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Facilitating Small Enterprises in Developing Brands – A Cluster Perspective

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ABSTRACT: Branding is considered a linchpin to attain sustainable competitive advantage in current global business environment. While a sizable quantum of research work deliberates on determining the constituents of a winning branding strategy, a little attention has been given to the implications of size of an organization in its brand development endeavors. Size is one of the contextual dimensions of organizations which set course of the organizations' functionality and business strategy. This article reviews the theoretical underpinnings of related paradigms to argue that small and medium enterprises, on account of their size and distinct business processes, endure inherited disadvantages in building brands and therefore require support interventions, like Common Facility Centers and Cluster marketing initiatives, to develop brands and stay competitive in their global competition.

Keywords: Small enterprises, brands, branding, competitive strategy, common facility centers, cluster marketing

During last couple of decades small and medium enterprises (SMEs) have come at forefront of the foray of economic development in many of the developed and developing countries of the world. Their efficacy to buttress the world economic structure has been substantiated through various indicators. According to recent estimates SMEs constitute more than 99% of the total enterprises of the world, contribute around 40% of world GDP and provide more than 60% of the occupation (Ayyagari, Demirgüç-Kunt, & Maksimovic, 2011). A similar pattern can also be observed in case of Pakistan. As per official definition of SMEs, their concentration exceeds 99% of the total 3.2 million economic establishments of the country, providing 78% of non-agriculture jobs, 35% of manufacturing value added, 30% of exports and 30% of GDP (Afaqi & Nadia, 2009). Given this broad based contribution, SMEs are now increasingly being considered a vital segment of economy which should be strengthened to spur the economic growth and prosperity.

SMEs belong to that heterogeneous segment of economic activity – ranging from informal micro-enterprises to highly sophisticated firms working at the frontier of new technological developments – which is characterized by high degree of volatility both in terms of new start-ups and closures (DG., 2005). It has been estimated that up to 50 percent of SME start-ups in most economies do not survive the first 5 years (Peña, 2004). In most developed countries, SMEs derive their strength and comparative advantage either from specializing in niche markets or from linking up with large, often transnational corporations through integration into their supply chain (UN, 2005). However, in developing countries SMEs compete head-on with large companies in the same markets with the same type of products but with an inherent disadvantage of limited size (Noori & Lee, 2006). The issues faced by enterprises on account of their small size include limited access to finance, hostile regulatory environment, low research and development base, unskilled human resources, underdeveloped entrepreneurial culture and limited capacity of marketing and branding (Neupert, Baughn, & Dao, 2006). Despite these drawbacks, small size at the same time allows enterprises the flexibility and adaptability to changing business environment, an advantage which gives them edge over their large counterparts (Moen, 1999). Phenomenon of size, therefore, has multipronged repercussions for the enterprises and should be considered in a rather inquisitive manner.

Accordingly, this manuscript is divided into three sections. At the outset, it discusses inference of literature regarding size and its implication in determining the competitive strategy of the enterprises. It proposes that small size offers greater chance to attain efficiency and flexibility which ultimately paves way to put together cost leadership strategy, providing rational of SME survival through population ecology model. Subsequently, in the second section, the paper argues that while cost leadership strategy is indeed a promising option for SMEs; it inherently go up against the requirements of building brands. Furthermore – unlike cost leadership – brand development concur with differentiation strategy and this incidence further substantiate our argument, reason being the marked incongruence between cost leadership and differentiation strategy, thereby making it unfeasible for a company to pursue both of these generic strategies simultaneously. Finally in the third section, owing to the increasing primacy of brands in organizational success, it postulates that despite of the above-noted challenge and given resource constraints, clusters provide a feasible way out for SME branding.

Does Size Matter? Population Ecology and Survival of SME Phenomenon

Size makes one of the contextual dimensions of organizations. Based on the fact that organizations are social systems, size is defined in terms of number of employees working in an organization (Daft, 2009). A similar pattern prevails among almost all SME development agencies of the world which discern small and large enterprises on the basis of number of employees in conjunction with paid-up capital and annual turnover, as additional criteria (Ayyagari, Beck, & Demirguc-Kunt, 2007). Owing to resource paucity, small size enterprises make a fragile segment of economy which, in lieu of their significance, should be protected by government and other business development agencies. Survival of SMEs, therefore, partially rests on the support measures for them (Smallbone & Welter, 2001) and based on this conception we will argue in later section of this paper that branding of SMEs' products calls for support from the government. However, here we will contemplate on another equally important determinant of SME survival which stems out of environmental approach called Population ecology model.

Population ecology model is one of the famous schools of thought in organization theory that present propositions regarding survival and success of organizations. Population ecology model posits that environment contains various segments, called niches, which are catered by the type of organizations which posses the characteristics that best fit to the respective environmental niche (Hannan & Freeman, 1977). With complex interactive process of environmental factors, these niches keep on evolving and thus lead organizations to bring internal changes. The direction of changes in organizations are not necessarily directed towards complex or better organizations, but towards creating best fit with the environment (Morgan, 1980). Population ecology model contains an evolutionary orientation and accrue that only those types of firms survive which continue to create fit with the changing environment. It is pertinent to note that the model does not deal with single organization as a unit but is concerned with forms or population of organizations (Aldrich & Pfeffer, 1976).

On grounds of their operational model and processes, SMEs also make a discrete form of business which has insistently survived, rather burgeoned, over the period of time. As per population ecology model, this continued existence could have never been possible without prevalence of sustainable competitive advantage in the SME form of businesses. Regardless of the fact that SMEs either operate as vendors to large enterprises or as competitors to them, the competitive advantaged for their survival rests on being cost effective than the larger enterprises, because large companies either do not enter into the turf of SMEs or could not outcast them until they are not more cost efficient (Lundvall & Battese, 2000). Case of Pakistan poultry industry is relevant to ascertain this argument. Pakistan has had mushroom growth of small size poultry farms, producing three flocks of 3000 to 10,000 chicks annually. These forms were managed manually and were vulnerable to high rate of mortality and inefficiency. However, soon relatively larger players entered into the market and set-upped automated poultry farms, named as environment control farms, having capacity of producing four flocks of 30,000 to 100,000 chicks annually. Controlled environment lowered the mortality rate whereas large volumes gave economies of scale to make these farms more price efficient than the smaller ones, resultantly wiping them out of the industry. A similar pattern can be observed in many of the economic sectors of Pakistan and other countries of the world and therefore, drawing on the population ecology model, it can be presumed that survival of SMEs is inextricably linked with their ability to remain cost efficient than their larger counterparts, a requisite which best suits to pursue cost leadership strategy for gaining the competitive advantage (Swink, Narasimhan, & Kim, 2005). Nevertheless, small enterprises can develop their own niche segments and provide highly specialized and unique products to their clients at higher prices; however an exceeding portion of SMEs endure resource constraint and resultantly find it difficult to operate at higher end of market, thereby augmenting a natural tendency to capitalize on the flexibility and efficiency (Schmitz, 1995). Our argument, therefore, does not intent to proclaim that SMEs have got only option of operating at cost leadership strategy and cannot serve high end markets; rather it underscore that cost leadership strategy best suits to SMEs for their resource constraints. We thus conclude that population ecology model suggests that only those forms of business survive at the long run that maintain fit with broader business environment and in case of SMEs this congruence is garnered through their cost efficiency.

Cost Leadership Strategy

While producing products on comparatively low prices as compare to the competitors, efficiency is at heart of this business strategy (Miller, 2006). Companies having a specific set of resources and target market manage to run their operations in a way that results in lowering down the cost of production across entire value chain. Among two of the back-ups of this business strategy, one is the production theory, according to which total cost of a product consists of variable and fixed cost.

Total Cost (TC) = Fixed Cost (FC) + Variable Cost (VC)

Whereas, variable cost is the one that increases with the increase of each unit of production like raw material etc and fixed cost is the cost that does not increase up to a certain level of production with the increase of each unit of production like rent, utilities and machinery etc.

Understandably producers, in order to minimize the total cost, strive to achieve this optimal level of production where fixed cost could be shared among produced units (Krugman, 1980). The concept is also referred as economies of scale, a term demonstrating optimal production as a source of decreasing the total cost. Despite of the fact that each firm requires to strengthen its resources according to its product and business environment, following are few features shared by all of the firms experiencing cost leadership strategy (Beal, 2000).

- Process engineering skills
- Products designed for ease of manufacture
- Sustained access to inexpensive capital
- Close supervision of labor
- Tight cost control
- Incentives based on quantitative targets

Developing Brands in SME Context

Before discussing the course of action, first we need to answer the logical question ‘is branding imperative for small enterprises’. Brands provide firms with a unique edge of customer loyalty and hence enable them to earn high margins on products (Schmalensee, 1982). Brand is what a firm stands for. Other then profit maximization these are the source of employee satisfaction and corporate image (Doyle, 1989). Brands are increasingly being viewed as a source of sustainable competitive advantage, thereby getting primacy among the essentials of survival and success of businesses (Hall, 2006).

Differentiating products from that of competitors was probably the primary motive behind brand initiative, as it is said, way back in 3000 B.C. MSN Encarta encyclopedia demonstrate brands as natural consequence of advertising that according to archeologists is evident among the Babylonians in 3000 BC. Despite of such ancient heredity, it was only 1990's when branding came at top of the priority list for strategy makers (Room, 1998). The process of building successful brands starts from understanding the basic needs of consumers (Keller, 1993). Next step is to create strong, favorable and unique associations with products and then communicate them to identified target market with consistency. As mentioned before, experts are of the view that branding is a natural consequence of advertising (Aaker & Biel, 1993). Thousands of books, articles and research papers on advertising sensation, themes and its significance for building brands are available. Imputativeness of advertising in brand practices is also supported by emergence of the market into perfect competition. Understandably, companies need a medium for communicating their message and individuality to their target market and hence distinguishing themselves among the crowd. Furthermore widened media choice (electronic & satellite channels, variety of magazines, newspapers, out-door promotion, hoardings etc) has provided advertising agencies a big ground to play. The phenomenon, on other hand has made brand communication more expensive and challenging (Nelson, 1975). Today advertising is no more possible unless heavy budget (in terms of preparation and execution) are available with organization; an obstacle faced by wide sections of SMEs, making it unfeasible to establish their brands (Inskip, 2004). Nevertheless, establishing brands is analogous with another competitive strategy proposed by Michel Porter, called differentiation.

Differentiation Strategy

Impact of perception on consumer decision making process is essence of this strategy (White, 1986). Firms indulge into continuous research and updating their products to add unique associations of customer with their company or products (Mosakowski, 1994). These unique associations based on product quality, value or usage lead firms to sell their products on relatively high prices, thereby promulgating differentiation strategy. Evolution of business era into marketing phase has marked this strategy as highly effective in today's market dynamics. Regardless of the size, target market and product nature; companies are leaving no stone unturned to market products in conjunction with value added features. Because customers see the product as unrivaled and unequaled, the price elasticity of demand tends to be reduced and customers tend to be more brand loyal. This can provide considerable insulation from competition. However there are usually additional costs associated with the differentiating product features and this could require a premium pricing strategy. To maintain this strategy the firm should have certain competencies (W. R. Smith, 1956), such as;

- Strong research and development skills
- Strong product engineering skills
- Strong creativity skills
- Good cooperation with distribution channels
- Strong marketing skills
- Be able to communicate the importance of the differentiating product characteristics
- Stress continuous improvement and innovation
- Attract highly skilled, creative people.

Is Branding a Feasible Option for SMEs?

Branding can go a long way to provide sustainable competitive advantage to SMEs, but the course of brand development is daunted by two main obstacles (Uusitalo, Wendelin, & Mahlamäki, 2010). Resource constraint is first and foremost of these. There is no denying to the fact that SME landscape presents limited financial, human, technological and intangible resources and this paucity retards their ability to invest on resource intensive prerequisites of branding like research and development, advertising and strong marketing capabilities (Ahonen, 2008). Second major obstacle in branding for SMEs pertains to what we call a 'strategy trap'. Capitalizing on business strategy as a unique selling point requires a company to acquire certain skills and alignment of its business activities with the strategy it opted (Miller, 2006). Incompatibility of firm's resources and its business strategy may lead to a failure of the company. Bulk of the criticism on Porter's strategies also hinges on the potential threat of mismatch between resources and strategy of a firm (Miller, 1992). In order to avoid this strategy trap it is important to have a clear focus on the strategy and its prerequisites. In view of the foregoing discussion on congruence between small size and cost leadership strategy, we argue that small firms naturally tend to opt cost leadership strategy which in itself is antagonist to the differentiation, on in other words brand development, strategy (Hill, 1988). Figure 1 narrates how essentials of differentiation and cost leadership strategy mismatch and an attempt of SMEs to pursue cost leadership and differentiation simultaneously would only result in getting caught of strategy trap.

Figure 1

Essentials of Branding, Sources and likely prevalence in Cost leadership and Differentiation Strategy

Branding	Source/medium	Differentiation	Cost leadership
Brand vision	Creativity in top management	Yes	No
Differentiated products	Strong R&D capabilities	Yes	No
	Entrepreneurial culture	Yes	No
Strong marketing capabilities	Advertising budgets	Yes	No
Specific target market	Marketing specialists	Yes	No

Analysis of theoretical dimensions depicts that unlike a perfect alignment between differentiation strategy and branding, there exists a mismatch between branding and cost leadership strategy, when it comes to the essential of these organizational practices (Miller, 2006). Tight cost control characteristic of cost leadership strategy, for example, always work against growing demand of heavy budgets for advertisement on one hand and with R&D expenditures on the other. Furthermore close supervision of labor, an essential of cost Leadership Strategy, by-default serve as creativity slyer. Even though it does not mean that companies working at cost leadership strategy cannot have R&D or/and marketing function at all, they never get in position to compete with those who are operating at differentiation strategy, as for as R&D and marketing are concerned. Thus such companies face real challenge to build brands without getting off-track of their cost leadership strategy. These companies do add additional features to their products, make efforts to communicate these features to their target market with their limited resources and hence move ahead towards brand building, yet remain for behind from their differentiation strategy competitors who unlike these divert all of their resources on branding.

Another impediment to branding under cost leadership strategy is target market. With few exceptions, usually companies having differentiation strategy target specific and well identified segment(s) which enables them to synergies their marketing efforts. Contrary to it, cost leadership strategy generally requires a broad target market because of its huge sales volume objective (Miller, 1988). This broad target market requires a massive advertising campaign to effectively communicate the message.

Clusters – Catalyst to Branding in SMEs

Firms involved in related businesses tend to co-locate in regional or specific area to capitalize the economic endowment of that area, and this phenomenon is called clustering in economics literature (den Hertog & Remoe, 2001). Prevalence of industrial clusters dates back to industrial revolution; but its manifestation as a tool for business and economic can chiefly be associated with early work of Adam Smith (A. Smith, 1937) and Marshall (Marshall, 1961; Marshall & Marshall, 1920). Subsequently a handful research has been conducted for identification of benefits of clustering for firms, especially of small and medium size enterprises. According to Marshall clustering provides the opportunity to firms in building up pool of trained labor force and improve access to relevant information and ideas; whereas Morosoini (Morosini, 2004) opines that cluster contribute towards competitiveness of local industry and therefore go a long way to make a country competitive in international markets. Co-location or clustering of firms, involved in similar businesses, provides greater prospects of linkages with markets and suppliers that lead to economic efficiency for existing firms as well as temptation for prospective investors to be the part of the group (Pred, 1966). Clustering also provides the firms a platform for active lobbying with institutions to protect their widespread mutual interests (Olson, 1965) as well as configuration of collective knowledge which leads to entrepreneurial innovations (Nordhaus, 1969). It is therefore pertinent that clusters assist firms to turn out to be more competitive (Enright, 1993) through superior access to information, specialized pool of labour, localized resources and early adaptation of locally emanated innovations (Simmie & Sennett, 1999). Besides this efficacy for individual firms, dynamic and robust clusters serve as a tool for competitiveness of a country in global competition and thus contribute towards economic development of the country (Porter, 1990; Steinle & Schiele, 2002).

A recent stream of research suggests that Clusters can be marketed through cluster development framework. If a cluster is marked as a whole, it will be, in a way, marketing of all small and medium companies in that cluster. Therefore most promising option for business, especially of small size, is to be in clusters which are by default their marketing tool and also seek support from government institutions for cluster marketing.

Kearns & Philo (Kearns & Philo, 1993) suggested that phenomenon of marketing an industrial cluster should entail economic reasoning (i.e. why firms should be interested to be co-located in an area) as well as social reasoning (i.e. persuading inhabitants to buy from that cluster). They proposed that a location, pool of skilled labour force, infrastructure and business support facilities etc. bunch collectively to form a product package, which is then marketed. This proposition neither fits to basic marketing principle of considering product as a part of the marketing mix, nor provides specific tools or instruments for marketing clusters. The objective or desired result of cluster marketing proposed by Kearns & Philo, however, is in line with the two other significant approaches presented by Practical Guide to Cluster Development (UK, 2003) and International Organization for Knowledge Economy and Enterprise Development (Anderson) both of which maintain that cluster marketing should aim at attracting inward investment and success of cluster development initiatives. DTI guide posits that this objective can be achieved by directly promoting the products/services being produced in clusters, cluster branding, highlighting product niches and conducting exhibitions, seminars and cultural events. Whereas, IKED suggests cluster marketing can be carried out by the creation of a brand of the region and aggressive cluster promotion.

Another stream of literature describes branding as the most effective tool for marketing clusters in today's globalized and chaotic business environment (Zheng & Chen 2006). Furthermore it suggests that marketing and branding activities for clusters are instigated at both the regional/local echelon (i.e. assimilating the local activities with cluster marketing and branding around a common vision and strategy) as well as international/global echelon (i.e. enhancing the international visibility of clusters through branding).

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