



## MARKETING CHALLENGES FACED BY SMALL AND MEDIUM ENTERPRISES (SMEs) IN AMPARA DISTRICT SRI LANKA

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### Abstract

Small and Medium Scale Enterprises (SMEs) make up a large part of Sri Lanka's economy, accounting for 80% of all businesses. They act as stepping stones for large firms, particularly in developing nations such as Sri Lanka, and the majority of large enterprises began as SMEs. SMEs have emerged as a key role in terms of employment, income generation, poverty reduction, and regional development. Furthermore, they serve critical roles in the development of entrepreneurial skills and creativity, as well as the promotion of economic growth and wealth creation. Sri Lanka is predominantly an agricultural country, and the Ampara area is home to people of several ethnicities, including Sinhalese, Tamils, Muslims and Burgars. Ampara District has 20 Divisional Secretariats and a total population of 793,069 people (Statistical Handbook 2020), accounting for 3.6% of Sri Lanka's district population. Over 90% of the people in this district live in rural areas. This district is primarily comprised of agricultural sectors such as rice production, crop production, livestock, milk and egg production, meat production, handloom and fishing. The goal of this study was to identify marketing challenges confronting Ampara District Sri Lankan SMEs, hence a quantitative research design was used. A random sample of 256 small business has been selected from Ampara District Eastern Province of Sri Lanka. By overcoming the marketing obstacles of SMEs, a country's industrial output can be increased, the share of industrial output in GDP can be increased, and a country may eventually be able to maintain strong economic growth while rapidly industrializing.

**Keywords:** *Marketing Challenges, Small and Medium Scale Enterprises, Perception*

### Introduction

All developed and developing countries have recognized the importance of Small and Medium Enterprises (SMEs) development since they play an important role in economic development. SMEs serve as a beneficial vehicle for countries' economic progress since they have the ability to accomplish rapid economic growth while creating a significant number of job opportunities (Reddy 1991). Small and Medium Scale Enterprises (SMEs) make up a large part of Sri Lanka's economy, accounting for 80 per cent of all businesses. These are found in all sectors of the economy, primary, secondary and tertiary and provide employment for persons. Promotion of SMEs leads to an increase in a country's industrial output, which raises the share of industrial output in GDP and, ultimately, may allow a country to retain considerable



economic growth while rapidly industrializing. The SMEs play an important role in promoting inclusive growth (NHREP). Small and medium-sized enterprises (SMEs) are critical to practically all economies across the world. They act as stepping stones for large firms, particularly in developing nations such as Sri Lanka, and the majority of large enterprises began as SMEs. SMEs have emerged as a key role in terms of employment, income generation, poverty reduction, and regional development. Furthermore, they serve critical roles in the development of entrepreneurial skills and creativity, as well as the promotion of economic growth and wealth creation.

Although Bateman and Snell (2010) observe that basic marketing principles are universally applicable to large and small businesses, Chaston and Mangles (2012) and Siu and Kirby (2008) indicate that the study of marketing in SMEs has been recognized as a problematic area for researchers for more than 20 years. Simpson and Taylor (2012) established the Role and Relevance of Marketing model to explain SME marketing, which ties the role of marketing within the firm to the relevance or need for marketing requested by the external business environment. It is also true that marketing determines whether a SME will prosper or fail in the long run.

According to Gem (2012), marketing in SMEs is fundamentally different since planning and strategy are less significant than marketing execution. It is debatable whether small firms need to market at all in order to survive and expand. However, Hogarth-Scott et al (2006) discovered that small business owners were frequently generalists rather than marketing specialists, and that complicated marketing theories may not be fit for small enterprises and would most likely not aid in their understanding of their markets. Nonetheless, it appears that tiny enterprises conducted marketing to some extent.

They appear to struggle with marketing obstacles such as market segmentation, undertaking needs analysis, and successfully promoting products and services. SME marketing is haphazard and informal due to a lack of marketing knowledge. They make the majority of marketing decisions on their own and react to current possibilities and situations despite having little marketing experience (Scase & Goffee, 2009). Most SMEs do not know how to advertise their small firm, and marketing appears to be a daunting notion. Secondary resources agree that SMEs cannot adopt traditional marketing approaches due to resource constraints (Bateman & Snell, 2010).

### **Literature Review**

Marketing, according to the American Marketing Association, is "the activity, collection of institutions, and procedures for generating, conveying, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large." According to this definition, marketing is defined as actions that provide value to customers, mostly through satisfying their requirements and desires through a stronger customer relationship management strategy. Furthermore, marketing activities are centered on clients, partners, and society as a whole (Kotler & Keller, 2007). Most marketplaces are shifting toward a more market-oriented approach as customers grow more aware and demand greater variety and higher quality.



Businesses must be more responsive to their customers' requirements in order to compete; otherwise, they will lose sales to competitors (Rajanan, 2003). Furthermore, in a hyper-competitive world, every firm should use strategy as a marketing method. Meanwhile, the strategy offers both advantages and disadvantages. As a result, enterprises should concentrate on expenses in order to obtain advantages in the most effective and efficient manner. Firms should overcome hurdles to gain benefits after identifying consumer needs and wants in order to obtain customer value.

According to Bateman and Snell (2010), the basic principles of marketing are universally applicable to large and small businesses, but secondary resources (Chaston & Mangles, 2012; Siu & Kirby, 2008) indicate that the study of marketing in SMEs has been recognized as a problematic area for researchers for more than 20 years. Simpson and Taylor (2012) established the Role and Relevance of Marketing model to explain SME marketing, which ties the role of marketing within the firm to the relevance or need for marketing requested by the external business environment. It is also true that marketing determines whether a SME will prosper or fail in the long run. According to Gem (2012), marketing in SMEs is fundamentally different since planning and strategy are less significant than marketing execution. It is debatable whether small firms need to market at all in order to survive and expand. However, Hogarth-Scott et al (2006) found that small business owner-managers were frequently generalists rather than marketing specialists, and that complicated marketing theories may not be suited for small enterprises and would likely not benefit in their understanding of their markets. Nonetheless, it appears that tiny enterprises conducted marketing to some extent.

'One of the most important topics to address as a small business owner is time management. The difficulty, of course, is that there is always too much to do and never enough time to complete it all. On the other hand, the duties that small businesses must perform vary greatly: inventory, accounting, personnel, recruitment, organization, sales, marketing, and payroll. It makes no difference whether you enjoy marketing or not. To create balance in your firm, you need marketing' (Cook, 1994). According to Bjerke and Hultman (2002), marketing in SMEs is fundamentally different and more successful.

Walker et.al, (1999) contend that whether a strategy fits the realities of the firm's external environment is a crucial determinant in its success or failure at any level. As a result, before designing a marketing strategy for a product, the marketing manager (in our research, the entrepreneur) must first monitor and analyze the possibilities and dangers posed by variables outside the firm. In his conclusion, Kotler (2005) extends this thesis by stating that the key to successful strategic marketing is focusing, positioning, and distinction. The company (SME) must carefully determine its target market. It must convey a distinct benefit stance. Furthermore, it must provide unique points of differentiation in its offers and services that competitors will struggle to reproduce.

According to Smit (1999), SMEs failed because they neglected the marketing aspect of the business. Smit, on the other hand, did not look into the root causes. This study looks at the most significant barriers to that, and as such, the key issue is money to carry out marketing operations. As a result, before developing a product marketing plan, the marketing manager (in our research, the entrepreneur) must first monitor and



analyze the potential and risks provided by variables outside the organization. Kotler (2005) expands on this theory in his conclusion, arguing that the key to successful strategic marketing is focusing, positioning, and differentiation.

The company (SME) must carefully determine its target market. It must convey a distinct benefit stance. Furthermore, it must provide unique points of differentiation in its offers and services that competitors will struggle to reproduce. According to Smit (1999), SMEs failed because they failed to pay attention to the marketing side of business. Smit, on the other hand, did not investigate the underlying causes. This study examines the biggest hurdles for that, and the primary problem is finance to perform marketing operations.

### **Marketing Perceptions of Sri Lankan SMEs**

Marketing problems such as SME location problems mean that SMEs can improve sales and keep them up for a longer period of time by using the right location. As a result, the business would have a larger market share and more revenues and profits. Correct placement is a critical action that focuses on reaching the appropriate target audience at the appropriate moment. It focuses on the location of the business, the location of the target market, how to connect these two, how to keep goods in the interim, and how to eventually convey them. Insufficient product marketing, inability to perform market research, misreading market trends, offering poor products or services, poor service, misunderstanding customer trends and demands have all been cited as having an impact on SME success. According to secondary research, SME owners believe they do not have the time or money to invest in research to determine their target markets, client trends, and marketing in general.

### **Problem statement**

Sri Lanka is predominantly an agricultural country, and the Ampara area is home to people of several ethnicities, including Sinhalese, Tamils, Muslims, and Burgars. Ampara District has 20 Divisional Secretariats and a total population of 793,069 people (Statistical Handbook 2020), accounting for 3.6% of Sri Lanka's district population. Over 90% of the people in this district live in rural areas. This district is primarily comprised of agricultural sectors such as rice production, crop production, livestock, milk and egg production, meat production, and fishing.

Research conducted of SMEs in the past has mainly focused on the challenges from the SME's funding perspective. This study will focus on the marketing Challenges on SMEs. In this regard, the problem to be tackled is around lack of marketing and in some instances improper marketing of SMEs.

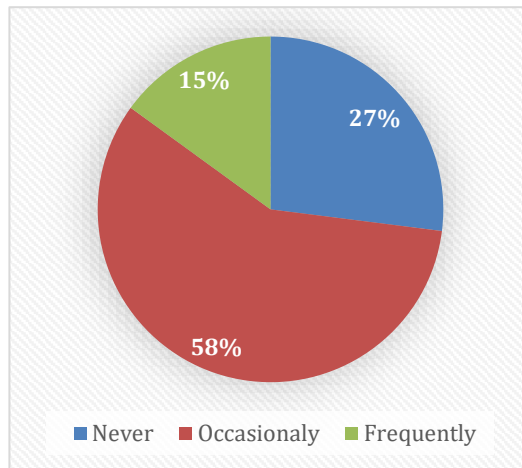
### **Methodology**

For this research the SMEs are referred as business entities which have below 25 employees working in the organizations. The sample size of this study was 256 SMEs were selected in Ampara district and the questionnaires were distributed both Sinhala and Tamil language. The sample was selected using random sampling method.



Secondary and primary sources were used to gather information to analyze of small business owners. The main sources of secondary sources were journals, articles, reports, books and research studies. The main construct of this study marketing challenges was measured through the use of Likert-type scales. The basic scale design therefore consisted of a Likert-type scale with five scale points (with labels ranging from strongly agree to strongly disagree) and 5 scale items.

### Marketing Products/Services



The respondents were asked if they made any efforts to market their products or services, and if so, how frequently, if at all. The following conclusions are reflected in the responses:

- 27% of respondents said they never made efforts to promote their products/services
- 58% said they occasionally made efforts to market their products/services and
- 15% said they frequently made efforts to market their

Fig 4: Efforts made on Marketing product and services

products/services.

The basic purpose of promotion is to inform customers about the presence and placement of products. Promotion is also used to persuade buyers that the product is superior to competitors' products and to remind them of the benefits of purchasing. It is a common misperception that corporate marketing consists exclusively of advertising. It isn't. Advertising is one of the most important ways for a small business to communicate with its clients.

As a result of word of mouth, more clients are interested in doing business with SMEs. The purpose of branding is to make customers remember the company. People remember doing business with you when they think about you. By regularly releasing discounts, a specific SME becomes a customer's memory. When a customer is looking for new things, he or she will consider checking with you to see whether you are running an offer.

The most significant advantage of Marketing today is that SMEs can market their promotion through a variety of online platforms. Using blogs, social networking sites, video hosting websites, and so on where they can publicize their promotion. This makes SMEs visible on the internet in the way that their target market expects to be. Being visible on the internet already creates a very strong image of the SME in the minds of their customers.



### The Effects of Market Skill Challenges on SME Businesses

The questionnaire assessed the impact of market skill challenges on small business owners. The secondary study highlighted five market-related issues, including poor locale, inefficient promotion, and a lack of market expertise, as well as low product demand and rising competition. The inquiry sought to determine whether any of the eight market-related concerns had an impact on the respondent's company failure. Respondents identified the following factors as having an impact on their business as a result of their lack of marketing skills:

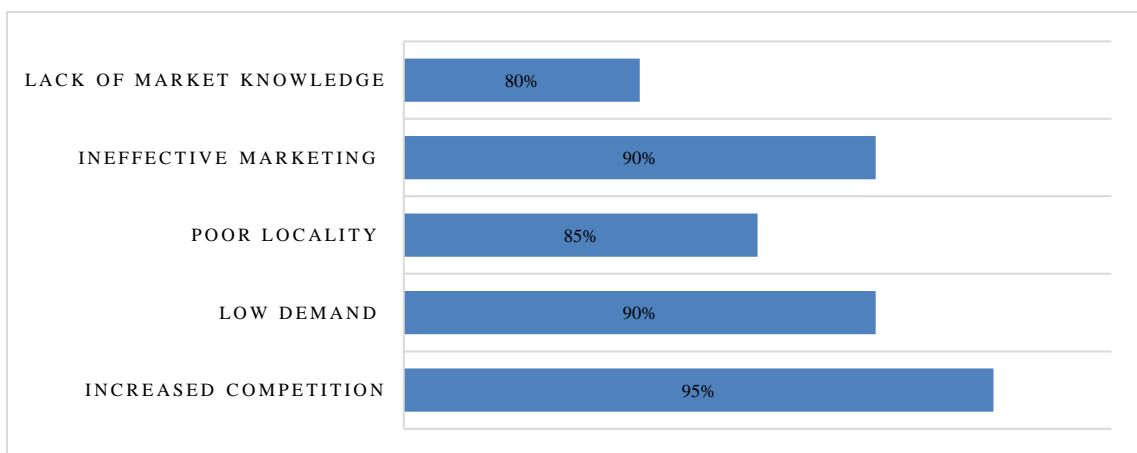


Fig 5 : Marketing skill Challenges

95 % of respondents reported increased competition

90 % of respondents reported low demand for their products

85 % of respondents reported poor locality of their small business

90 % percent of respondents reported ineffective marketing of their products and

80 % of respondents reported a lack of market knowledge.

The respondents stated that the aforementioned variables influenced their company's performance. Increased competition indirectly reduced small business income, potentially leading to business failure.

### Factors Influencing Small Business Failure

The poll looked into the factors that contribute to SME failure, such as why businesses fail and whether there is a link between a lack of marketing abilities and business failure. While there are a number of small businesses in a broad range of industries that perform well and are continuously profitable, about 33% of small businesses fail in the first two years, around 50% go belly up after five years, and roughly 32% make it to 10 years or longer, according to the Small Business Administration (SBA).



### **Reasons for Business Failure**

Respondents cited the following reasons for business failure: a lack of marketing skills and financial difficulties. Poor marketing and sales efforts influences SMEs failure (Ihua 2009). Majority of small business owners possessed very little or limited marketing, economic, and planning skills, as well as lack of understanding of their

Business environment and consumer needs. The majority of the small businesses that failed had no written marketing plan (Nikolić 2015).

Through her research, Zahra (2011) discovered the following factors: management deficiency, disregard for market issues, lack of interest and dissatisfaction in work at the workplace, inaccurate project evaluation, lack of related experience, expertise, and good work relationships, partnership and teamwork problems, unclear determination of business sector, disregard for legal issues, cheating and fraud. Other scholars mention additional problems, such as inadequate accounting records, limited access to crucial information, and a lack of effective managerial guidance (Gaskill 1993) in addition to these, management and policy of the company (Ooghe 2008) company characteristics (size, maturity, industry, and flexibility, resources, structural characteristics, and firm strategies (Liao,2004), poor cash flow management, insufficient sources of finance, reliance on customers or suppliers, impending bad debt, insufficient staff, obsolete technology and lack of innovation, poor management strategy and vision (2010, Franco)

Small firms fail, according to 95% of respondents, due to a lack of marketing expertise. 65 % of respondents whose first company effort failed blamed financial difficulties for the failure. The findings indicated that a lack of funds for operating expenses or capital goods is a common challenge for small firms, leaving little funds to market the business. To protect a new or existing firm, it is vital to understand what causes business failure and how each obstacle can be controlled or avoided entirely. Small business failures are most commonly caused by a lack of money or finance, the retention of an ineffective management team, a flawed infrastructure or business model, and failing marketing initiatives.

### **Marketing and Business Failure**

According to the primary research, 75% of respondents in Ampara District Sri Lanka believe there is a strong relationship between small business owners' lack of marketing ability lead to business failure, compared to only 25%. In this study, marketing skills are used to refer to rivalry, poor product demand, the location of the small business, insufficient product promotion, and a lack of market competence.

The respondents believed that the aforementioned factors had a good impact on business success. Increased competition indirectly reduced small business income, potentially leading to business failure.

### **SME Marketing Challenges**

Respondents were asked to list the marketing difficulties they face in Ampara District Sri Lanka.

1. Gain an understanding of the market and potential for growth





2. Market Segmentation
3. Market Needs Analysis
4. Access to finance
5. Education and training
6. Competitiveness
7. Marketing of products and services



Fig 6: Marketing Challenges

Figure indicates that the respondents experienced the following marketing challenges:

- 61% of the respondents experience marketing of products and services as a challenge;
- 81% of the respondents consider competitiveness as a challenge;
- 48% of the respondents experience education and training as a challenge;
- 95% of the respondents experience access to finance as a challenge;
- 75% of the respondents indicated to conduct a Market Needs Analysis as a challenge;
- 77% of the respondents experience Market Segmentation as a challenge;
- 92% of the respondents experience understanding of the market and potential for growth.

Marketing is one of the most significant duties for SMEs, and marketing abilities include marketing activities, sales, gaining market share, offering specific new items, and creating customer relationships. According to Murphy (2006) small business owners exhibit particular personality qualities that are responsible for their company's success or failure. Owners' insufficient marketing abilities cause marketing issues in the small business sector. Marketing a SME affects whether the business will prosper or fail in the long run. It is assumed that if potential clients are unaware of their products or services, they will not conduct business with them.

### Discussion and Recommendation

Ampara District has 20 Divisional Secretariats with a population of 793,069 persons (Statistical Handbook 2020), accounting for 3.6% of the district population in Sri Lanka. This district is home to more than 90% of the population. This district's primary industries are rice farming, crop production, livestock, milk and





egg production, meat production, and fishing. When it comes to marketing issues, the Ampara District residents may overcome them by understanding the importance of marketing. Inadequate marketing initiatives might keep firms from reaching their full potential.

In Sri Lanka, SMEs were promoted beginning in the 1960s with the founding of the Industrial Development Board and, more recently, the SME Bank. Better coordination among various SME stakeholders appears to be desperately needed in Sri Lanka as well. Furthermore, the government SME assistance institutional architecture appears to be quite complicated, with a strong emphasis on systems and procedures (Dasanayaka 2008). As a result, it should be streamlined and customer-focused. However, considering the unique peculiarities of regional SMEs, the government can implement regionalization with centralization and uniformity with variation in their SME supportive systems and delivery mechanisms. Decentralization of government SMEs supportive organizations and structure may be beneficial in providing more flexible, responsive, and customer-driven services to informal sector SMEs in desperate need of business development assistance.

Considered the cure for Ampara District's unemployment issues Because SMEs contribute considerably to job creation, social stability, and economic welfare, it is critical that their marketing abilities be strengthened through training. The marketing difficulties of SMEs will then be reduced, and more SMEs will succeed. Small business owners would be better equipped to make more educated marketing decisions and guide their company away from common marketing traps. Understanding and developing Small Business Marketing Strategies for their products and services is one of the most pressing concerns of small business management.

SMEs seek capital for expansions and diversification as their businesses grow. Banks must understand the industry and devise new loan solutions that minimize collateral and documentation. Structured finance methods like leasing, factoring, and so on can also be used.

The capacity to generate a growing body of delighted consumers is essential for small business success. Modern marketing plans are based on the "marketing principle," which instructs managers to concentrate their efforts on discovering and addressing consumer demands - profitably. It is stressed that marketing abilities and business knowledge indicate how successfully SMEs handle crucial duties and activities connected to business responsibilities. No SME can accomplish good marketing through sporadic one-off efforts. Getting results means being willing to commit time to nurture various campaigns and customer outreach efforts. SME can't build up a loyal customer base if they don't know you exist. Increasing visibility through marketing efforts should always remain a high priority for any SMEs.

Examining SMEs' current digital presence in order to build brand voice. SMEs' websites and social media platforms should be able to express how these small businesses may assist them in solving their problems, how it contributes to the world, and the responsibilities your company has to its customers. SMEs should clearly differentiate themselves from other market competitors and illustrate to visitors why a specific SME should be their first choice. So Ampara SMEs can put some efforts build a brand voice. Identifying Marketing Strengths Marketing requires trial and error, especially with so many ways to present a brand.



Viewers get a taste of how SME works and build relationships with the artisans. SMEs may discover that their strength is in WhatsApp, Facebook marketing, or Instagram photos. Create an experiment calendar and set a budget restriction until they see results. Direct financial resources to the most powerful venues.

Investing in a strong marketing technology stack can provide SMEs with the competitive advantage they require to remain viable in the market against larger competitors. Tools that automate email, social media, and blog updates can save employees numerous hours over manually maintaining a marketing calendar. They also assist organizations in communicating consistently across all interaction platforms.

Government has to take measures to formulate national policy for SMEs as an integral part of the overall industrialization policy. It is difficult to develop this sector without such a policy framework. Given this, the non-diversification of the industrial structure and its high concentration in a few low-value-added industry categories is a major challenge for the industrial development process's sustainability (Dasanayaka, 2009). SMEs should also be educated on the importance of marketing to the long-term viability of their businesses. There will always be challenges while running a small business. Small and medium-sized enterprises (SMEs) may never find the "perfect" marketing strategy, but they do have a greater chance of survival.

## Conclusion

SME entrepreneurs appear to face so many obstacles in their businesses that these challenges tend to pile up. Overshadow the value of marketing although the owners of SMEs are aware that they lack the marketing required to increase profits through proper marketing. According to the research, marketing in SMEs is the duty of the SME owner. This implies that the marketing concept must be shared and lived by the entire organization tends to be insufficient, resulting in business failure. According to the findings of this study, SMEs play an important role vital role in the economy, particularly in poverty relief, labor force development, and economic growth in Ampara District Sri Lanka.

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