategic marketing

Strategic marketing is the backbone of business success. While traditionally, strategic marketing has been associated with large business; small businesses also need strategic marketing in order to survive. However, marketing in the small firm is different

from marketing in the larger organization. Owing to the intensity of competition and changing market and customer requirements, businesses need to adapt their marketing activities to reflect these changes. Awan & Hashmi (2014) observe that businesses are competing in an environment that is global in nature and scope, information-rich and knowledge-based, which continues to influence the way businesses operate. Strategic marketing is the process of analysing environmental, competitive and business factors and forecasting future trends in business areas, that is, setting objectives and formulating strategies, selecting target markets in each business unit, establishing marketing objectives and development, and implementing and managing marketing programmes positioning strategies. Venter & Jansen van Rensburg (2014) explain that this entails investigating the internal and external factors affecting the businesses and responding accordingly to identify opportunities, threats, weaknesses and strengths arising from these factors.

Grobler (2005) observes that craft producers often lack access to market information that can enhance their ability to develop competitive advantages and effective marketing strategies and plans. They lack access to marketing research information and are unaware of the markets that demand their products. Hay (2008) explains that they therefore, cannot respond to market needs collecting market information is crucial for any business – regardless of its size – to formulate competitive marketing strategies. Marketing information can be acquired by conducting environmental scanning. Environmental scanning is concerned with the collection of information about competitors, customers, the business itself and the external environment, which includes economic, technological, social, legal, political and environmental changes.

When conducting environmental scanning, craft producers should analyse the internal environment, the external environment and the market environment. The internal environment consists of the marketing environment and the business environment. The marketing environment analysis involves analysing the performance of a business in terms of its marketing mix, whether it is achieving its marketing goals and objectives and the success of its marketing process. The business environment requires that a business assess its functional departments, that is, their performance and how they are contributing towards the goals and objectives of the business. In the case of small businesses such as craft producers, which generally do not have departments, since the owner runs the business single-handedly, such analysis should focus on the business itself, external environments, market

changes, its products, resources and marketing activities. Since craft producers face a challenge in matching their products with the market needs, and because very little research is done by craft producers (Department of Sport, Arts, Culture & Recreation, 2007), conducting internal environmental scanning will enable them to learn more about their own strengths and weaknesses, as well as to determine which type of customers they can target, considering their existing strengths. Lamb et al. (2011) explains that regarding the external environment, a business analyses its market environment, which includes the analysis of suppliers, customers, competitors and intermediaries, as well as the macro environment. For example, the recent economic recession affected the global craft industry, as well as the craft industry in SA, since it led to the reduced buying power of end consumers.

The market environment involves analysing customers, their needs and buyer behavior. It also involves analysing competitors and their marketing strategies and suppliers. For craft producers, this implies analysing craft retailers, their buyers' behavior and their needs and expectations, as well as those of other customers. This will assist craft producers in identifying existing and potential opportunities in the market. Craft producers in SA do not currently develop products according to market needs, but such an analysis of the market would assist them to develop products accordingly.

Strategic marketing involves determining the competitive advantages that may arise as a result of the business's ability to perform better than its competitors in some areas (Venter & Jansen van Rensburg, 2009). The success or failure of a strategy depends on whether the strategy fits the realities of the firm's external environment. It is therefore important for the owners of small and medium businesses (SMEs) to conduct a situational analysis to monitor and analyse the opportunities and threats posed by factors outside the organization before they formulate a marketing strategy. SMEs are generally known to have informal marketing plans, which are short-term in nature and involve informal, unplanned activity that relies on the intuition and energy of the owner-manager.

The practice of marketing planning by SMEs may be limited due to resource constraints in finance, personnel and skills, as well as attitude towards marketing (Zontanos & Anderson, 2004). Marketing plans provide a footprint of the product's strategies and performance over time and project future plans. They are also useful for small craft producers, since writing up a marketing plan can benefit them by ensuring that proposed objectives, strategy and marketing action plans have been formulated. Marketing plans also guide the day-to-day running of operational marketing activities. They allow craft

producers to continually evaluate the delivery of value in each market segment.

Small businesses and strategic marketing

The craft industry is dominated by small and medium craft producer businesses (Hay, 2008, p. 2). They play a vital role in stimulating economic activity, job creation, poverty alleviation and the general upliftment of living standards; this has been recognised both internationally and in South Africa. About 91% of formal business entities in South Africa are SMEs, which contribute between 52 and 57% to the gross domestic product (GDP) and about 61% to employment (Abor & Quartey, 2010). It is estimated that SMEs employ 22% of the adult population in developing countries. UNIDO (2007) also estimate that SMEs represent over 90% of private business and contribute to more than 50% of employment and GDP in most African countries. The South African National Small Business Act of 1996 classified SMEs into five categories: survivalist enterprises; micro enterprises; very small enterprises; small enterprises; and medium enterprises. Please note that the more common abbreviation, namely SMEs, will be used primarily in this article.

Lamb et al. (2011) studied the strategic marketing practices of SMEs, with a specific focus on practices such as establishing marketing objectives, identifying market segments, marketing to specific target markets, engaging in product packaging activities with other industry sectors and working to a written marketing plan. They found that SMEs fail to utilise strategic marketing practices comprehensively. However, Jocumson (2004) found that SMEs carry out strategic marketing. Strategic marketing practices, such as knowledge of current market conditions and consumer tastes, were positively related to SMEs' performance. However, the SMEs do not monitor and keep a record of their competitors' performance. Some small businesses do not understand why customers buy from them which is the case with craft producers in South Africa.

Strategic marketing involves identifying an opportunity. According to Schindehutte and Morries, (2001) the entrepreneur must first identify an opportunity (and then create a marketing and financial plan to capitalise on the idea. Rogerson (2010) further stated that only about one-third of start-up businesses create comprehensive marketing and financial plans, and that those that do so, increase the probability of succeeding in their venture. Small businesses use structured strategic marketing planning to attain success, but existing findings show that some SMEs fail to do strategic marketing. Since the market opportunity changes over time, SMEs owner-managers need to continuously adapt their business and marketing efforts.

Environmental factors were found to play a significant role in shaping the strategic marketing practices of Chinese small firms. These Chinese SMEs were able to undertake comprehensive situation analyses in order to have a better understanding of the environment and thus respond faster than the higher-performing SMEs (Siu, Fang and Lin, 2004). SMEs that place a high priority on industry and competitive analysis, company internal analysis, and formation of goals, objectives and functional area strategies are more effective at managing interest rate spread or cash flow. Moreover, SMEs could improve their financial performance through strategic marketing, although they would need to do an accurate assessment of the environment. Resell (2012) found that continuous improvement of products/services and constantly seeking new business opportunities contribute to the overall performance.

It has been widely published that higher-performing SMEs use strategic marketing planning more frequently and pay more attention to comprehensive situation analysis than their lower-performing counterparts. SMEs generally do not conduct an analysis of the business environment, preferring to have informal marketing plans that are short-term in nature and involve informal, unplanned activity that relies on the intuition and energy of the owner-manager. They do less in-house market research and do not adopt a proactive approach in planning for the future. SME marketers consider marketing a synonym of advertising and selling (Awan & Hashmi, 2014, Makhitha, 2013) and equate it with having products available for people to buy, although the majority had some idea of what marketing involves.

Strategic marketing and small business survival

Existing studies that have investigated marketing have proved that marketing has an impact on business performance marketing effectiveness on business performance for hotels. Lekhanya (2010) also support that SMEs needs strategic marketing in order to grow and survive. The main goal of any business is to make profit. However, Small businesses are constrained by internal factors, such as resources and strategic choices, and external factors, such as the carrying capacity of the environment or competition, customer-linking capabilities, which include an ability to identify customer wants and requirements together with the capabilities to create and build appropriate relationships with those customers. Komppula & Reijonen (2006) further identified factors that impact on SMEs performance and included, according to order of importance, customer orientation, price and accessibility, human resources, finance, marketing channel and product. Since most of the factors are marketing related, it goes without saying that marketing is important for business survival.

The findings of Makhitha & Dhurup (2012) support the fact that SMEs need strategic marketing to survive. Makhitha & Bresler (2011) prove that high performing SMEs use annual or long-term marketing planning, place high importance on comprehensive situation analysis, undertake in-house market research frequently, use a proactive approach in planning for the future and that they adopt long-to-medium-term objectives and also set conservative-to-aggressive marketing objectives.

According to Mazzarol (2015) market the analysis informs the SME on what decisions to make in relation to product design, packaging, pricing and distribution. Yet the study found that craft producers concentrate more on trying to produce quality items in bulk, according to their own tastes and preferences and what they assume are the tastes and preferences of their markets instead of identifying customers' needs and wants and produce products according their needs and wants. Furthermore, managers need to change their strategies from time to time in response to environmental demands. The tendency to adopt overtime was found to associate positively with profitability which implies that small business needs to adapt their marketing strategies from time to time. Whilst the above studies supported that strategic marketing is important for business survival, Venter, P & Jansen van Rensburg (2014) found that SMEs spend 13 percent of their time on strategic activities. The findings were also supported by other existing studies that found a weak relationship between the growth of the firm and strategic work by top management in small firms.

Challenges faced by craft producers

The craft industry is crippled by a lack of reliable and accessible research data (Department of Economic Development, 2009). This negatively affects the industry's development and competitiveness. Furthermore, marketing and branding are major challenges faced by craft producers in South Africa (Department of Sport, Arts, Culture & Recreation, 2007). Craft producers have limited access to the market since they face competition from their foreign counterparts who are far more advanced than them. They also face difficulties in selling to retailers, since craft retailers purchase only 36% of their products from SA. Craft retailers are creators of the markets, developers of new products and are also able to source new products According to Mazzarol (2015) they communicate with craft producers to ensure that quality control measures are taken and that innovation and product development is up to standard.

This research will answer the following question: Do craft producers need strategic marketing to survive? Therefore, the objective is to determine the importance of strategic marketing for craft businesses. The

research will also propose strategic marketing activities that craft producers can engage in to sustain their businesses.

Strategic marketing process and craft producers in SA

As already defined in the previous section, strategic marketing is the process of analyzing environmental, competitive, and business factors and forecasting future trends in business areas, set objectives and formulating strategies, selecting target market in each business units, establishing marketing objectives and development, implement and manage marketing programs positioning strategies.

Environmental scanning

Makhitha (2016) supports the findings that craft producers lack market access, since in this research craft producers cited a lack of demand for their products; consequently, it is difficult for them to locate customers who need/want their products. This situation could be due to their inability to perform strategic marketing that will guide the formulation of a marketing strategy. Such a strategy would guide them in terms of the target market and how to decide on the product, price distribution and marketing communication elements for the chosen target market. Craft producers would therefore need to conduct a situation analysis or environmental scanning for them to decide on who they want to target with their products.

Performing environmental scanning will enable craft producers to study trends and developments in the market and to identify potential customers. Competitor analysis could involve monitoring their marketing strategies, ask customers about competitors, talk with customers and their employees as well as sending employees and others to competitors' businesses. Craft product customers include retailers, consumers, tourists and businesses. Environmental scanning could also enable craft producers understand potential customers' needs and be able to develop and design products that match the needs of these customer groups. Ebersole (2014) believes that some of the reasons for failure among SMEs are changing economic climate of a country, competition and lack of demand for a product and lack of variety of products, lack of quality products

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and a lack of strategic planning This therefore suggests that SMEs need strategic environmental analysis to monitor changes so as to respond to the changes taking place in the market.

It is essential for craft producers to be aware of market trends and competitors' products and prices. They should access information that is useful to them so that they remain informed of current trends, issues and constraints in the market. They also need to understand the total costs of ownership incurred by craft retailers, an aspect which will be important when setting and negotiating prices. Furthermore, it is essential to research new product ideas and to continually develop products that will sell. Since good product ideas might become dated, continuous research in new ideas could make craft producers successful. Parnell, Long & Lester (2015) believe that craft producers need to develop marketing capabilities such as knowledge of customers and knowledge of competitors and also measure the effectiveness of their marketing strategies. Ebersole (2014) study indicate that SMEs are more concerned about survival issues involving search for new market segments and attempts to increase the size of the total market. This would also require careful environmental analysis to identify such opportunities. Erdem and Erdem (2010) reveals that SMEs apply modern marketing approaches such as reviewing customer complains, specifying demand variety, monitoring competitors marketing strategies, creating brand names and being sensitive to customer focused strategies. This supports that SMEs need strategic marketing in order to survive.

Conclusion

The objective of this study was to determine if craft producers need strategic marketing to survive. Strategic marketing is important for understanding the changes taking place in the market and within the business, as well as for monitoring external factors that affect the business. This is why craft businesses must perform environmental analysis. In conclusion, by doing strategic marketing and conducting environmental analysis to observe changes in the market, craft producers will be able to develop marketing plans. The research indicates that craft producers need strategic marketing in order to survive.

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