A STUDY ON FACTORS INFLUENCING SELECTION OF MARKETING CHANNEL AMONG SMALL AND MEDIUM ENTERPRISES WITH REFERENCE TO KERALA

Dr. JUBEL MATHEW

Professor
Sree Narayana Gurukulam College of Engineering, Kadayiruppu-682311, S. India

Dr. M. EDWIN GNANADHAS

Principal (Retired)
Scott Christian College (Autonomous), Nagercoil-629003, S. India

Dr. S. NARAYANA RAJAN

HoD, Dept. of Business Administration,
Aditanar College of Arts & Science, Tiruchendur-628216, S. India

ABSTRACT

Entrepreneurship drives and determines the pace with which a country moves from an agrarian economy to an industrialised one. A country like India can attain economic development only when more and more people with entrepreneurial talent come forward to start their own enterprises with innovative ideas. Enterprises can be successful when they succeed in developing and sustaining a competitive edge in the marketplace. Innovation in marketing holds the key to this. Studies suggest business success lies in getting the right product to the right market at the right time. The selection of an ideal marketing channel is thus crucial in making marketing successful. Marketing channel decisions are among the most complex and challenging ones facing a firm because channels and distribution affect product, price and promotion decisions. The study reveals 'quick payment' and 'word-of-mouth' as the highly rated variables in the selection of marketing channel by small enterprises whereas among the medium enterprises, these are 'economical' and 'bulk purchases'. The analysis also reveals that the important factors influencing the choice of marketing channel by the SMEs are market coverage, brand image and finance.

Key Words: - Entrepreneurs, SMEs, Product, Marketing Channel

1. INTRODUCTION

India has embarked on a mission to great strides in industrial and economic development in the twenty first century. The success of this mission will be determined by the quality and spirit of entrepreneurial talent available in our motherland. Successful enterprises propel economic prosperity and development in a nation. In a competitive world success is not determined by

just perseverance and diligence but also by the quality of one's innovations. Marketing is all about providing customer satisfaction and therefore, organizations are going all out to find innovative ways of providing customer satisfaction in the most cost effective manner. Marketing practices adopted and implemented by Small and Medium Enterprises (SMEs) assume significance in this context. A lot of research has been done to study and analyse the implementation of marketing practices by SMEs. Even though the studies have suggested a positive relationship between the implantation of marketing practices and the performance of firms, they have also revealed that many of the SMEs lack proper marketing expertise. However, things are changing fast and may SMEs have started investing in innovative marketing to make their enterprises cope with the changing times and succeed in the marketplace. Marketing channel is a crucial factor in the marketing programme simply because it ensures the right product to the right market at the right time. Innovative thinking and selection of an ideal marketing channel can provide a firm the much needed competitive edge. So, a better understanding of the factors influencing selection of marketing channels can help SMEs in identifying the most effective and efficient channel of distribution for their products.

2. LITERATURE REVIEW

In the words of Peter F Drucker, (1954), "It is in marketing that we satisfy individuals, and social values, needs and works, through producing goods, supplying services, fostering innovation for creating satisfaction." A marketing channel is normally a path traced in the direct or indirect transfer of title to a product, as it moves from a producer to the ultimate consumer or industrial user (Cundiff and Still, 1972). The channel of distribution consists of producer, consumer and any intermediary organizations that are aligned to provide a vehicle that makes the passage of title or possession of the products from producer to consumer (Revzan, 1961). It consists of individuals and firms involved in the process of making a product or service available for consumption or use by consumers or industrial users (Louis and Andel, 1988). In effect, a marketing channel performs the economic activity of moving goods from producers to consumers. It overcomes the critical time, place and possession gaps that separate goods and services from those who would use them. Parashwar has defined market channel as "the vehicle of marketing system, the unit within which all marketing activities take place" (Parashwar, 1991). Marketing channels operate normally in two forms, viz., (i) direct channel and (ii) indirect channel. Under direct channel middlemen are dispensed with. The marketing functions are performed by the producer and goods are directly passed on to the consumer from the producer. Under the indirect channel, there are more than one type of middlemen in distribution in the processes of linking producer and consumer and the middlemen perform a number of marketing functions. "The structure of a marketing channel describes the arrangement and linkage of its members" (Pride and Ferrel, 1977). Once a particular type of marketing channel is chosen, the firm usually sticks to it for a substantial period. The chosen channel significantly affects and is affected by the other elements in the marketing mix (Kotler, 1988).

3. RESEARCH OBJECTIVE

The objective is to study and analyse the factors influencing the selection of marketing channels among the Small and Medium Enterprises.

4. METHODOLOGY

This research is pre-planned and structured. The opinion of entrepreneurs in small and medium enterprises regarding the factors influencing the choice of marketing channel are collected and analysed using statistical techniques.

4.1 Universe and Sample

In total, there are 1,05,491 SMEs in the 14 districts of Kerala. Out of this, 75.69 per cent are small enterprises and 24.31 per cent are medium enterprises. Stratified proportionate random sampling was followed to distribute the sample units' in the population. Finally, 398 and 394 small and medium enterprises were distributed respectively to all the 14 districts on the basis of the total population (units) in each district. The allotted sample units to each district were selected on random basis (lottery method).

4.2 Tools for Data Collection

The primary data were collected with the help of a structured questionnaire. The questionnaire was divided into two important parts. The first part of the questionnaire includes the background of the SMEs and the level of market orientation at their units. The second part of the questionnaire includes the implementation of marketing mix practices in SMEs.

5. ANALYSIS

5.1 Variables Influencing the Selection of Marketing Channel among the SMEs

Channel decisions are among the most complex and challenging ones facing a firm because channels and distribution affect product, price and promotion decisions. Each channel system implies different levels of sales and costs. A number of factors have to be considered before deciding on a suitable channel of distribution; for example, nature of the product, market trends, competition outlook, pricing policies, middlemen and the company itself. Even though, the variables influencing the selection of the marketing channel are too many, the present study confines these variables to bulk purchase, quick payment, customer satisfaction, variety of reaches, turnover margin, brand loyalty, frequency of purchase, economical, word-of-mouth, high turnover, quality of the product, product diversification, per unit profit, consistent income, and shop loyalty. The respondents are asked to rate the above said variables on a five-point scale from 'highly agree' to 'highly disagree'. The mean score obtained by each variable among respondents in small and medium enterprises are shown in Table 1

Table 1

Variables Influencing the Selection of Marketing Channel among the SMEs

Sl. No.	Variables	Mean score in		't'- Statistic
		Small enterprises	Medium enterprises	
1.	Bulk purchase	2.0217	3.8118	3.2146*
2.	Quick payment	3.9098	3.1142	3.0696*
3.	Customer satisfaction	3.4561	3.6173	0.3991
4.	Variety of reaches	2.1193	3.7161	3.4091*
5.	Turnover margin	1.8968	3.8089	4.5962*
6.	Brand loyalty	2.9198	3.7673	0.8069
7.	Frequency of purchase	2.5574	3.1408	0.9117
8.	Economical	1.9094	3.9798	4.1194*
9.	Word-of-mouth	3.8181	3.5066	1.0862
10.	High turnover	2.0914	3.4542	3.0114
11.	Quality of the product	3.4564	3.2821	1.2233
12.	Product diversification	1.5083	3.4142	3.2196*
13.	Per unit profit	3.6168	2.8186	3.0063
14.	Consistent income	2.3081	2.7803	1.3304
15.	Shop loyalty	3.1141	3.4506	0.4641

Source: Primary data.   ** Significant at five per cent level*

The important variables that influence the respondents in small enterprises for the selection of marketing channel are quick payment, word-of-mouth and per unit profit, since their respective mean scores are 3.9098, 3.8181 and 3.6168 respectively. In the medium enterprises, these variables are economical, bulk purchase and turnover margin since their respective mean scores

are 3.9798, 3.8118 and 3.8089 respectively. The analysis reveals that the small enterprises concentrate on quick payment whereas medium enterprises are expecting high turnover.

5.2 Factors Leading to Selecting the Marketing Channels among the SMEs

The important factors leading to selecting the marketing channels among the SMEs are narrowed down with the help of factor analysis. The score of variables leading to selecting the marketing channel is included. Before conducting factor analysis, the test of validity of data for factor analysis has been executed, using KMO measure of sampling adequacy and Bartlett's test of sphericity. Both these tests satisfy the validity of data. The factor analysis resulted in three important factors namely, market coverage, brand loyalty and finance. The number of variables included in each factor, the Eigen value and the per cent of variation explained by the factors are shown in Table 2

Table 2

Factors Leading to Selecting the Marketing Channel among the SMEs

Sl. No.	Factor	Number of variables	Eigen Value	Per cent of variation explained	Cumu-lative per cent of variation explained
1.	Market coverage	5	4.8186	32.12	32.12
2.	Brand image	5	4.1109	27.41	59.53
3.	Finance	5	4.0672	27.11	86.64
KMO Measure of sampling adequacy: 0.8192			Bartlett's test of sphericity: Chi-square value: 113.89*		

Source: Primary data.   ** Significant at five per cent level.*

The most important factor leading to selecting the marketing channel is market coverage since its Eigen value is 4.8186. It is followed by brand image and finance factor since their respective Eigen values are 4.1109 and 4.0672. The narrowed down three factors explain the 15 variables to the extent of 86.64 per cent. The variations explained by the market coverage and brand image factor are 32.12 and 27.41 per cent respectively whereas in the case of 'finance' factor, it is only 27.11 per cent. All these three factors are included for further analysis.

Table 3
Variables in each Factor Leading to Select the Marketing Channel

Sl. No.	Factor	Variables in each Factor					Reliability co-efficient
		V1	**V2**	**V3**	**V4**	**V5**	
1.	Market coverage	High turnover (0.8911)	Bulk purchase (0.7038)	Frequency of purchase (0.6902)	Variety of reaches (0.6411)	Product diversification (0.6021)	0.8224
2.	Brand image	Shop loyalty (0.9162)	Word-of-mouth (0.8416)	Brand loyalty (0.7314)	Quality of the product (0.6044)	Customer satisfaction (0.5569)	0.7309
3.	Finance	Quick payment (0.8448)	Economical (0.7244)	Turnover margin (0.6817)	Profit per cent (0.6039)	Consistent income (0.5401)	0.7164

Source: Primary data.

Note   : Figures in Parentheses are factor loading of the variables.

5.3 Variables in each Factor Leading to Selecting the Marketing Channel

The variable included in each factor is determined by the factor loading of the variable attached to one factor compared to other factors. If a variable has a higher factor loading with one factor compared to others, that variable is included in that factor. The market coverage, brand image and finance factor consists of five variables in each. The variables included in each factor and their reliability co-efficient are presented in Table 3.

The 'market coverage' factor consists of five variables with the reliability co-efficient of 0.8224. It means that the five variables explain the market coverage factor to the extent of 82.24 per cent. The important variables in market coverage are high turnover and bulk purchase. In the case of brand image, the important variables are shop loyalty and word-of-mouth since their respective factor loadings are 0.9162 and 0.8416. The included five variables in 'brand image' factor explain the factor to the extent of 73.09 per cent whereas in finance, it is to an extent of 71.64 per cent. The important variables in the finance factor are quick payment and economical since their respective factor loadings are 0.8448 and 0.7244.

5.4 Respondents' Perception on Factors Leading to Choosing the Marketing Channel

The respondents' view on factors leading to choosing the marketing channel among SMEs is derived from the mean score of the variables in each factor. The mean score of the three factors among the respondents in small and medium enterprises have been computed separately. The 't' statistic is computed with the help of 't' test. The results are shown in Table 4

Table 4

Respondents View on Factors Leading to Choosing the Marketing Channel

Sl. No.	Factors	Mean score among		't'-Statistic
		Small enterprises	Medium enterprises	
1.	Market coverage	2.6596	3.8074	-2.6801*
2.	Brand image	2.3717	3.5248	-2.8863*
3.	Finance	3.5818	2.8082	1.9997*

Source: Primary data   ** Significant at five per cent level*

The important factor leading to choosing the marketing channel among the respondents in small enterprises is 'finance' since its mean score is 3.5818. In the medium enterprises the first two factors leading to choosing the marketing channel are market coverage and brand image since their mean scores are 3.8074 and 3.5248 respectively. Regarding respondents' perception on factors leading to choosing the marketing channel, significant difference between the two

groups of enterprises is noticed in their perception on all the three factors since the respective 't' statistic is significant at five per cent level.

6. CONCLUSION

The study reveals that the important variables in the selection of marketing channel by small enterprises are quick payment and word-of-mouth whereas among the medium enterprises, these are economical and bulk purchases. So it can be concluded that the small enterprises concentrate on quick payment whereas medium enterprises are expecting high turnover. It has also been noticed that significant difference exists between the small and medium enterprises in the importance given to six out of fifteen variables, namely bulk purchases, quick payment, variety of reaches, turnover margin, economical and product diversification in the selection of marketing channel. The important factors leading to selection of marketing channel are market coverage, brand image and finance. Among the three, the highly rated factor by the small enterprises is finance whereas that by the medium enterprises is market coverage. The study further reveals that significant difference exists between the two groups of enterprises in the importance given to all the three factors in the selection of marketing channel.

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